

PARTNERRE LTD
Form 10-K
February 26, 2013
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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, 2012

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)

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Bermuda (State or other jurisdiction of incorporation or organization)	Not Applicable (I.R.S. Employer Identification No.)
90 Pitts Bay Road, Pembroke, Bermuda (Address of principal executive offices)	HM 08 (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, Bermuda 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
7.25% Series E Cumulative Preferred Shares, \$1.00 par value	New York Stock Exchange
5.875% Series F Non-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 No

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

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or 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 No

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). Yes No

Indicate by check mark if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K 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.

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Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, or a smaller reporting company. See the definitions of large accelerated filer, accelerated filer and smaller reporting company in Rule 12b-2 of the Exchange Act.

Large accelerated filer	<input checked="" type="checkbox"/>	Accelerated filer	<input type="checkbox"/>
Non-accelerated filer	<input type="checkbox"/>	Smaller reporting company	<input type="checkbox"/>

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

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, 2012) was \$4,721,750,491 based on the closing sales price of the registrant's common shares of \$75.67 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 21, 2013 was 58,355,494.

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 17, 2013 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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SPECIAL NOTE REGARDING FORWARD-LOOKING STATEMENTS

PartnerRe Ltd. has made statements under the captions Business, Risk Factors, Management's Discussion and Analysis of Financial Condition and Results of Operations, particularly under the captions 2013 Outlook (or similarly captioned sections) and in other sections of this annual report on Form 10-K that are forward-looking statements. In some cases, you can identify these statements by forward-looking words such as may, might, will, should, expects, plans, anticipates, believes, estimates, predicts, potential, or continue, the negative of comparable terminology. These forward-looking statements, which are subject to risks, uncertainties and assumptions about us, may include projections of our future financial performance, our anticipated growth strategies and anticipated trends in our business. These statements are only predictions based on our current expectations and projections about future events. There are important factors that could cause our actual results, level of activity, performance or achievements to differ materially from the results, level of activity, performance or achievements expressed or implied by the forward-looking statements, including those factors described under the caption entitled Risk Factors. You should specifically consider the numerous risks outlined under Risk Factors.

Although we believe the expectations reflected in the forward-looking statements are reasonable, we cannot guarantee future results, level of activity, performance or achievements. Moreover, neither we nor any other person assumes responsibility for the accuracy and completeness of any of these forward-looking statements. We are under no duty to update any of these forward-looking statements after the date of this annual report on Form 10-K to conform our prior statements to actual results or revised expectations.

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PART I

ITEM 1. BUSINESS

General

PartnerRe Ltd., (the Company, PartnerRe or we), incorporated in Bermuda in August 1993, is the ultimate holding company for our international reinsurance and insurance group. The Company predominantly provides reinsurance on a worldwide basis, and certain specialty insurance lines, through its wholly owned subsidiaries, including Partner Reinsurance Company Ltd. (PartnerRe Bermuda), Partner Reinsurance Europe SE (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 mortality, longevity 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.

In 1997, recognizing the limitation of a monoline strategy, the Company shifted its strategic focus to become a leading multiline reinsurer. 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 December 2009, the Company completed the acquisition of PARIS RE Holdings Limited (Paris Re), a French-listed, Swiss-based holding company and its operating subsidiaries. This acquisition provided the Company with enhanced strategic and financial flexibility in a less predictable and more limited growth environment.

Effective December 31, 2012, the Company completed the acquisition of Presidio Reinsurance Group, Inc. (Presidio), a California-based U.S. specialty accident and health reinsurance and insurance writer. The acquisition of Presidio is consistent with the Company's diversified strategy and provides an additional specialty risk class not previously written by the Company. Given the effective date, the Consolidated Statements of Operations and Cash Flows for the year ended December 31, 2012 do not include Presidio's results.

Business Strategy

The Company is in the business of assessing and assuming risk for an appropriate return. The Company creates value through its ability to understand, evaluate, diversify and distribute risk. 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 construct allows the Company to balance cedants' need for confidence of claims payment with its shareholders' need for an appropriate return on their capital. Compound annual growth rate in diluted book value per common share and common share equivalents outstanding (Diluted Book Value per Share) is the prime metric used by Management to measure the Company's performance. Other important measures include operating return on beginning diluted book value per common share and common share equivalents outstanding (Operating ROE). See Key Financial Measures in Item 7 of Part II of this report for a detailed discussion of the key measures, used by the Company to evaluate its financial performance, including definitions and basis of calculation.

The Company has adopted the following five-point strategy:

We are diversified across products and insurance markets: PartnerRe writes most lines of reinsurance and writes selected specialty insurance lines of business to further diversify its earnings stream and to provide access to risks that position the Company for future growth. Management believes diversification is a competitive advantage, which increases return per unit of risk, provides access to risk worldwide and reduces the overall volatility of results. Diversification is also the cornerstone of the Company's risk management approach. The re/insurance business is cyclical, but cycles by line of business and by geography are rarely synchronized.

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We have an appetite for risk provided it helps us deliver superior risk-adjusted returns: PartnerRe's products address accumulation risks, complex coverage issues and large exposures faced by clients. The Company's book of business is focused on severity lines of business such as casualty, catastrophe, specialized property and aviation. The Company is willing to assume such above average risk, but only if the pricing implies significantly above average risk-adjusted returns. The Company's diversification enables it to assume risks that are individually large for our clients, but are more easily diversified within PartnerRe's portfolio. The Company also writes frequency lines of business such as standard property, motor and life, which have historically provided modestly lower levels of returns with less volatility.

We manage our capital to optimize long-term returns while maintaining an appropriate risk profile: PartnerRe's business is cyclical and the Company responds to that reality. The Company seeks to manage its capital to optimize shareholder returns over the reinsurance cycle, but it will not unbalance the portfolio by writing only the business that offers the highest return at any point in time. In order to manage capital appropriately across a portfolio and over a reinsurance 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 by returning capital to shareholders. To achieve effective and efficient capital allocation, the Company uses Operating ROE as a portfolio management tool, supported by strong actuarial and financial analysis.

We create value through superior risk evaluation and intelligent portfolio and relationship management: The Company's technical underwriting, actuarial and portfolio management skills enable the Company to create value by understanding, valuing, diversifying, and distributing risk. The Company's objective is overall portfolio profitability. The aim is not to select a few highly profitable transactions in any year, but to build sustainable portfolios that can deliver superior returns over several years. While our primary focus is assuming risk for our own account, we are open to intermediating risk in order to optimize our retained portfolio and enhance overall returns.

We enhance overall returns through prudent financial and investment management and an efficient support framework: Strong underwriting must be complemented with prudent financial management, careful reserving, superior asset management and efficient support in order to achieve the Company's targeted returns. The Company's principal business is the assumption of reinsurance and insurance risk and when selecting asset strategies and support services, the Company's priority is to support the reinsurance operations. The Company is willing to take some additional risk on its assets if it helps us generate extra return, but this risk-taking is managed so that it will not put at risk its reinsurance operation. We will not use insurance or reinsurance as a means of raising funds to pursue other goals.

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 and insurance of non-life and life risks to ceding companies (primary insurers, cedants or reinsureds) on either a proportional or non-proportional basis through treaties or facultative reinsurance. The Company's principal offices are located in Hamilton (Bermuda), Dublin, Greenwich (Connecticut), Paris and Zurich.

In a proportional (or quota share) treaty reinsurance agreement, the reinsurer assumes a proportional share of the original premiums and 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.

In a non-proportional (or excess of loss) treaty reinsurance agreement the reinsurer 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 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

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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.

In a facultative (proportional or non-proportional) reinsurance agreement the reinsurer assumes 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 and Other. Segments and the sub-segments of the Company's Non-life segment represent markets that are reasonably homogeneous in terms of geography, client types, buying patterns, underlying risk patterns and approach to risk management. The composition of the Non-life and Life segments is described in more detail below. Corporate and Other is comprised of the capital markets and investment related activities of the Company, including principal finance transactions, insurance-linked securities and strategic investments, and its corporate activities, including other operating expenses.

The following table summarizes the Company's gross premiums written by segment for the years ended December 31, 2012, 2011 and 2010 (in millions of U.S. dollars):

	2012	2011	2010
Non-life segment	\$ 3,910	\$ 3,831	\$ 4,132
Life segment	802	790	749
Corporate and Other segment	6	12	4

Total **\$ 4,718** \$ 4,633 \$ 4,885

The Company's Non-life and Life business is geographically diversified with premiums being written on a worldwide basis. See Note 20 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.

Non-life Segment

The Non-life segment is divided into four sub-segments, North America, Global (Non-U.S.) Property and Casualty (Global (Non-U.S.) P&C), Global (Non-U.S.) Specialty and Catastrophe. The North America sub-segment includes agriculture, casualty, motor, multiline, property, surety and other risks generally originating in the U.S. The Global (Non-U.S.) P&C sub-segment includes casualty, motor and property business generally originating outside of the U.S. 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, energy, engineering, marine, specialty casualty, specialty property and other lines. The Catastrophe sub-segment is comprised of the Company's catastrophe line of business.

The following table summarizes the gross premiums written in each of the Company's Non-life sub-segments for the years ended December 31, 2012, 2011 and 2010 (in millions of U.S. dollars and as a percentage of the total gross premiums written in the Company's Non-life segment):

Non-life sub-segment	2012		2011		2010	
North America	\$ 1,221	31%	\$ 1,104	29%	\$ 1,028	25%
Global (Non-U.S.) P&C	684	18	682	18	909	22
Global (Non-U.S.) Specialty	1,505	38	1,446	38	1,479	36
Catastrophe	500	13	599	15	716	17
Total	\$ 3,910	100%	\$ 3,831	100%	\$ 4,132	100%

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The gross premiums written in each Non-life sub-segment for the years ended December 31, 2012, 2011 and 2010, and the year over year comparisons, are described in Results by Segment in Item 7 of Part II of this report.

Lines of Business

The following table summarizes the gross premiums written by line of business in the Company's Non-life segment for the years ended December 31, 2012, 2011 and 2010 (in millions of U.S. dollars and as a percentage of the total gross premiums written in the Company's Non-life segment):

Line of business	2012		2011		2010	
Property and casualty						
Casualty	\$ 594	15%	\$ 510	13%	\$ 519	13%
Motor	240	6	229	6	311	7
Multiline and other	117	3	71	2	73	2
Property	655	17	676	18	862	21
Specialty						
Agriculture	311	8	292	8	180	4
Aviation / Space	244	6	235	6	241	6
Catastrophe	500	13	599	15	716	17
Credit / Surety	327	8	326	8	292	7
Energy	101	3	115	3	113	3
Engineering	179	5	189	5	192	5
Marine	363	9	334	9	330	8
Specialty casualty	102	3	108	3	172	4
Specialty property	177	4	147	4	131	3
Total Non-life segment	\$ 3,910	100%	\$ 3,831	100%	\$ 4,132	100%

Gross premiums written and the distribution of gross premiums written by line of business written in the Non-life segment vary between periods as a result of changes in the allocation of capital among lines of business driven by the Company's response to market conditions and risk assessment, the timing of renewals of treaties, a change in treaty structure, premium adjustments reported by cedants, foreign exchange fluctuations and other factors.

The following discussion summarizes the business written in each line of business in the Company's Non-life segment.

Agriculture The Company reinsures, primarily on a proportional basis, agricultural yield and price/revenue risks related to 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. The space business relates to coverages for satellite assembly, launch and operation for commercial space programs.

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.

Catastrophe The Company provides property catastrophe reinsurance protection, written primarily on a non-proportional basis, against the accumulation of losses caused by windstorm, earthquake, tornado, tropical cyclone, 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.

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

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.

Engineering The Company provides reinsurance for engineering projects throughout the world, predominantly on a proportional treaty 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.

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.

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

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. The Company's most significant exposure is typically to losses from windstorm, tornado 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.

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.

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.

Distribution

The Company's Non-life 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, 2012, the Company had two brokers that individually accounted for 10% or more of its total Non-life gross premiums written: Marsh (including Guy Carpenter) accounted for approximately 27% of total Non-life gross premiums written; and the Aon Group (including the Benfield Group)

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accounted for approximately 26% of total Non-life gross premiums written. The following table summarizes the combined percentage of gross premiums written through these two brokers by Non-life sub-segment for the year ended December 31, 2012:

Non-life sub-segment	2012
North America	70%
Global (Non-U.S.) P&C	28
Global (Non-U.S.) Specialty	42
Catastrophe	74

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.

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 and regional companies in certain local markets. These competitors include, but are not limited to, Munich Re, Swiss Re, Everest Re, Hannover Re, SCOR and reinsurance operations of certain primary insurance companies, such as ACE, Arch Capital, Axis Capital, XL Group and Zurich Insurance Group.

Management believes the Company ranks among the world's largest professional reinsurers and is well positioned in terms of client services and underwriting expertise. Management also believes that the Company's diversified platform, which allows the Company to provide broad risk solution across many lines of business, is increasingly attractive to cedants who are choosing to utilize fewer reinsurers and focus on those reinsurers who can cover more than one line of business. Furthermore, the Company's capitalization and strong financial ratios allow the Company to offer security to its clients.

*Life Segment**Lines of Business*

The Company's Life segment includes the mortality, longevity and health lines of business written primarily in the United Kingdom (U.K.), Ireland and France. For the years ended December 31, 2012, 2011 and 2010, the Company did not write any new life business in the U.S., however, following the acquisition of Presidio on December 31, 2012, the Company expects to write accident and health business in the U.S. in future periods. Accordingly, gross premiums written for the Life segment presented below do not include any premiums written by Presidio.

The following table summarizes the gross premiums written by line of business in the Company's Life segment for the years ended December 31, 2012, 2011 and 2010 (in millions of U.S. dollars and as a percentage of the total gross premiums written in the Company's Life segment):

Line of business	2012		2011		2010	
	\$	%	\$	%	\$	%
Mortality	\$ 534	67%	\$ 566	72%	\$ 524	70%
Longevity	247	31	203	25	205	27
Health	21	2	21	3	20	3
Total Life segment	\$ 802	100%	\$ 790	100%	\$ 749	100%

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The gross premiums written in the Life segment for the years ended December 31, 2012, 2011 and 2010, and the year over year comparisons, are described in Results by Segment in Item 7 of Part II of this report.

The following discussion summarizes the business written in the Company's Life segment by line of business.

Mortality The Company provides reinsurance coverage to primary life insurers and pension funds to protect against individual and group mortality and disability risks. Mortality business is written primarily on a proportional basis through treaty agreements. Mortality business is subdivided into death and disability covers (with various riders) primarily written in Continental Europe, term assurance and critical illness (TCI) primarily written in the U.K. and Ireland, and guaranteed minimum death benefit (GMDB) primarily written in Continental Europe. The Company also writes certain treaties on a non-proportional basis, primarily in France.

Longevity The Company provides reinsurance coverage to employer sponsored pension schemes and primary life insurers who issue annuity contracts offering long-term retirement benefits to consumers, who seek protection against outliving their financial resources. Longevity business is written on a long-term, proportional basis primarily in the U.K. The Company's longevity portfolio is subdivided into standard and non-standard annuities. The non-standard annuities are annuities sold to consumers with aggravated health conditions and are usually medically underwritten on an individual basis. The main risk the Company is exposed to by writing longevity business is an increase in the future life span of the insured compared to the expected life span.

Accident and Health The Company provides reinsurance coverage to primary life insurers with respect to individual and group health risks. Following the acquisition of Presidio, the Company writes specialty accident and health business, predominantly in the U.S. Presidio's primary lines of business include Health Maintenance Organizations (HMO) reinsurance, medical reinsurance and provider and employer excess of loss programs. The acquisition was effective December 31, 2012 and, accordingly, the Consolidated Statements of Operations and Cash Flows for the year ended December 31, 2012 do not include Presidio's results.

Other than gross premiums written, Management uses reinsurance business in force to measure the growth of the Company's mortality business. Reinsurance business in force reflects the addition or acquisition of new mortality business, offset by terminations (e.g., voluntary surrenders of underlying life insurance policies, lapses of underlying policies, deaths of insureds, and the exercises of recapture option by cedants), changes in foreign exchange, and any other changes in the amount of insurance in force. The term "in force" refers to the aggregate insurance policy face amounts, or net amounts at risk. The net assumed business in force for the mortality line of business, including health, was \$212 billion, \$198 billion and \$191 billion at December 31, 2012, 2011 and 2010, respectively. The increase in business in force to \$212 billion at December 31, 2012 from \$198 billion at December 31, 2011 was primarily driven by TCI business written in the U.K. and growth in exposure on certain small to medium sized mortality treaties. The increase in business in force to \$198 billion at December 31, 2011 from \$191 billion at December 31, 2010 was primarily driven by TCI business written in the U.K.

Distribution

The Company's Life business is produced both through brokers and through direct relationships with insurance companies. For the year ended December 31, 2012, two cedants accounted for 12% and 11% of the Life segment's total gross premiums written, respectively, and one broker, the Aon Group (including the Benfield Group), accounted for 13% of the Life segment's total gross premiums written. No other cedant or broker contributed more than 10% of the Life segment's total gross premiums written.

Competition

The Company's competition differs by location but generally includes multi-national reinsurers and local reinsurers or state-owned insurers in the U.K., Ireland and Continental Europe. Following the Company's acquisition of Presidio, the competition specifically related to this business generally includes accident and health insurance and reinsurance providers in the U.S.

Table of Contents**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.

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

Non-life Reserves

At December 31, 2012 and 2011, the Company recorded gross Non-life reserves for unpaid losses and loss expenses of \$10,709 million and \$11,273 million, respectively, and net Non-life reserves for unpaid losses and loss expenses of \$10,418 million and \$10,920 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, 2012, 2011 and 2010 (in millions of U.S. dollars):

	2012	2011	2010
Net liability at beginning of year	\$ 10,920	\$ 10,318	\$ 10,475
Net incurred losses related to:			
Current year	2,786	4,252	3,138
Prior years	(628)	(530)	(478)
	2,158	3,722	2,660
Change in Paris Re Reserve Agreement	(86)	(61)	(67)
Net paid losses	(2,705)	(2,991)	(2,579)
Effects of foreign exchange rate changes	131	(68)	(171)
Net liability at end of year	\$ 10,418	\$ 10,920	\$ 10,318

The decrease in net Non-life reserves for unpaid losses and loss expenses from \$10,920 million at December 31, 2011 to \$10,418 million at December 31, 2012 primarily reflects the payment of losses in 2012, which was partially offset by net losses incurred and the impact of foreign exchange. The loss payments include a significant level of payments related to the catastrophic events that occurred in 2011 and included the Japan earthquake and resulting tsunami (Japan Earthquake), the New Zealand earthquakes that occurred in February and June 2011 (the February and June 2011 New Zealand Earthquakes), the floods that impacted Thailand following unusually heavy monsoon rains in October 2011 (Thailand Floods), tornadoes that caused severe destruction to large areas of southern, mid-western and northeastern United States in April and May 2011 (U.S. tornadoes) and the floods in Queensland, Australia (Australian Floods) (collectively, 2011 catastrophic events).

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The following table summarizes the net incurred losses for the year ended December 31, 2012 relating to the current and prior accident years by Non-life sub-segment (in millions of U.S. dollars):

	North America	Global (Non-U.S.) P&C	Global (Non-U.S.) Specialty	Catastrophe	Total Non-life segment ⁽¹⁾
Net incurred losses related to:					
Current year	\$ 1,034	\$ 529	\$ 1,072	\$ 148	\$ 2,783
Net prior year favorable loss development	(218)	(114)	(251)	(45)	(628)
Total net incurred losses	\$ 816	\$ 415	\$ 821	\$ 103	\$ 2,155

(1) In addition to the current year net incurred losses in the Non-life segment of \$2,783 million were current year net incurred losses of \$3 million related to the Corporate and Other segment, resulting in total net incurred losses of \$2,158 million.

The net favorable loss development on prior accident years of \$628 million for the year ended December 31, 2012 primarily resulted from favorable loss emergence, as losses reported by cedants were lower than expected. The most significant drivers of the Non-life net prior year favorable loss development during the year ended December 31, 2012 were the casualty line of business in the North America sub-segment, the property line of business in the Global (Non-U.S.) P&C sub-segment, the specialty property, aviation and marine lines of business in the Global (Non-U.S.) Specialty sub-segment and the Catastrophe sub-segment. See Management's Discussion and Analysis of Financial Condition and Results of Operations for a more detailed discussion of net prior year favorable loss development by Non-life 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 favorable loss development by reserving lines for the Company's Non-life operations.

Reserve Agreement

On December 21, 2006, Colisée Re (formerly known as AXA RE), a subsidiary of AXA SA (AXA) transferred substantially all of its assets and liabilities, other than specified reinsurance and retrocession agreements and certain other excluded assets and liabilities, to PARIS RE Holdings SA's French operating subsidiary Paris Re France (AXA Transfer) (Paris Re France). The AXA Transfer was immediately followed by the acquisition by Paris Re of all the outstanding capital stock of Paris Re France (AXA Acquisition). In connection with the AXA Acquisition, AXA, Colisée Re and Paris Re entered into various agreements (2006 Acquisition Agreements).

On the closing of the AXA Acquisition, AXA, Colisée Re and Paris Re France entered into a reserve agreement (Reserve Agreement). The Reserve Agreement provides that AXA and Colisée Re shall guarantee reserves in respect of Paris Re France and subsidiaries acquired in the AXA Acquisition. The Reserve Agreement covers losses incurred prior to December 31, 2005, including any adverse development in respect thereof, by the subsidiaries of Colisée Re transferred to Paris Re France as part of the 2006 Acquisition Agreements, in respect of reinsurance policies issued or renewed, and in respect of which premiums were earned, on or prior to December 31, 2005 (but excluding any amendments thereto effected after the closing of the 2006 Acquisition Agreements).

Pursuant to the Reserve Agreement, AXA has agreed to cause AXA Liabilities Managers, an affiliate of Colisée Re (AXA LM), to provide Paris Re France with periodic reports setting forth the amount of losses incurred in respect of the business guaranteed by AXA. The reserve guarantee provided by AXA and Colisée Re is conditioned upon, among other things, the guaranteed business, including all related ceded reinsurance, being managed by AXA LM. The Reserve Agreement further contemplates that Colisée Re or Paris Re France, as the case may be, shall pay to the other party amounts equal to any deficiency or surplus in the transferred reserves with respect to losses incurred, such losses being net of any recovery by Colisée Re including through retrocessional protection, salvage or subrogation. During the year ended December 31, 2012, pursuant to the terms of the Reserve Agreement with Colisée Re, the Company settled the payable to Colisée Re of approximately \$265 million based on the estimated cumulative balance of net favorable prior year loss development related to the guaranteed reserves. The settlement was funded by the sale of assets underlying the funds held directly managed account.

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See Financial Condition, Liquidity and Capital Resources Funds Held Directly Managed in Item 7 of Part II and Note 8 to Consolidated Financial Statements in Item 8 of Part II of this report for more detail.

The rights and obligations of AXA LM with respect to the management of this business are set forth in a run off services and management agreement among AXA LM, Colisée Re and Paris Re France (Run Off Services and Management Agreement). Under the Run Off Services and Management Agreement, Paris Re has agreed that AXA LM will manage claims arising from all reinsurance and retrocession contracts subject to the Reserve Agreement, either directly or, for contracts that were issued by certain Colisée Re entities identified in the agreement, by delegation to certain other specified entities, including Paris Re France. This includes contract administration, the administration of ceded reinsurance, claims handling, settlements and business commutations. Although Paris Re France has certain consultation rights in connection with the management of the run-off of the contracts subject to the Reserve Agreement, AXA LM does not need to obtain Paris Re France's prior consent in connection with claims handling and settlements, and no consent is required for business commutations if the amount of case reserves related to commuted contracts does not exceed 100 million in any twelve month period.

On October 1, 2010, PartnerRe Europe and Paris Re France effected a cross border merger whereby all the assets and liabilities of Paris Re France were transferred to PartnerRe Europe, including the agreements between Paris Re France and Colisée Re.

Changes in Non-life Reserves

The below table shows the gross, retroceded and net reserves for unpaid losses and loss expenses for the Company's Non-life business, and the portion of the gross, retroceded and net reserves that relates to the reserves subject to the Reserve Agreement (Guaranteed Reserves), as of December 31, 2012 and 2011 (in thousands of U.S. dollars):

	2012	2011
Gross reserves	\$ 10,709,371	\$ 11,273,091
Less: Guaranteed Reserves	864,116	1,038,800
Gross reserves, excluding Guaranteed Reserves	9,845,255	10,234,291
Retroceded reserves	291,330	353,105
Less: Guaranteed Reserves	7,375	27,264
Retroceded reserves, excluding Guaranteed Reserves	283,955	325,841
Net reserves	\$ 10,418,041	\$ 10,919,986
Net reserves, excluding Guaranteed Reserves	\$ 9,561,300	\$ 9,908,450

The below table is a reconciliation of the net paid losses related to prior years and the net paid losses related to prior years, excluding the paid losses for the Guaranteed Reserves, for the years ended December 31, 2012, 2011 and 2010 (in thousands of U.S. dollars):

	2012	2011	2010
Net paid losses related to prior years	\$ 2,467,279	\$ 2,060,152	\$ 2,267,765
Less: net paid losses on Guaranteed Reserves	90,407	136,885	173,386
Net paid losses related to prior years, excluding Guaranteed Reserves	\$ 2,376,872	\$ 1,923,267	\$ 2,094,379

The Guaranteed Reserves have been excluded from the following tables that analyze the development of the Company's net reserves for unpaid losses and loss expenses for the Company's Non-life business given the Reserve Agreement covers any adverse or favorable development related to the reserves acquired by Paris Re in the AXA Acquisition, and therefore, they have no impact on the development of the Company's gross and net reserves for unpaid losses and loss expenses.

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The following table shows the development of net reserves for unpaid losses and loss expenses for the Company's Non-life business, excluding Guaranteed Reserves. The table begins by showing the initial reported year-end gross and net reserves, including incurred but not reported (IBNR) reserves, 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, excluding Guaranteed 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, excluding Guaranteed Reserves, that were 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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(in thousands of U.S. dollars)

	2002	2003	2004	2005	2006	2007	2008	2009 ⁽¹⁾	2010	2011	2012
Gross liability for unpaid losses and loss expenses, excluding Guaranteed Reserves	\$ 3,658,416	\$ 4,755,059	\$ 5,766,629	\$ 6,737,661	\$ 6,870,785	\$ 7,231,436	\$ 7,510,666	\$ 9,248,529	\$ 9,379,028	\$ 10,234,291	\$ 9,845,255
Retroceded liability for unpaid losses and loss expenses, excluding Guaranteed Reserves	217,777	175,685	153,018	185,280	138,585	132,479	125,215	270,938	300,648	325,841	283,955
Net liability for unpaid losses and loss expenses, excluding Guaranteed Reserves	\$ 3,440,639	\$ 4,579,374	\$ 5,613,611	\$ 6,552,381	\$ 6,732,200	\$ 7,098,957	\$ 7,385,451	\$ 8,977,591	\$ 9,078,380	\$ 9,908,450	\$ 9,561,300
Net liability re-estimated, excluding Guaranteed Reserves at:											
One year later	3,806,231	4,688,964	5,006,767	6,602,832	6,715,107	6,343,714	7,076,796	8,354,221	8,505,130	9,409,795	
Two years later	3,975,926	4,301,161	5,044,922	6,618,112	6,165,297	6,009,194	6,686,926	7,877,438	8,076,932		
Three years later	3,781,574	4,373,992	5,092,289	6,168,445	5,897,044	5,674,509	6,351,663	7,595,556			
Four years later	3,894,500	4,494,182	4,845,644	6,002,031	5,645,132	5,409,460	6,195,352				
Five years later	4,019,813	4,315,702	4,731,856	5,802,799	5,436,353	5,282,511					
Six years later	3,918,380	4,264,865	4,595,232	5,627,952	5,323,062						
Seven years later	3,894,155	4,171,108	4,467,678	5,551,669							
Eight years later	3,822,959	4,091,315	4,426,580								
Nine years later	3,762,561	4,069,743									
Ten years later	3,750,705										
Cumulative net (deficiency) redundancy	\$ (310,066)	\$ 509,631	\$ 1,187,031	\$ 1,000,712	\$ 1,409,138	\$ 1,816,446	\$ 1,190,099	\$ 1,382,035	\$ 1,001,448	\$ 498,655	
Cumulative amount of net liability paid through:											
One year later	\$ 1,126,882	\$ 1,120,756	\$ 1,250,534	\$ 1,718,996	\$ 1,473,964	\$ 1,340,788	\$ 1,716,798	\$ 2,094,379	\$ 1,923,267	\$ 2,376,872	
Two years later	1,713,953	1,573,312	1,821,773	2,482,695	2,116,025	1,971,376	2,448,950	2,983,833	2,872,951		

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Three years later	1,993,947	1,948,203	2,207,692	2,948,837	2,581,022	2,470,068	2,991,497	3,599,683
Four years later	2,248,980	2,219,506	2,511,446	3,273,808	2,932,356	2,818,018	3,359,297	
Five years later	2,433,223	2,439,361	2,721,266	3,534,003	3,183,573	3,070,717		
Six years later	2,580,225	2,589,798	2,898,779	3,713,402	3,349,279			
Seven years later	2,694,079	2,717,665	3,043,151	3,834,448				
Eight years later	2,779,632	2,820,421	3,128,606					
Nine years later	2,860,940	2,883,674						
Ten years later	2,909,808							

- (1) Paris Re's liability for unpaid losses and loss expenses is included as of December 31, 2009 for the first time. For years prior to 2009, this table excludes the reserves of the Paris Re companies acquired. Accordingly, the reserve development (net liability for unpaid losses and loss expenses at the end of the year, as originally estimated, less net liability for unpaid losses and loss expenses re-estimated as of subsequent years) for years prior to 2009 relates only to losses recorded by PartnerRe and subsidiaries not acquired in the Paris Re acquisition.

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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 as of December 31, 2012 provided above (in thousands of U.S. dollars):

	2002	2003	2004	2005	2006	2007	2008	2009	2010	2011
Reconciliation of gross reserves:										
Gross liability re-estimated, excluding Guaranteed Reserves	\$ 3,960,864	\$ 4,210,135	\$ 4,532,057	\$ 5,723,364	\$ 5,426,817	\$ 5,370,480	\$ 6,305,605	\$ 7,816,154	\$ 8,334,623	\$ 9,717,138
Re-estimated retroceded liability, excluding Guaranteed Reserves	210,159	140,392	105,477	171,695	103,755	87,969	110,253	220,598	257,691	307,343
Net liability re-estimated, excluding Guaranteed Reserves	\$ 3,750,705	\$ 4,069,743	\$ 4,426,580	\$ 5,551,669	\$ 5,323,062	\$ 5,282,511	\$ 6,195,352	\$ 7,595,556	\$ 8,076,932	\$ 9,409,795

Cumulative gross (deficiency) redundancy	\$ (302,448)	\$ 544,924	\$ 1,234,572	\$ 1,014,297	\$ 1,443,968	\$ 1,860,956	\$ 1,205,061	\$ 1,432,375	\$ 1,044,405	\$ 517,153
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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 the euro, Canadian dollar, British pound, New Zealand dollar, Japanese Yen and Australian dollar. 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 (deficiency) redundancy 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 net (deficiency) redundancy reported above as well as the net (deficiency) redundancy excluding the impact of foreign exchange movements on net reserves (in thousands of U.S. dollars):

	2002	2003	2004	2005	2006	2007	2008	2009	2010	2011
Cumulative net (deficiency) redundancy	\$ (310,066)	\$ 509,631	\$ 1,187,031	\$ 1,000,712	\$ 1,409,138	\$ 1,816,446	\$ 1,190,099	\$ 1,382,035	\$ 1,001,448	\$ 498,655
Less:										
Cumulative net (deficiency) redundancy due to foreign exchange	(438,622)	(209,225)	115,004	(424,891)	(190,762)	292,781	(96,466)	110,163	(41,310)	(129,410)
Cumulative net redundancy excluding the impact of foreign exchange	\$ 128,556	\$ 718,856	\$ 1,072,027	\$ 1,425,603	\$ 1,599,900	\$ 1,523,665	\$ 1,286,565	\$ 1,271,872	\$ 1,042,758	\$ 628,065

Movements in foreign exchange rates between accounting periods have typically 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,

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generally holds investments in the same currencies as its net reserves, or enters into derivative foreign exchange contracts, 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 more detailed 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.

	2002	2003	2004	2005	2006	2007	2008	2009	2010	2011
Net liability for unpaid losses and loss expenses, excluding Guaranteed Reserves	\$ 3,440,639	\$ 4,579,374	\$ 5,613,611	\$ 6,552,381	\$ 6,732,200	\$ 7,098,957	\$ 7,385,451	\$ 8,977,591	\$ 9,078,380	\$ 9,908,450
Net liability re-estimated, excluding Guaranteed Reserves at:										
One year later	3,496,102	4,440,338	5,382,101	6,300,633	6,318,157	6,681,021	6,899,642	8,499,708	8,547,923	9,280,385
Two years later	3,513,647	4,298,493	5,232,707	6,023,025	6,014,782	6,222,150	6,597,688	8,052,350	8,035,622	
Three years later	3,483,720	4,223,937	5,076,765	5,774,643	5,640,480	5,961,748	6,300,375	7,705,719		
Four years later	3,491,033	4,178,131	4,972,632	5,521,034	5,451,479	5,738,024	6,098,886			
Five years later	3,498,703	4,118,436	4,794,445	5,376,045	5,278,886	5,575,292				
Six years later	3,480,094	4,012,792	4,704,184	5,232,117	5,132,300					
Seven years later	3,418,353	3,958,493	4,604,022	5,126,778						
Eight years later	3,379,382	3,901,891	4,541,584							
Nine years later	3,337,286	3,860,518								
Ten years later	3,312,083									
Cumulative net redundancy	\$ 128,556	\$ 718,856	\$ 1,072,027	\$ 1,425,603	\$ 1,599,900	\$ 1,523,665	\$ 1,286,565	\$ 1,271,872	\$ 1,042,758	\$ 628,065

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The Company's reserve for unpaid losses and loss expenses as of December 31, 2012 includes reserves that are difficult to estimate using traditional reserving methodologies. See Critical Accounting Policies and Estimates - Losses and Loss Expenses and Life Policy Benefits in Item 7 of Part II of this report for additional information and discussion of the uncertainties and complexities related to the Japan Earthquake and the New Zealand earthquakes that occurred in 2010 and in February and June 2011 (the 2010 and the February and June 2011 New Zealand Earthquakes) and the Company's exposure to claims arising from asbestos and environmental exposures.

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.

Life Reserves

At December 31, 2012 and 2011, the Company recorded gross policy benefits for life and annuity contracts of \$1,813 million and \$1,646 million, respectively, and net policy benefits for life and annuity contracts of \$1,793 million and \$1,636 million, respectively.

The following table provides a reconciliation of the net policy benefits for life and annuity contracts for the years ended December 31, 2012, 2011 and 2010 (in millions of U.S. dollars):

	2012	2011	2010
Net liability at beginning of year	\$ 1,636	\$ 1,736	\$ 1,595
Net liability acquired related to Presidio	54		
Net incurred losses related to:			
Current year	661	651	612
Prior years	(14)	(1)	12
	647	650	624
Net policy benefits restructured by a cedant		(131)	
Net paid losses	(594)	(588)	(420)
Effects of foreign exchange rate changes	50	(31)	(63)
Net liability at end of year	\$ 1,793	\$ 1,636	\$ 1,736

The increase in net policy benefits for life and annuity contracts from \$1,636 million at December 31, 2011 to \$1,793 million at December 31, 2012 is primarily due to incurred losses and the acquisition of Presidio's reserves and the impact of foreign exchange, which were partially offset by paid losses.

For the year ended December 31, 2012, the Company experienced net prior year favorable loss development related to its mortality line of business of \$14 million, which was primarily due to the GMDDB business, mainly driven by improvements in the capital markets, and certain short-term treaties. There was no prior year loss development in 2012 related to the Company's longevity line of business.

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The following table shows the Company's gross policy benefits for life and annuity contracts by line of business and ceded and net policy benefits for life and annuity contracts at December 31, 2012 and 2011 (in millions of U.S. dollars):

Reserving lines	2012	2011
Mortality	\$ 1,214	\$ 1,104
Longevity	525	523
Accident and health	74	19
Gross policy benefits for life and annuity contracts	1,813	1,646
Ceded policy benefits for life and annuity contracts	(20)	(10)
Net policy benefits for life and annuity contracts	\$ 1,793	\$ 1,636

The increase in accident and health reserves at December 31, 2012 compared to December 31, 2011 relates to the acquisition of Presidio.

Investments and Investments underlying the Funds Held Directly Managed Account

The Company has developed specific investment objectives and guidelines for the management of its investment portfolio and the investments underlying the funds held directly managed account (see below for details). These objectives and guidelines stress diversification of risk, matching of the underlying liability payments, low credit risk 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 in particular securities.

The Company's investment strategy is largely consistent with 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, including the investments underlying the funds held directly managed account, 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 and cash and cash equivalents. Capital funds are available for investing 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.

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The Company's investment portfolio, excluding the funds held directly managed account which is discussed below, includes fixed maturities, short-term investments and equities that are classified as trading securities and recorded at fair value, and other invested assets. The below table summarizes the carrying values of the Company's investments at December 31, 2012 and 2011 (in millions of U.S. dollars and each category as a percentage of the total investments):

	2012		2011	
Fixed maturities				
U.S. government and government sponsored enterprises	\$ 1,131	7%	\$ 1,116	7%
U.S. states, territories and municipalities	243	1	124	1
Non-U.S. sovereign government, supranational and government related	2,376	15	2,964	19
Corporate	6,656	42	5,747	38
Asset-backed securities	723	5	634	4
Residential mortgage-backed securities	3,200	20	3,283	22
Other mortgage-backed securities	66		74	
Total fixed maturities	\$ 14,395	90%	\$ 13,942	91%
Short-term investments	151	1	42	
Equities	1,094	7	945	6
Other invested assets	333	2	358	3
Total investments	\$ 15,973	100%	\$ 15,287	100%

(1) In addition to the total investments shown in the above table of \$16.0 billion and \$15.3 billion at December 31, 2012 and 2011, respectively, the Company held cash and cash equivalents of \$1.1 billion and \$1.3 billion, respectively.

The increase in the fair value of the Company's fixed maturities at December 31, 2012 compared to December 31, 2011 primarily reflects an increase in the market value of the portfolio mainly due to narrowing credit spreads and modest decreases in U.S. and European risk-free interest rates. At December 31, 2012, the Company's fixed maturities also reflect a reallocation to corporate securities from the non-U.S. sovereign government, supranational and government related category compared to December 31, 2011, which reflects the Company's decision to move into higher yielding investments.

The overall average credit rating of the portfolio at December 31, 2012 was A, and 93% of the fixed maturities and short-term investments were rated investment grade (BBB- or higher) by Standard & Poor's. For further discussion of the composition of the investment portfolio, see Financial Condition, Liquidity and Capital Resources Investments in Item 7 of Part II of this report.

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. Second, to ensure diversification and avoid aggregation of risks, limits on 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 Risk and Finance Committee of the Board of Directors (Board). See Risk Management below for a discussion of Market Risk, Interest Rate Risk and Default and Credit Spread Risk. See Quantitative

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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 foreign currency management strategies.

Investments underlying the Funds Held Directly Managed Account

Following the AXA Acquisition, Paris Re France and certain subsidiaries entered into an Issuance Agreement with Colisée Re to enable Colisée Re to write business on behalf of Paris Re France between January 1, 2006 and September 30, 2007. In addition, effective January 1, 2006, Paris Re France and Colisée Re entered into 100% quota share retrocession agreements to transfer the benefits and risks of Colisée Re's reinsurance agreements to Paris Re and provide for the payment of premiums to Paris Re France in consideration for reinsuring the covered liabilities (the Quota Share Retrocession Agreement). The Quota Share Retrocession Agreement provides that these premiums will be on a funds withheld basis. Paris Re France will receive any surplus, and be responsible for any deficits remaining with respect to the funds held directly managed account, after all liabilities have been discharged and payments pursuant to the Reserve Agreement have been settled. In addition, realized and unrealized investment gains and losses and net investment income related to the investment portfolio underlying the funds held directly managed account inure to the benefit of Paris Re France. The investments underlying the funds held directly managed account were predominantly maintained by Colisée Re in a segregated investment portfolio and managed by the Company. The Company's strategy related to the management of the funds held directly managed account is as described above related to the Company's investment portfolio.

The Company's investment portfolio underlying the funds held directly managed account includes fixed maturities that are recorded at fair value, and other invested assets. The table below summarizes the carrying value of the investments underlying the funds held directly managed account at December 31, 2012 and 2011 (in millions of U.S. dollars and each category as a percentage of the investments underlying the funds held directly managed account):

	2012		2011	
Fixed maturities				
U.S. government and government sponsored enterprises	\$ 219	26%	\$ 269	26%
Non-U.S. sovereign government, supranational and government related	234	28	275	26
Corporate	362	44	480	45
Total fixed maturities	\$ 815	98	\$ 1,024	97
Short-term investments			18	2
Other invested assets	18	2	16	1
Total investments	\$ 833	100%	\$ 1,058	100%

(1) In addition to the investments underlying the funds held directly managed account shown in the above table of \$833 million and \$1,058 million at December 31, 2012 and 2011, respectively, the funds held directly managed account also included cash and cash equivalents of \$54 million and \$176 million, respectively, accrued investment income of \$10 million and \$14 million, respectively, and other assets and liabilities held by Colisée Re related to the underlying business of \$34 million and \$20 million, respectively.

The decrease in the investment portfolio underlying the funds held directly managed account from \$1,058 million at December 31, 2011 to \$833 million was primarily related to the settlement of the payable to Colisée Re, pursuant to the terms of the Reserve Agreement, of approximately \$265 million based on the estimated cumulative balance of net favorable prior year loss development related to the guaranteed reserves.

The overall average credit rating of the portfolio at December 31, 2012 was AA, and substantially all of the fixed maturities were rated investment grade (BBB- or higher) by Standard & Poor's.

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For further discussion of the composition of the investment portfolio underlying the funds held directly managed account, see Financial Condition, Liquidity and Capital Resources Funds Held Directly Managed in Item 7 of Part II of this report. The credit risk of Colisée Re in the event of its insolvency or its failure to honor the value of the funds held balances for any other reason is discussed in Quantitative and Qualitative Disclosures About Market Risk Counterparty Credit Risk in Item 7A of Part II of this report.

Risk Management

In the reinsurance industry, the core of the business model is the assumption and management of risk. A key challenge is to create economic value through the intelligent and optimal assumption and management of reinsurance and capital markets and investment risks while limiting and mitigating those risks that can destroy tangible as well as intangible value, those risks for which the organization is not sufficiently compensated, and those risks that could threaten the ability of the Company to achieve its objectives. While many 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 certainty of claims payment with the shareholders' need for an adequate return.

All business decisions entail a risk/return trade-off, and these decisions are applicable to the Company's risks. 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. In the context of 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's results are primarily determined by how well the Company understands, prices and manages assumed risk. Management also 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, financial, or operational risks that are common to any industry. See Risk Factors in Item 1A of Part I of this report.

The Company has a clearly defined governance structure for risk management. Executive Management and the Board are responsible for setting the overall vision and goals of the Company, which include the Company's risk appetite and return expectations. The Company's risk framework, including key risk policies, is recommended by Executive Management and approved by the Risk and Finance Committee of the Board (Risk and Finance Committee). Each of the Company's risk policies relates to a specific risk and describes the Company's approach to risk management, defines roles and responsibilities relating to the assumption, mitigation, and control processes for that risk, and an escalation process for exceptions. Key policies are established by the Chief Executive Officer and policies at the next level down are established by Business Unit and functional management. Key policies are approved by the relevant Committee of the Board and other policies are approved by the Chief Executive Officer. Risk management policies and processes are coordinated by Group Risk Management and compliance is verified by Internal Audit on a periodic basis. The results of audits are monitored by the Audit Committee of the Board.

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, 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

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Executive Management and Board. Individual Business Units employ, and are responsible for reporting on, operating risk management procedures and controls, while Internal Audit periodically evaluates the effectiveness of such procedures and controls.

Strategic Risks

Strategic risks are managed by Executive Management and include the direction and governance of the Company, as well as its response to key external factors faced by the reinsurance industry, such as changes in cedants' risk retention behavior, regulation, competitive structure and macroeconomic, legal and social trends. Management considers that strong governance procedures, including a robust system of processes and internal controls is appropriate to manage risks related to its reputation and risks related to new initiatives, including acquisitions, new products or markets. The Company seeks to preserve its reputation through high professional and ethical standards and manages the impact of identified risks through the adoption and implementation of a sound and comprehensive Assumed Risk Framework.

Assumed Risks

Central to the Company's assumed risk framework is its risk appetite. The Company's risk appetite is a statement of how much and how often the Company will tolerate operating losses and economic losses during an annual period. The Company's risk appetite is expressed as the maximum operating loss and the maximum economic loss that the Board is willing to incur. The Company's risk appetite is approved by the Board on an annual basis. Definitions for the maximum operating loss, economic loss, maximum economic loss and economic capital are as follows:

The Maximum Operating Loss. The maximum operating loss is a loss expressed as a percentage of common shareholders' equity with a modeled probability of occurring once every 10 years and once every 100 years.

Economic Loss. The Company defines an economic loss as a decrease in the Company's economic value, which is defined as common shareholders' equity plus the time value of money discount of the Non-life reserves that is not recognized in the consolidated financial statements in accordance with U.S. GAAP, net of tax, plus the embedded value of the Life portfolio that is not recognized in the consolidated financial statements in accordance with U.S. GAAP, net of tax, less goodwill and intangible assets, net of tax.

The Maximum Economic Loss. The maximum economic loss is a loss expressed as a percentage of economic capital with a modeled probability of occurring once every 10 years and once every 100 years.

Economic Capital. The Company defines economic capital as the economic value plus preferred shareholders' equity.

The Company manages exposure levels from multiple risk sources to provide reasonable assurance that modeled operating or economic losses are contained within the risk appetite approved by the Board. The Company utilizes an internal model to evaluate capital at risk levels and compliance with the Company's risk appetite. The results of the Company's assessment of capital at risk levels in relation to the risk appetite are reported to the Board on a periodic basis.

To mitigate the chance of operating losses and economic losses exceeding the risk appetite, the Company relies upon diversification of risk sources and risk limits to manage exposures. Diversification enables losses from one risk source to be offset by profits from other risk sources so that the chance of overall losses exceeding the Company's risk appetite is reduced. However, if multiple losses from multiple risk sources occur within the same year, there is the potential that operating and economic losses can exceed the risk appetite. In addition, there is the chance that the Company's internal assessment of capital at risk for a single source of risk or for

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multiple sources of risk proves insufficient resulting in actual losses exceeding the Company's risk appetite. To reduce the chance of either of these unfavorable outcomes, the Company uses risk limits to minimize the chance that losses from a single risk source or from multiple risk sources will cause operating losses and economic losses to exceed the Company's risk appetite.

The Company establishes key risk limits for any risk source deemed by Management to have the potential to cause operating losses or economic losses greater than the Company's risk appetite. The Risk and Finance Committee approves the key risk limits. Executive and Business Unit Management may set additional specific and aggregate risk limits within the key risk limits approved by the Risk and Finance Committee. The actual level of risk is dependent on current market conditions and the need for balance in the Company's portfolio of risks. On a periodic basis, Management reviews and reports to the Risk and Finance Committee the actual limits deployed against the approved limits.

Individual Business Units manage assumed risks, subject to the appetite and principles approved by the Board, limits approved by the Risk and Finance Committee, and policies established by Executive and Business Unit Management. At an operational level, Business Units manage assumed risk through risk mitigation strategies including strong processes, technical risk assessment and collaboration among different groups of professionals who each contribute a particular area of expertise.

Management has established key risk limits that are approved by the Risk and Finance Committee for the eight risk sources described below. Following the update to the Risk Management framework during 2012, two of the four risks that were managed under the previous framework have remained unchanged in terms of the methodology used to calculate the approved limit and the actual deployed limit. The unchanged methodology relates to the longevity risk and the equity and equity-like sub-limit risk and as such comparatives at December 31, 2011 have only been provided below for these two risks. For the other two risks (catastrophe risk and casualty reserving risk) that were managed under the previous framework and for which the methodologies used to calculate the approved limit and the actual deployed limit have changed, the previously disclosed metrics at December 31, 2011 have not been provided below given they are not comparable to the new metrics.

Natural 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, which may result in operating and economic losses to the Company. The Company considers both catastrophe losses due to a single large event and catastrophe losses that would occur from multiple (but potentially smaller) events in any year.

Natural catastrophe risk is managed through the allocation of catastrophe exposure capacity in each exposure zone to different Business Units, regular catastrophe modeling and a combination of quantitative and qualitative analysis. The Company considers a peril zone to be an area within a geographic region, continent or country in which losses from insurance exposures are likely to be highly correlated to a single catastrophic event. Not all peril zones have the same limit and zones are broadly defined so that it would be unlikely for any single event to substantially erode the aggregate exposure limits from more than one peril zone. Even extremely high severity/low likelihood events will only partially exhaust the limits in any peril zone, as they are likely to only affect a part of the area covered by a wide peril zone.

The Company imposes a limit to natural catastrophe risk from any single loss through exposure limits, net of retrocession, in each zone and to each peril and also utilizes probable maximum loss estimates to manage its exposures to specific peril zones. Limits from catastrophe exposed business include limits on both reinsurance treaties and insurance-linked securities. Specifically, the Company uses the lesser of any contractually defined limits or the probable maximum loss per contract as the measure of capacity per treaty including proportional exposures for the key peak exposures. This capacity measure is aggregated by contract within a peril zone to establish the total exposures. At December 31, 2012, the natural catastrophe limit for a peril zone approved by

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the Risk and Finance Committee, net of retrocession, was \$2.3 billion and the actual maximum limit deployed in a single peril zone was \$1.6 billion. Actual exposure limits deployed and estimated probable maximum loss in a specific peril zone will vary from period to period depending on Management's assessment of current market conditions, the results of the Company's exposure modeling, and other analysis. See Natural Catastrophe Probable Maximum Loss below for a discussion of the Company's estimated exposures for selected peak industry natural catastrophe perils at December 31, 2012.

Long Tail Reinsurance Risk

The Company defines this risk as the risk that the estimates of ultimate losses for casualty and other long-tail lines will prove to be too low, leading to the need for substantial reserve strengthening, which may result in operating and economic losses to the Company. One of the greatest risks in long-tail lines of business, and particularly in U.S. casualty, is that 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 impact can be large because of an accumulation 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 similarly 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 is limited.

The Company manages and mitigates the reserving 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, and the Company establishes prudent reserving policies for determining recorded 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 in Item 7 of Part II of this report.

The Company's limit for long tail reinsurance risk represents the written premiums for casualty and other long-tail lines for the four most recent calendar quarters. At December 31, 2012, the long tail reinsurance limit approved by the Risk and Finance Committee was \$1.2 billion and the actual limit deployed was \$0.7 billion.

Market Risk

The Company defines this risk as the risk of a substantial decline in the value of its Risk Assets. Risk Assets comprise of the Company's equity and equity-like securities which include all invested assets that are not investment grade standard fixed income securities and certain fixed income asset classes that are not liquid (but excludes insurance-linked securities as that risk is aggregated with liability risks). The Company limits the market value of Risk Assets as well as sub-limits the market value of equity and equity-like securities that it will hold in its investment portfolio.

Assuming equity and equity-like risks within that part of the investment portfolio that is not required to support the Company's reinsurance liabilities provides valuable diversification from other risk classes, along with the potential for higher returns. However overexposure to equity risk could lead to a large loss in the value of equity and equity-like securities and non-standard fixed income securities 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 Risk Assets as a percentage of shareholders' equity. The Company's fully integrated information system provides real-time investment data, allowing for continuous monitoring and decision support. Each portfolio is managed against a pre-determined benchmark to enable alignment with

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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.

At December 31, 2012, the Risk Assets limit and the equity and equity-like sublimit approved by the Risk and Finance Committee were \$3.4 billion and \$2.8 billion (at December 31, 2011: \$3.3 billion), respectively. At December 31, 2012, the actual Risk Assets limit deployed and the market value of equity and equity-like securities were \$2.5 billion and \$1.7 billion (at December 31, 2011: \$1.4 billion), respectively.

Interest Rate Risk

The Company defines this risk as the risk of a substantial mismatch of asset and liability durations, which may result in economic losses to the Company. Economically, the Company is hedged against changes in asset and liability values resulting from small parallel changes in the risk free yield curve to the degree asset and liability durations are matched. Non-parallel shifts in the yield curve or extremely large changes in yields can introduce interest rate risk and investment losses to the degree asset maturity and coupon payments are not exactly matched to liability payments. Investment losses associated with interest rate risk of a magnitude that have the potential to exceed the Company's risk appetite are associated with extremely large increases in interest rates over an annual period. As a result, the Company limits the duration of its investment portfolio to minimize the investment losses in the event of an extreme increase in interest rates in an annual period. At December 31, 2012, the duration limit of assets approved by the Risk and Finance Committee was 5.0 years and actual asset duration was 2.7 years. See Quantitative and Qualitative Disclosures About Market Risk Interest Rate Risk in Item 7A of Part II of this report.

Default and Credit Spread Risk

The Company defines this risk as the risk of a substantial increase in defaults in the Company's standard fixed income credit securities (which includes investment grade corporate bonds and asset-backed securities) leading to realized investment losses or a significant widening of credit spreads resulting in realized or unrealized investment losses, either of which may result in economic losses to the Company. Investment losses of the magnitude that have the potential to exceed the Company's risk appetite are associated with the systemic impacts of severe economic and financial stress. As a result, the Company limits the market value of the standard fixed income credit securities so that investment losses will be mitigated in an extreme economic or financial crisis. At December 31, 2012, the limit approved by the Risk and Finance Committee and the actual market value of the Company's standard fixed income credit securities were \$9.5 billion and \$7.1 billion, respectively. See Quantitative and Qualitative Disclosures About Market Risk Credit Spread Risk in Item 7A of Part II of this report.

Trade Credit Underwriting Risk

The Company defines this risk as the risk that aggregated trade credit losses materially exceed the net premiums that are received to cover such risks, which may result in operating and economic losses to the Company. Trade credit underwriting losses of the magnitude that have the potential to exceed the Company's risk appetite are associated with the systemic impacts of severe economic and financial stress. In these events, underwriting losses may arise from defaults of single large named insureds and from a high frequency of defaults of smaller insureds. In addition, trade credit underwriting risk is highly correlated with default and credit spread widening risk of the standard investment grade fixed income portfolio during times of economic stress or financial crises.

In order to determine a trade credit underwriting limit metric for the purposes of risk accumulation, the Company examined extreme scenarios and measured its exposure to loss under those scenarios. Examples of these scenarios included, but were not limited to, historical losses from the largest trade credit defaults, prior periods of financial crisis and economic stress (e.g. 1990-1991 recession and 2008-2009 financial crisis), and potential impacts of financial crisis and economic stress scenarios. The Company did not rely upon modeled

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losses to determine the limit metric, but did benchmark the scenario results against existing tests, scenarios and models. For risk accumulation purposes, the Company examined the extreme scenario that would result in 100% of loss ratio adverse deviation on the trade credit portfolio written on a proportional basis (which far exceeds any adverse deviation of the loss ratio experienced in past periods of economic stress or financial crises) increased by the net probable maximum losses of the two largest named insureds in the Company's trade credit portfolio.

At December 31, 2012, the trade credit limit approved by the Risk and Finance Committee was \$0.9 billion and the actual limit deployed was \$0.6 billion.

Longevity Risk

The Company considers longevity exposure to have a material accumulation potential and has established a limit to manage the risk of loss associated with this exposure, which may result in operating and economic losses to the Company. The Company defines longevity risk as the potential for increased actual and future expected annuity payments resulting from annuitants living longer than expected, or the expectation that annuitants will live longer in the future. Assuming longevity risk, through reinsurance or capital markets transactions, is part of the Company's strategy of building a diversified portfolio of risks. While longevity risk is highly diversifying in relation to other risks in the Company's portfolio (e.g. mortality products), longevity risk itself is a systemic risk with little opportunity to diversify within the risk class. Longevity risk accumulates across cedants, geographies, and over time because mortality trends can impact diverse populations in the same manner. Longevity risk can manifest slowly over time as experience proves annuitants are living longer than original expectations, or abruptly as in the case of a miracle drug that increases the life expectancy of all annuitants simultaneously.

In order to determine a longevity limit metric for the purposes of risk accumulation, the Company examined extreme scenarios and measured its exposure to loss under those scenarios. Examples of these scenarios included, but were not limited to, immediate elimination of major causes of death and an extreme improvement scenario equivalent to the adverse result of every annuitant's life expectancy increasing to approximately 100 years. The Company did not rely upon modeled losses to determine the limit metric, but did benchmark the scenario results against existing tests, scenarios and models. For risk accumulation purposes, the Company selected the most extreme scenario and added an additional margin for potential deviation.

At December 31, 2012, the longevity limit approved by the Risk and Finance Committee was \$2.0 billion (at December 31, 2011: \$2.0 billion). To measure utilization of the longevity limit (accumulation of longevity exposure) the Company accumulates the net present value of adverse loss resulting from the application of the selected most extreme scenario, adds an additional margin to every in-force longevity treaty for potential deviation and, where appropriate, includes the notional value of longevity insurance-linked securities. At December 31, 2012, the actual limit deployed was \$1.1 billion (at December 31, 2011: \$1.2 billion).

Pandemic Risk

The Company considers mortality exposure to have a material accumulation potential to common risk drivers, in particular to pandemic events, which may result in operating and economic losses to the Company. The Company defines pandemic risk as the increase in mortality over an annual period associated with a rapidly spreading virus (either within a highly populated geographic area or on a global basis) with a high mortality rate. Assuming mortality risk, through reinsurance or capital markets transactions, is part of the Company's strategy of building a diversified portfolio of risks. While mortality risk is highly diversifying in relation to other risks in the Company's portfolio (e.g. longevity products), mortality risk itself is a systemic risk when the risk driver is a pandemic with little opportunity to diversify within the risk class. Mortality risk from pandemics can accumulate across cedants and geographies.

In order to determine a pandemic limit metric for the purposes of risk accumulation, the Company examined extreme scenarios and measured its exposure to loss under those scenarios. Examples of these scenarios included, but were not limited to, increased mortality associated with past pandemic events (e.g. 1918 Spanish flu) and

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potential mortality outcomes from transmission scenarios across differing age groups and developed and developing countries. The Company did not rely upon modeled losses to determine the limit metric, but did benchmark the scenario results against existing tests, scenarios and models. For risk accumulation purposes, the Company selected an extreme mortality scenario applied to developing and developed countries that would have twice the fatality rate of the 1918 Spanish flu with the same transmissibility characteristics. At December 31, 2012, the pandemic limit approved by the Risk and Finance Committee was \$1.3 billion and the actual limit deployed was \$0.6 billion.

Operational and Financial Risks

Operational and financial risks are managed by designated functions within the organization. These risks include, but are not limited to, failures or weaknesses in financial reporting and controls, regulatory non-compliance, poor cash management, fraud, breach of information technology security, disaster recovery planning and reliance on third party vendors. The Company seeks to minimize these risks through robust processes and monitoring processes throughout the organization.

Other Underwriting Risk and Exposure Controls

The Company's underwriting is conducted at the Business Unit level 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 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.

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 exposure to catastrophic and other large losses by (i) limiting 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) 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, tornado, flood or earthquake, or 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 to reduce its exposure on certain reinsurance risks assumed and to mitigate the effect of any single major event or the frequency of medium-sized events. These agreements provide for the recovery of a portion of losses and loss expenses from retrocessionaires. The majority of the Company's retrocessional agreements cover the property exposures, predominantly those that are catastrophe exposed. The Company also utilizes retrocessions in the Life segment to manage the amount of per-event and

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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 that 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.

In addition to the retrocessional agreements, PartnerRe Europe has a Reserve Agreement in place with Colisée Re (see Business Reserves Non-life Reserves Reserve Agreement in Item 1 of Part I of this report).

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.

Natural Catastrophe Probable Maximum Loss (PML)

The following discussion of the Company's natural catastrophe probable maximum loss (PML) information 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 list of the Company's risk factors. Any of these risk factors could result in actual losses that are materially different from the Company's PML estimates below.

Natural catastrophe risk is a source of significant aggregate exposure for the Company and is managed by setting risk appetite and limits, as discussed above. Natural catastrophe perils can impact geographic regions of varying size and can have economic repercussions beyond the geographic region directly impacted.

The Company considers a peril zone to be an area within a geographic region, continent or country in which losses from insurance exposures are likely to be highly correlated to a single catastrophic event. The Company defines peril zones to capture the vast majority of exposures likely to be incorporated by typical modeled events. There is, however, no industry standard and the Company's definitions of peril zones may differ from those of other parties.

The Company has exposure to and monitors more than 300 natural and man-made catastrophe peril zones on a worldwide basis. The peril zones in the disclosure below are major peril zones for the industry. The Company has exposures in other peril zones that can potentially generate losses greater than the PML estimates below.

The Company's PMLs represent an estimate of loss for a single event for a given return period. The table below discloses the Company's 1-in-250 and 1-in-500 year return period estimated loss for a single occurrence of a natural catastrophe event in a one-year period. In other words, the 1-in-250 and 1-in-500 year return period PMLs mean that there is a 0.4% and 0.2% chance, respectively, in any given year that an occurrence of a natural catastrophe in a specific peril zone will lead to losses exceeding the stated estimate. For risk management purposes, the Company focuses more on the 1-in-250 PML estimate for wind perils and the 1-in-500 PML for earthquake perils.

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The PML estimates below include all significant exposure from our Non-life and Life business operations. This includes coverage for property, marine, energy, aviation, engineering, workers compensation and mortality. In addition, the PML estimates include the contractual limits of insurance-linked securities. The PML estimates do not include casualty coverage that could be exposed as a result of a catastrophic event. In addition, they do not include estimates for contingent losses to insureds that are not directly impacted by the event (e.g. loss of earnings due to disruption in supply lines).

The table below shows the Company's single occurrence estimated net PML exposures (pre-tax and net of retrocession and reinstatement premiums) for certain selected peak industry natural catastrophe perils at October 1, 2012 (in millions of U.S. dollars):

Zone	Peril	Single Occurrence Estimated Net Exposure	
		1-in-250 year PML	1-in-500 year PML (Earthquake Perils Only)
U.S. Southeast	Hurricane	\$ 1,173	
U.S. Gulf Coast	Hurricane	1,069	
U.S. Northeast	Hurricane	1,000	
Caribbean	Hurricane	272	
Europe	Windstorm	927	
Japan	Typhoon	164	
California	Earthquake	734	\$ 923
Japan	Earthquake	502	543
Australia	Earthquake	468	582
British Columbia	Earthquake	350	526
New Zealand	Earthquake	320	339

The Company estimates that the incremental loss at the 1-in-250 year return period from a U.S. hurricane impacting more than one of the three hurricane risk zones in the U.S. would be 20% higher than the PML of the largest zone impacted. In addition, there is the potential for a hurricane to impact the Caribbean peril zone and one or more U.S. hurricane peril zones.

Non-life Underwriting Risk Capital

The table below shows the distribution of the gross Non-life underwriting risk capital deployed for the Company's in-force portfolio at January 1, 2013 and 2012, including the January 1, 2013 and 2012 Non-life treaty renewals, respectively. Risk capital deployed is the Company's measure to determine the amount of capital required to support its underwriting risks and does not include capital to support other risks, such as reserving risk from prior underwriting activity and asset risk. The distribution of the gross Non-life underwriting risk capital deployed reflects the in-force portfolio at January 1, 2013 and 2012 only, and is not necessarily indicative of trends in the portfolio for the remainder of each year.

Non-life sub-segment	January 1, 2013	January 1, 2012
North America	21%	19%
Global (Non-U.S.) P&C	10	10
Global (Non-U.S.) Specialty	28	28
Catastrophe	41	43
Total	100%	100%

The amount of risk capital allocated to each of the Company's different lines of business and Non-life sub-segments varies due to many different factors. These factors include the magnitude of gross premiums written, the frequency and magnitude of potential losses, including the impact of potential exposures on the solvency of the Company, the availability of historical data in the calculation of exposures, as well as current loss trends and

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experience. Capital intensive lines, such as catastrophe exposed lines of business, generally require more allocated capital due to factors such as greater volatility, the potentially significant magnitude of losses, the relative scarcity of data related to catastrophes, their cyclical nature and their potential impact on the Company's solvency and liquidity.

The increase in the allocation of capital to the North America sub-segment at January 1, 2013 compared to January 1, 2012 is driven by a change in the timing of certain treaty renewals and an increase in the business in-force in the agriculture line of business. The decrease in the allocation of capital to the Catastrophe sub-segment at January 1, 2013 compared to January 1, 2012 reflects a slight decrease in the business renewed at January 1, 2013 and increases in other sub-segments.

Other Key Issues of Management

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 Operating ROE. Consequently, Management closely monitors its capital needs and capital level throughout the reinsurance cycle and in times of volatility and turmoil in global capital markets, and actively takes steps to increase or decrease the Company's capital in order to achieve an appropriate 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 and times when business opportunities are not so attractive, returning capital to its common shareholders by way of share repurchases and dividends. During 2012, the Company repurchased approximately 7.1 million of its common shares for a total cost of \$533 million. In addition, the Company increased the quarterly dividends on its common shares by 3% during 2012, from \$0.60 per share to \$0.62 per share, and a further 3% increase for 2013 from \$0.62 per share to \$0.64 per share.

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 cash 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 investment portfolio, and by matching the duration and currency of its investments and investments underlying the funds held directly managed account with that of its net reinsurance liabilities. In 2013, the Company expects to continue to generate positive operating cash flows, absent a series of unusual catastrophic events. The Company also maintains credit facilities with banks that can provide efficient access to cash in the event of an unforeseen cash requirement.

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. 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

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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 risk taking 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 of the Board in the event they become aware of questionable behavior of Management or any other employee. 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.

Employees

The Company had 1,217 employees at December 31, 2012. The Company believes that its relations with its employees are good.

Regulation

The business of reinsurance is regulated in all countries in which we operate, although the degree and type of regulation varies significantly from one jurisdiction to another. Some jurisdictions impose complex regulatory requirements on insurance businesses while other jurisdictions impose fewer requirements. In certain foreign countries, reinsurers are required to be licensed by governmental authorities. These licenses may be subject to modification, suspension or revocation dependent on such factors as amount and types of reserves and minimum capital and solvency tests. The violation of regulatory requirements may result in fines, censures and/or criminal sanctions in various jurisdictions. See Risk Factors in Item 1A of Part I of this report.

As a holding company, PartnerRe Ltd. is not directly subject to (re)insurance regulations, but its various material operating subsidiaries are subject to regulation as follows:

Bermuda

The Insurance Act 1978 of Bermuda and related regulations, as amended (the Insurance Act), regulates the insurance business of PartnerRe Bermuda. The Insurance Act imposes solvency and liquidity standards and auditing and reporting requirements on Bermuda insurance companies and grants the Bermuda Monetary Authority (BMA) powers to supervise, investigate and intervene in the affairs of insurance companies. The Insurance Act makes no distinction between insurance and reinsurance business.

PartnerRe Bermuda is licensed as a Class 4 and Class E insurer in Bermuda and is therefore authorized to carry on general and long-term insurance business, respectively. Significant aspects of the Bermuda insurance regulatory framework and requirements imposed on Class 4 and Class E insurers such as PartnerRe Bermuda include the following:

Minimum Capital Requirements. The BMA imposes certain minimum capital regulatory requirements on PartnerRe Bermuda, which are to hold statutory capital and surplus equal to or exceeding the Target Capital Level, which is equivalent to 120% of the Enhanced Capital Requirement (ECR). PartnerRe Bermuda's Enhanced Capital Requirement (ECR) should be calculated by either (a) the model developed by the BMA, or (b) an internal capital model which the BMA has approved for use for this purpose. PartnerRe Bermuda currently uses the BMA model in calculating its solvency requirements. The Bermuda risk-based regulatory capital adequacy and solvency margin regime provides a risk-based capital model (termed the Bermuda Solvency Capital Requirement (BSCR)) as a tool to assist the BMA both in measuring risk and in determining appropriate levels of capitalization. The BSCR employs a standard mathematical model that correlates the risk underwritten by Bermuda insurers to the capital that is dedicated to their business;

Solvency Assessment. PartnerRe Bermuda must perform an assessment of its own risk and solvency requirements, referred to as a Commercial Insurer's Solvency Self Assessment (CISSA). The CISSA allows the BMA to obtain an insurer's view of the capital resources required to achieve its business objectives and to assess

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a company's governance, risk management and controls surrounding this process. In addition, PartnerRe Bermuda must file with the BMA a Catastrophe Risk Return which assesses an insurer's reliance on vendor models in assessing catastrophe exposure;

Reporting Requirements. PartnerRe Bermuda must prepare audited annual statutory financial statements and file them with the BMA, together with audited annual financial statements which are prepared in accordance with the accounting principles generally accepted in the United States (U.S. GAAP); and

Dividends and Distributions. PartnerRe Bermuda is prohibited from declaring or paying any dividends of more than 25% of its total statutory capital and surplus, as shown in its previous financial year statutory balance sheet, unless at least seven days before payment of the dividends it files with the BMA an affidavit that it will continue to meet its minimum capital requirements as described above. In addition, PartnerRe Bermuda must obtain the BMA's prior approval before reducing its total statutory capital, as shown in its previous financial year statutory balance sheet, by 15% or more.

In addition to the above regulatory requirements impacting PartnerRe Bermuda, current international initiatives in the regulation of global insurance and reinsurance groups, such as the European Union's Solvency II initiative (Solvency II), are trending towards the imposition of group supervisory regimes, introducing one principal home regulator over all the operating entities in a particular insurance or reinsurance group (referred to as Group Supervision). The Insurance Act sets out provisions regarding Group Supervision including, the power of the BMA to exclude specified entities from Group Supervision, the power of the BMA to withdraw as group supervisor, the functions of the BMA as group supervisor and the power of the BMA to make rules regarding Group Supervision. This Group Supervision regime is in addition to the regulation of the Company's various operating subsidiaries in their local jurisdictions. The BMA's Group Supervision rules set out the rules in respect of the assessment of the financial situation and solvency of an insurance group, the system of governance and risk management, and supervisory reporting and disclosures of an insurance group. The group solvency rules set out the rules in respect of the capital and solvency return and enhanced capital requirements for an insurance group. The BMA has chosen PartnerRe Bermuda as the designated insurer for the purposes of Group Supervision, and the BMA will act as group supervisor of the PartnerRe group. As group supervisor, the BMA will gather relevant and essential information on and assess the financial situation of the PartnerRe group, and coordinate the dissemination of such information to other relevant competent authorities for the purposes of assisting in their regulatory functions and the enforcement of regulatory action against the PartnerRe group or any of its members. PartnerRe is not an insurer and, as such, is not regulated in Bermuda. However, pursuant to its functions as group supervisor, the BMA may include any member of the group within its Group Supervision, including PartnerRe.

Significant aspects of the Bermuda insurance regulatory framework and requirements imposed on Insurance Groups include the solvency assessment. The PartnerRe group must annually perform an assessment of its own risk and solvency requirements, referred to as a Group's Solvency Self Assessment (GSSA). The GSSA allows the BMA to obtain an insurance group's view of the capital resources required to achieve its business objectives and to assess a group's governance, risk management and controls surrounding this process. In addition, the PartnerRe group must file with the BMA a Catastrophe Risk Return which assesses an insurer's reliance on vendor models in assessing catastrophe exposure.

Effective January 1, 2014, the BMA will impose the ECR on the PartnerRe group. The PartnerRe group's ECR should be calculated by either (a) the model developed by the BMA, or (b) an internal capital model which the BMA has approved for use for this purpose. In addition, the PartnerRe group will be required to prepare and submit annual audited group U.S. GAAP financial statements, annual group statutory financial statements, annual group statutory financial return, annual group capital and solvency return and quarterly group unaudited financial returns.

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Ireland

The Central Bank of Ireland (the Central Bank) regulates insurance and reinsurance companies authorized in Ireland, including PartnerRe Europe and PartnerRe Ireland Insurance Limited (PartnerRe Ireland). PartnerRe Holdings Europe Limited, a holding company for PartnerRe Europe and PartnerRe Ireland, is not subject to regulation by the Central Bank.

PartnerRe Europe is a reinsurance company incorporated under the laws of Ireland and is duly authorized as a reinsurance undertaking to carry on non-life and life reinsurance business in accordance with the European Communities (Reinsurance) Regulations 2006. PartnerRe Ireland is an insurance company incorporated under the laws of Ireland and is duly authorized as an insurance undertaking to carry on non-life insurance business in accordance with the European Communities (Non-Life Insurance) Framework Regulations 1994.

Significant aspects of the Irish re/insurance regulatory framework and requirements imposed on PartnerRe Europe and PartnerRe Ireland include the following:

Solvency Requirements. As a composite reinsurer, PartnerRe Europe is required to maintain a minimum capital (Solvency I) requirement throughout the year. This solvency margin is determined on a premium or claims basis that covers the total sum of required solvency margins in respect of both non-life and life business activities. In addition, the Central Bank requires PartnerRe Europe to specify their Strategic Solvency Target, in excess of the minimum capital requirement. As a non-life insurer PartnerRe Ireland is required to maintain assets free of liabilities to cover the higher of 200% of the EU Solvency margin or 100% of the minimum guaranteed funds (3.7 million).The EU Solvency margin is determined on a premium or claims basis that covers the total sum of required solvency margins in respect of non-life business activities;

Reporting Requirements. PartnerRe Europe and PartnerRe Ireland must file and submit annual audited financial statements in accordance with International Financial Reporting Standards (IFRS) and related reports to the Irish Companies Registration Office (CRO) together with an annual return of certain core corporate information. Changes to core corporate information during the year must also be notified to the CRO. These requirements are in addition to the regulatory returns required to be filed annually with the Central Bank and additionally, in the case of PartnerRe Ireland, with the National Association of Insurance Commissioners (NAIC) in the U.S.; and

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

In addition to the above, PartnerRe Europe has also established operating branches in France, Switzerland, Canada, Singapore, Labuan and Hong Kong and a representative office in Brazil, which are subject to Irish reinsurance supervision regulations. In addition, the Canadian branch is subject to regulation in Canada by the Office of the Superintendent of Financial Institutions, the Singapore branch is subject to regulation by the Monetary Authority of Singapore, the Labuan branch is subject to regulation by the Labuan Financial Services Authority and the Hong Kong branch to regulation by the Office of the Commissioner of Insurance of Hong Kong. For a further discussion of the regulations pertaining to the Canadian branch see below. PartnerRe Ireland, pursuant to the Nonadmitted and Reinsurance Reform Act 2010, is a nonadmitted alien insurer in the U.S. and is eligible to write business as an excess and surplus lines insurer in all U.S. states.

United States

PartnerRe U.S. Corporation is a Delaware domiciled holding company for its wholly owned (re)insurance subsidiaries, PartnerRe U.S., PartnerRe Insurance Company of New York (PRNY) and PartnerRe America

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Insurance Company (PRAIC) (PartnerRe U.S., PRNY and PRAIC 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 states, New York in the case of PartnerRe U.S. and PRNY, and Delaware in the case of PRAIC, and all states where they are licensed, accredited or approved to underwrite insurance and reinsurance.

PartnerRe U.S. Corporation is also the owner of the Presidio Reinsurance Group, Inc. and its 100% owned subsidiaries Presidio Excess Insurance Services, Inc. (PXS), Presidio Reinsurance Management Ltd. (PRM) and Presidio Reinsurance Corporation Inc. (PRC). PXS is a managing general underwriter licensed in a number of states. PRM is an approved coverholder in the Lloyd's market domiciled in the U.K. and regulated by the Financial Services Authority. PRC is a Montana domiciled captive reinsurer.

Currently, the PartnerRe U.S. Insurance Companies are licensed, accredited or approved reinsurers and/or insurers in fifty states and the District of Columbia, and are subject to the requirements described below:

Risk-Based Capital Requirements. 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. Decreases in an insurer's Total Adjusted Capital as a percentage of its Annualized Control Level (as defined in the Model RBC Act) triggers increasing regulatory actions. Such regulatory actions include but are not limited to issuance of orders for corrective action by the insurer, rehabilitation or liquidation of the insurer;

Insurance Regulatory Information System (IRIS) Ratios. A committee of state insurance regulators developed the NAIC's 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. Companies;

Reporting Requirements. Regulations vary from state to state, but generally require insurance holding companies and insurers and reinsurers that are subsidiaries of insurance 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, and restrictions on the size of risks which may be reinsured, deposits of securities for the benefit of reinsureds, methods of accounting for assets, 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. In the U.S., PartnerRe U.S. Insurance Companies' current domiciliary regulator is the New York State Department of Financial Services or the Delaware Department of Insurance; and

Dividends and Distributions. Under New York law, the New York State Department of Financial Services must approve any dividend declared or paid by the PartnerRe U.S. or PRNY 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 Department of Financial Services, or 100% of their respective adjusted net investment income during that period.

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Under Delaware law the Delaware Commissioner of Insurance must approve any dividend declared or paid by PRAIC that, together with all dividends or distributions made within the preceding 12 months exceeds ten percent of PRAIC's surplus as regards policyholders as of the preceding December 31 or the net income, not including realized capital gains, for the 12-month period ending the preceding December 31. Both Delaware and New York do not permit a dividend to be declared or distributed, except out of earned surplus.

In addition to the above, the following laws and initiatives currently impact or may impact the PartnerRe U.S. Insurance Companies in the future:

The Dodd-Frank Wall Street Reform and Consumer Protection Act of 2010 (the Dodd-Frank Act). The Dodd-Frank Act represents a comprehensive overhaul of the financial services industry within the U.S. and establishes a Federal Insurance Office under the U.S. Treasury Department to monitor all aspects of the insurance industry. The Dodd-Frank Act made small changes to the regulation of credit for reinsurance and surplus lines insurance in the U.S. Among other responsibilities the Federal Insurance Office will issue reports on how to modernize or improve insurance regulation and on the role of the global reinsurance market in supporting insurance in the U.S. See Risk Factors in Item 1A of Part I of this report.

NAIC Solvency Modernization Initiative. In 2008, the NAIC began its Solvency Modernization Initiative to examine the U.S. insurance solvency regulation framework with a focus on capital requirements, international accounting, insurance valuation, reinsurance and group regulatory issues. While some activities arising from the Solvency Modernization Initiative, such as such as adoption of changes to the Insurance Holding Company System Regulatory Act and Insurance Holding Company System Model Regulation and adoption of the Risk Management and Own Risk and Solvency Assessment Model Act, are complete, other activities are ongoing.

Canada

Canadian branches of PartnerRe Bermuda, PartnerRe Europe and PartnerRe U.S. hold licenses to write reinsurance business in Canada. Each Canadian branch is authorized to insure, in Canada, risks falling within the classes of insurance as specified in their respective licenses and is limited to the business of reinsurance. The Canadian branch of PartnerRe Bermuda is licensed to write life business in Ontario. The Canadian branch of PartnerRe Europe is licensed to write life business in Ontario and is currently applying for a license to write life business in Quebec. The Canadian branch of PartnerRe U.S. is licensed to write property and casualty business in Ontario and Quebec. Each Canadian branch is subject to local regulation for its Canadian branch business, specified principally pursuant to Part XIII of the Insurance Companies Act (the Canadian Insurance Act) applicable to foreign property and casualty companies and to foreign life companies as well as relevant provincial insurance acts. The Office of the Superintendent of Financial Institutions, Canada (OSFI) supervises the application of the Canadian Insurance Act.

PartnerRe Bermuda, PartnerRe Europe and PartnerRe U.S. maintain sufficient assets, vested in trust at a Canadian financial institution approved by OSFI, to allow their branches to meet minimum statutory solvency requirements as required by the Act and the regulations made under it. Certain statutory information is filed with federal and provincial insurance regulators in respect of both property and casualty and life business written by branches. This information includes, among other things, a yearly business plan and an annual Dynamic Capital Adequacy Test (DCAT) report from the Appointed Actuary of the branch that tests the adequacy of the assets that are vested under various adverse scenarios.

Other Regulatory Considerations

Moreover, there are various regulatory bodies and initiatives that impact PartnerRe in multiple international jurisdictions and the potential for significant impact on PartnerRe could be heightened as a result of recent industry and economic developments. In particular, Solvency II, adopted in the European Union but yet to be finalized aims to establish a revised set of risk-based capital requirements and risk management standards that will replace the current Solvency I requirements. Once finalized, Solvency II is expected to set out new,

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strengthened requirements applicable to the entire European Union relating to capital adequacy and risk management for insurers. See Risk Factors in Item 1A of Part I of this report.

Taxation of the Company and its Subsidiaries

The following summary of the taxation of PartnerRe Ltd., PartnerRe Bermuda, PartnerRe Europe and the PartnerRe U.S. Corporation and its subsidiaries (collectively 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 Brazil, Canada, Chile, China, France, Hong Kong, Ireland, Labuan, Singapore, Switzerland and the U.S. The discussion below covers the significant locations for which the Company or its subsidiaries are subject to taxation.

Bermuda

PartnerRe Ltd. and PartnerRe Bermuda 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 PartnerRe Ltd. or PartnerRe Bermuda or to any of their operations or the shares, debentures or other obligations of PartnerRe Ltd. or PartnerRe Bermuda until March 2035. 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 (PartnerRe Ltd. and PartnerRe Bermuda 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 PartnerRe Bermuda.

Canada

The Canadian life branch of PartnerRe Bermuda, the Canadian life branch of PartnerRe Europe and the Canadian non-life branch of PartnerRe U.S. are subject to Canadian taxation on their profits.

The profits of the Canadian life branch of PartnerRe Bermuda are taxed at the federal level as well as the Ontario provincial level at a total rate that was 26.50% in 2012. The profits of the Canadian life branch of PartnerRe Europe are taxed at the federal level as well as the Ontario and Quebec provincial level at a total rate that was 26.50% in 2012. The Canadian non-life branch of PartnerRe U.S. is subject to taxation on its profits at the federal level as well as the Ontario and Quebec provincial level at a total rate that was an average of 26.58% in 2012. See also the discussion of taxation in the United States and Ireland below.

France

The French branch of PartnerRe Europe is conducting business in and is subject to taxation in France. The current statutory rate of tax on corporate profits in France is 36.1%. See also the discussion of taxation in Ireland below.

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 arising from other than a trade or business are taxable at the rate of 25%. The Swiss, U.S., French and Canadian branches of PartnerRe Europe are 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, U.S., France and Canada can be credited or deducted against the Irish corporation tax. As a result, the Company does not expect to incur significant taxation in Ireland with respect to the Swiss, U.S., French and Canadian branches.

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Switzerland

The Swiss branch of PartnerRe Europe is subject to Swiss taxation, mainly on profits and capital. To the extent that net profits are generated, profits are taxed at a rate of approximately 21%. 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 above.

United States

PartnerRe U.S. Corporation and its subsidiaries (collectively the PartnerRe U.S. Companies) transact business in Canada and in the U.S. and are subject to taxation in the U.S.

In addition, PartnerRe Europe writes certain U.S. Facultative and Latin American business, through its reinsurance intermediaries, PartnerRe Miami Inc. (PartnerRe Miami) in Miami, Florida and PartnerRe Connecticut Inc. (PartnerRe Connecticut) in Greenwich, Connecticut. As a result, PartnerRe Europe is deemed to be engaged in a U.S. trade or business and thus is subject to taxation in the U.S. Finally, PartnerRe Capital Investments Corporation, is also a U.S. corporation subject to taxation in the U.S. The current statutory rate of tax on corporate profits in the U.S. is 35%. See the discussion of U.S. branch taxation below and the discussion of taxation in Ireland above.

On this basis, the Company does not expect that it and its subsidiaries, other than the PartnerRe U.S. Companies and PartnerRe Europe for its U.S. branches (PartnerRe Miami and PartnerRe Connecticut), 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 or its non-U.S. subsidiaries are engaged in a trade or business in the U.S. The maximum federal tax rate is currently 35% for a corporation's income that is effectively connected with a trade or business in the U.S. 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 U.S., 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 U.S. 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 U.S. as enumerated in Section 881(a) of the Internal Revenue Code, such as dividends and interest on certain investments.

The U.S. also imposes an excise tax on insurance and reinsurance premiums paid to foreign insurers or reinsurers with respect to risks located in the U.S. The rate of tax applicable to reinsurance premiums paid to PartnerRe Bermuda is 1% of gross premiums.

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 <http://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>). None of the information on the Company's website or on the SEC's website is incorporated into this report except to the extent explicitly incorporated by reference in this report.

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ITEM 1A. RISK FACTORS

Introduction

Current and potential investors in the Company should be aware that, as with any publicly traded company, investing in our securities 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 under the heading Risk Factors.

First, in order to achieve an appropriate compound annual growth in diluted book value per share over the reinsurance cycle, we believe we must be able to generate an appropriate operating return on beginning diluted book value per share over the reinsurance cycle. 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 varies based on the client's perception of the amount and volatility 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 our 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, tornado, 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; and

New mass tort actions or reemergence of old mass torts such as cases related to 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 dampen earnings volatility is through diversification by building a portfolio of uncorrelated risks. We do not currently 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 can be categorized as very significant risks:

Natural catastrophe risk;

Long tail reinsurance risk;

Market risk;

Interest rate risk;

Default and credit spread risk;

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Trade credit underwriting risk;

Longevity risk; and

Pandemic risk.

Each of these risks 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 Risk Management in Item 1 of Part I of this report).

We rely on our internal risk management processes, models and systems to manage these risks at the nominal exposure levels approved by the Company's 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 in our earnings, as described in Risk Management in Item 1 of Part I of this report. 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 or phrases believe, anticipate, estimate, project, plan, expect, intend, hope, forecast, evaluate, will likely result or will continue or words or phrases of similar import generally involve forward-looking statements. As used in these Risk Factors, the terms the Company, PartnerRe, we, our or us may, depending upon the context, refer solely to the Company, to one or more of the Company's consolidated subsidiaries or to all of them taken as a whole.

Table of Contents**Risk Factors***Risks Related to Our Company*

The volatility of the catastrophe business that we underwrite will result in volatility of our earnings.

Catastrophe reinsurance comprised approximately 10% of our net premiums written for the year ended December 31, 2012 and a larger percentage of our capital at risk. Catastrophe losses result from events such as windstorms, hurricanes, tsunamis, earthquakes, floods, hail, tornadoes, severe winter weather, fires, explosions and other natural and man-made 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 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 if we are unable to replenish our capital.

By way of illustration, during the past five calendar years, the Company incurred the following pre-tax large catastrophic losses and large losses, net of any related reinstatement premiums, reinsurance and profit commissions (in millions of U.S. dollars):

Calendar year	Pre-tax large catastrophe losses and large losses
2012	\$ 318
2011	1,790
2010	559
2009	
2008	305

Examples of pre-tax large catastrophic losses and large losses reflected in the illustration above include losses in 2012, 2011, 2010 and 2008 which were incurred, to varying extents, as the result of multiple medium and large catastrophic events. In 2012, these events included Superstorm Sandy and the U.S. drought. In 2011, these events included the Japan Earthquake, the February and June 2011 New Zealand Earthquakes, Thailand Floods, U.S. tornadoes and Australian Floods. In 2010, these events included the earthquake that hit Chile in February 2010 (Chile Earthquake), the New Zealand earthquake that occurred in September 2010 (2010 New Zealand Earthquake) (collectively, 2010 catastrophic events) and large losses related to the explosion and subsequent sinking of the Deepwater Horizon Drilling Platform (Deepwater Horizon).

Loss estimates arising from earthquakes are inherently more uncertain than those from other catastrophic events. The Company's actual losses from the 2010 and February and June 2011 New Zealand Earthquakes may materially exceed the estimated losses as a result of, among other things, an increase in industry insured loss estimates, the expected lengthy claims development period, in particular for earthquake related losses, and the receipt of additional information from cedants, brokers and loss adjusters. In addition, the Company's loss estimate related to the Japan Earthquake is inherently more uncertain than those from other catastrophic events given the characteristics of the Company's reinsurance portfolio in the region. Further, changes in loss assumptions for specific cedants may have a material impact on the Company's loss estimate related to this event given a significant portion of the losses are concentrated with a few large cedants. The Company believes there remains a high degree

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of uncertainty regarding its loss estimates related to the 2010 and February and June 2011 New Zealand Earthquakes and the Japan Earthquake and the ultimate losses arising from these events may be materially in excess of, or less than, the amounts provided for in the Consolidated Balance Sheet at December 31, 2012. Any adjustments to the Company's preliminary estimate of its ultimate losses related to these events will be reflected in the periods in which they are determined, which may affect the Company's operating results in future periods.

We believe, and recent scientific studies have indicated, that the frequency of Atlantic basin hurricanes has increased and may change further in the future relative to the historical experience over the past 100 years. As a result of changing climate conditions, such as global warming, there may be increases in the frequency and severity of natural catastrophes and the losses that result from them. We monitor and adjust, as we believe appropriate, our risk management models to reflect our judgment of how to interpret current developments and information, such as these studies.

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 attempt to 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. This may be because, irrespective of the clarity and inclusiveness of policy language, there can be no assurance that a court or arbitration panel will not limit enforceability of policy language or otherwise issue a ruling adverse to us.

It is also 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. See Political, regulatory, governmental and industry initiatives could adversely affect our business below for a summary of relevant U.S. federal initiatives regarding supply of commercial insurance coverage for certain types of terrorist acts in the U.S.

Given the inherent uncertainty of models, the usefulness of such models as a tool to evaluate risk is subject to a high degree of uncertainty that could result in actual losses that are materially different than our estimates including probable maximum losses (PMLs), and our financial results may be adversely impacted, perhaps significantly.

In addition to our own proprietary catastrophe models, we use third party vendor analytic and modeling capabilities to provide us with objective risk assessment relating to other risks in our reinsurance portfolio. We use these models to help us control risk accumulation, inform management and other stakeholders of capital requirements and to improve the risk/return profile or minimize the amount of capital required to cover the risks in each reinsurance contract in our overall portfolio of reinsurance contracts. However, given the inherent uncertainty of modeling techniques and the application of such techniques, these models and databases may not accurately address a variety of matters which might be deemed to impact certain of our coverages.

For example, catastrophe models that simulate loss estimates based on a set of assumptions are important tools used by us to estimate our PMLs. These assumptions address a number of factors that impact loss potential including, but not limited to, the characteristics of the natural catastrophe event; demand surge resulting from an event; the types, function, location and characteristics of exposed risks; susceptibility of exposed risks to damage from an event with specific characteristics; and the financial and contractual provisions of the (re)insurance contracts that cover losses arising from an event. We run many model simulations in order to understand the impact of these assumptions on its catastrophe loss potential. Furthermore, there are risks associated with

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catastrophe events, which are either poorly represented or not represented at all by catastrophe models. Each modeling assumption or un-modeled risk introduces uncertainty into PML estimates that management must consider. These uncertainties can include, but are not limited to, the following:

The models do not address all the possible hazard characteristics of a catastrophe peril (e.g. the precise path and wind speed of a hurricane);

The models may not accurately reflect the true frequency of events;

The models may not accurately reflect a risk's vulnerability or susceptibility to damage for a given event characteristic;

The models may not accurately represent loss potential to insurance or reinsurance contract coverage limits, terms and conditions; and

The models may not accurately reflect the impact on the economy of the area affected or the financial, judicial, political, or regulatory impact on insurance claim payments during or following a catastrophe event.

Our PMLs are selected after assessment of multiple third party vendor model output, internally constructed independent models, including the Company's CatFocu[®] suite of models, and other qualitative and quantitative assessments by management, including assessments of exposure not typically modeled in vendor or internal models. Our methodology for estimating PMLs may differ from methods used by other companies and external parties given the various assumptions and judgments required to estimate a PML.

As a result of these factors and contingencies, our reliance on assumptions and data used to evaluate our entire reinsurance portfolio and specifically to estimate a PML, is subject to a high degree of uncertainty that could result in actual losses that are materially different from our PML estimates and our financial results may be adversely impacted, perhaps significantly.

If actual losses exceed our estimated loss reserves, our net income and capital position 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, 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. 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.

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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.

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, 2012, approximately 69% of our gross premiums written were produced through brokers. In 2012, we had two brokers that accounted for 46% 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 could potentially reduce our premium volume and net income.

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

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 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 us to cover future loss payments.

If we are significantly 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 principal operating subsidiaries. These ratings are based upon criteria established by the rating agencies and have become an important factor 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 their sole discretion.

Our current financial strength ratings are:

Standard & Poor's	A+
Moody's	A1
A.M. Best	A+ (negative outlook)
Fitch	AA-

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.

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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 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. Financial markets in the U.S., Europe and elsewhere have experienced extreme volatility and disruption in recent times, resulting in part from financial stresses affecting the liquidity of the banking system. Continued disruption in the financial markets may limit our ability to access capital required to operate our business and we may be forced to delay raising capital or bear a higher cost of capital, which could decrease our profitability and significantly reduce our financial flexibility. In addition, if we experience a credit rating downgrade, withdrawal or negative watch/outlook in the future, we could incur higher borrowing costs and may have more limited means to access capital. If we cannot obtain adequate capital on favorable terms or at all, our business, operating results and financial condition could be adversely affected.

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

We invest the net premiums we receive unless and until such time as we pay out losses and/or until they are made available for distribution to shareholders and /or otherwise used for general corporate purposes. Investment results comprise a substantial portion of our income. For the year ended December 31, 2012, we had net investment income of \$571 million, which represented approximately 10% of total revenues. In addition, we recorded realized and unrealized gains on investments during 2012, and we record all realized and unrealized gains or losses through net income. While the Board has implemented what it believes to be prudent risk management and investment asset allocation practices, we are exposed to significant financial and capital market risks, including changes in interest rates, credit spreads, equity prices, foreign exchange rates, market volatility, the performance of the economy in general and other factors outside our control.

Interest rates are highly sensitive to many factors, including fiscal and monetary policies of major economies, economic and political conditions and other factors outside our control. 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. We may be forced to liquidate investments prior to maturity at a loss in order to cover liabilities. In a rising interest rate environment, the market value of our fixed income portfolio may decline.

Our fixed maturity portfolio is primarily invested in high quality, investment grade securities. However, we invest a portion of the portfolio in securities that are below investment grade, including high yield fixed maturity investments and convertible fixed maturity investments. We also invest a portion of our portfolio in other investments such as fixed income type mutual funds, notes receivable, loans receivable, private placement bond investments, derivative exposure assumed and other specialty asset classes. These securities generally pay a higher rate of interest and have a higher degree of credit or default risk. These securities may also be less liquid in times of economic weakness or market disruptions.

We invest a portion of our portfolio in preferred and common stocks or equity-like 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 use the term equity-like investments to describe our investments that have market risk characteristics similar to equities and are not investment grade fixed maturity securities. This category includes high yield and convertible fixed maturity investments and private placement equity investments. Fluctuations in the fair value of our equity-like investments may reduce our income in any period or year and cause a reduction in our capital.

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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, Canadian dollar, British pound, New Zealand dollar, Japanese Yen and Australian dollar. 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 or equity may be reduced by fluctuations in foreign currency exchange rates. The sovereign debt crisis in Europe and the related financial restructuring efforts, which may cause the value of the euro to deteriorate, may magnify these risks.

The current state of the global economy and capital markets increases the possibility of adverse effects on our financial position and results of operations. Economic downturns could impair our investment portfolio and affect the primary insurance market, which could, in turn, harm our operating results and reduce our volume of new business.

Global capital markets in the U.S. and Europe continue to experience volatility and certain economies remain in recession. The longer this economic dislocation persists, the greater the probability that these risks could have an adverse effect on our financial results. This may be evidenced in several ways including, but not limited to, a potential reduction in our premium income, financial losses in our investment portfolio and decreases in revenue and net income.

Unfavorable economic conditions also could increase our funding costs, limit our access to the capital markets or result in a decision by lenders not to extend credit to us. These events could prevent us from increasing our underwriting activities and negatively impact our operating results. In addition, our cedants and other counterparties may be affected by such developments in the financial markets, which could adversely affect their ability to meet their obligations to us.

We have exposure to the European sovereign debt crisis which could have a negative impact on our investment assets.

The sovereign debt crisis has resulted in European financial restructuring efforts. The impact of these efforts is unclear, however, they may cause a further deterioration in the value of the euro and consequently exacerbating instability in global credit markets, and increased credit concerns resulting in the widening of bond yield spreads. In addition, recent rating agency downgrades on European sovereign debt and a possible concern of the potential default of government issuers or of a possible disorganized break-up of the European Union has contributed to this uncertainty. The impact of these developments, while potentially severe, remains extremely difficult to predict. However, should European governments default on their obligations, there will be a negative impact on government and non-government issued bonds, government guaranteed corporate bonds and bonds and equities issued by financial institutions and other financial instruments held within the country of default which in turn could adversely impact Euro-denominated assets held in our investment portfolio.

We may suffer losses due to defaults by others, including issuers of investment securities, reinsurance and derivative counterparties.

Issuers or borrowers whose securities we hold, reinsurers, clearing agents, clearing houses and other financial intermediaries may default on their obligations to us due to bankruptcy, insolvency, lack of liquidity, adverse economic conditions, fraud or other reasons. Our investment portfolio may include investment securities in the financial services sector that have recently experienced defaults. All or any of these types of default could have a material adverse effect on our results of operations, financial condition and liquidity.

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We may be adversely affected if Colisée Re, AXA or their affiliates fail to honor their obligations to Paris Re or its clients.

As part of the AXA Acquisition, Paris Re entered into the 2006 Acquisition Agreements. See Business Reserves Non-life Reserves Reserve Agreement in Item 1 of Part I of this report.

Pursuant to the Quota Share Retrocession Agreement, the benefits and risks of Colisée Re's reinsurance agreements were ceded to Paris Re France (now PartnerRe Europe), but Colisée Re remains both the legal counterparty for all such reinsurance contracts and the legal holder of the assets relating to such reserves.

Under the Run Off Services and Management Agreement, Paris Re France (now PartnerRe Europe) has agreed that AXA LM will manage claims arising from all reinsurance and retrocession contracts subject to the Reserve Agreement. If AXA LM does not take into account Paris Re France's commercial concerns in the context of Paris Re France's on-going business relations with the relevant ceding companies and retrocessionaires, our ability to renew reinsurance and retrocession contracts with them may be adversely affected.

There can be no assurance that our business activities, financial condition, results or future prospects may not be adversely affected in spite of the existence of the 2006 Acquisition Agreements. In general, if AXA or its affiliates breach or do not satisfy their obligations under the 2006 Acquisition Agreements (potentially as a result of insolvency or inability or unwillingness to make payments under the terms of the 2006 Acquisition Agreements), we could be materially adversely affected.

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 any one of the financial institutions that we use in our operations, including those that participate in our credit facilities, fails or is otherwise unable to meet their commitments, we could incur substantial losses and reduced liquidity.

We maintain cash balances significantly in excess of the U.S. Federal Deposit Insurance Corporation insurance limits at various depository institutions. We also have funding commitments from a number of banks and financial institutions that participate in our credit facilities. See Item 7 Management's Discussion and Analysis of Financial Condition and Results of Operations Credit Facilities. Access to funds under these existing credit facilities is dependent on the ability of the banks that are parties to the facilities to meet their funding requirements. Those banks may not be able to meet their funding requirements if they experience shortages of capital and liquidity or if they experience excessive volumes of borrowing requests within a short period of time, and we might be forced to replace credit sources in a difficult market. There have also been recent consolidations in the banking industry which could lead to increased reliance on and exposure to a limited number of institutions. If we cannot obtain adequate financing or sources of credit on favorable terms, or at all, our business, operating results and financial condition could be adversely impacted.

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

Developments in accounting practices, for example a convergence of U.S. GAAP with International Financial Reporting Standards (IFRS), 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 and may be significant. The impact may affect the results of our operations, including among other things, the calculation of net income, and may affect our financial position, including among other things, the calculation of unpaid losses and loss expenses, policy benefits for life and annuity contracts and total shareholders' equity.

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. 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.

The loss of key executive officers could adversely affect us.

Our success has depended, and will continue to depend, partly upon our ability to attract and retain executive officers. If any of these executives ceased to continue in his or her present role, we could be adversely affected.

We believe there are only a limited number of available qualified executives in the business lines in which we compete. Our ability to execute our business strategy is dependent on our ability to attract and retain a staff of qualified executive officers, underwriters and other key personnel. The skills, experience and knowledge of the reinsurance industry of our management team constitute important competitive strengths. If some or all of these managers leave their positions, and even if we were able to find persons with suitable skills to replace them, our operations could be adversely affected.

Risks Related to Our Industry

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. In recent years, we have experienced a generally softening market cycle, with increased competition, surplus underwriting capacity, deteriorating rates and less favorable terms and conditions all having an impact on our ability to write business.

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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, Munich Re, Swiss Re, Everest Re, Hannover Re, SCOR and reinsurance operations of certain primary insurance companies, such as ACE, Arch Capital, Axis Capital, XL Group and Zurich Insurance Group. Competition in the types of reinsurance that we underwrite is based on many factors, including the perceived financial strength of the reinsurer, pricing, terms and conditions offered, services provided, ratings assigned by independent rating agencies, speed of claims payment 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 would become more intense and we could incur additional expenses relating to customer acquisition and retention, further reducing our operating margins.

Further, insurance-linked securities and derivative and other non-traditional risk transfer mechanisms and vehicles are being developed and offered by other parties, which could impact the demand for traditional insurance or reinsurance. A number of new, proposed or potential industry or legislative developments could further increase competition in our industry. New competition from these developments could cause the demand for insurance or reinsurance to fall or the expense of customer acquisition and retention to increase, either of which could have a material adverse affect on our growth and profitability.

Legal and Regulatory Risks

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

Our reinsurance operations are subject to extensive laws and regulations that are administered and enforced by a number of different governmental and non-governmental self-regulatory authorities and associations in each of their respective jurisdictions and internationally. As a result of the current financial crisis, some of these authorities regularly consider enhanced or new regulatory requirements intended to prevent future crises or otherwise assure the stability of institutions under their supervision. These authorities may also seek to exercise their supervisory authority in new and more robust ways, and new regulators could become authorized to oversee parts of our business. For example, the European Union's Solvency II initiative and the NAIC's Solvency Modernization Initiative include meaningful changes in consolidated supervision and corporate governance requirements as they apply to insurance and reinsurance corporate groups, which could lead to increases in regulatory capital requirements, reduced operational flexibility and increased compliance costs. We cannot predict what regulations will finally be adopted. In addition, in 2010 the International Association of Insurance Supervisors (IAIS) introduced a concept paper promoting a common framework for the supervision of internationally active insurance groups (IAIGs). Through the common framework, now in its development phase, the IAIS aims to: (i) develop methods of operating group-wide supervision of IAIGs, (ii) establish a comprehensive framework for supervisors to address group-wide activities and risks and also set grounds for better supervisory cooperation, and (iii) foster global convergence of regulatory and supervisory measures and approaches. It is not possible to predict all future impacts of these types of changes but they could affect the way we conduct our business and manage our capital, and may require us to satisfy increased capital requirements, any of which, in turn, could affect our results of operations, financial condition and liquidity. Our material subsidiaries' regulatory environments are described in detail under the heading Business Regulation. Regulations relating to each of our material 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.

Recent 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. In light of the current financial crisis, 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 clients that we target or requiring our participation in industry pools and guaranty associations;

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Further restricting our operational or capital flexibility;

Expanding the scope of coverage under existing policies;

Regulating the terms of reinsurance policies; or

Disproportionately benefiting the companies domiciled in one country over those domiciled in another.

Such a U.S. 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 certain types of terrorist acts in the U.S. 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 in the U.S. 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, 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. More recent legislative proposals would limit the reinsurance coverage available from the Florida Hurricane Catastrophe Fund and limit exposure to assessments from the state-run Citizens Property Insurance Company.

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 cancellations of products and services we provide, which could adversely affect our business.

We are unable to predict the effect that governmental actions for the purpose of stabilizing the financial markets will have on such markets generally or on the Company in particular.

In response to the financial crisis affecting the banking system and financial markets, the U.S. federal government, the European Central Bank and other governmental and regulatory bodies have taken or are considering taking other actions to address the governance of those industries that are viewed as presenting a systemic risk to economic stability. Such actions include the International Monetary Fund's proposal to levy a financial stability tax on all financial institutions, the proposals for enhanced regulation and supervision contained in the most recently published Organization for Economic Co-operation and Development paper on the impact of the financial crisis on the Insurance sector and the financial regulatory reform provisions contained within the Dodd-Frank Wall Street Reform and Consumer Protection Act of 2010. We are unable to predict the effect that the enactment of any such proposals will have on the financial markets generally or on the Company's competitive position, business and financial condition in particular, though we are monitoring these and similar proposals as they evolve.

The Dodd-Frank Act may adversely impact our business.

The U.S. Congress and the current administration have made, or called for consideration of, several additional proposals relating to a variety of issues with respect to financial regulation reform, including regulation of the over-the-counter derivatives market, the establishment of a single-state system of licensure for U.S. and foreign reinsurers, further regulation of executive compensation and others. One of those initiatives, the Dodd-Frank Act, was signed into law by the President of the U.S. on July 21, 2010. The Dodd-Frank Act represents a comprehensive overhaul of the financial services industry within the U.S. and establishes a Federal Insurance Office under the U.S. Treasury Department to monitor all aspects of the insurance industry. The director of the Federal Insurance Office will have the ability to recommend that an insurance company or an insurance holding company be subject to heightened prudential standards. Compliance with these new laws and regulations may result in additional costs which may adversely impact our results of operations, financial condition and liquidity. However, at this time, it is not possible to predict with any degree of certainty whether any other proposed legislation, rules or regulatory changes will be adopted or what impact, if any, the Dodd-Frank Act or any other such legislation, rules or changes could have on our business, financial condition or results of operations.

Table of Contents***Solvency II could adversely impact our financial results and operations.***

Solvency II, a European Union directive concerning the capital adequacy, risk management and regulatory reporting for insurers, was adopted by the European Parliament and the European Council in April of 2009 and may adversely affect our reinsurance businesses. The implementation of Solvency II by the European Commission will replace current solvency requirements and is scheduled to take effect January 1, 2014, although it is widely acknowledged that portions of the requirements will be deferred until 2016. Solvency II adopts a risk-based approach to insurance regulation. Its principal goals are to improve the correlation between capital and risk, effect group supervision of insurance and reinsurance affiliates, implement a uniform capital adequacy structure for insurers across the European Union Member States, establish consistent corporate governance standards for insurance and reinsurance companies, and establish transparency through standard reporting of insurance operations. Implementation of Solvency II will require us to utilize a significant amount of resources to ensure compliance. The measures implementing Solvency II have not been finalized and may be subject to change; consequently, our implementation plans, which are based on our current understanding of the Solvency II requirements, may need to change. The current uncertainty as to timing and requirements may add to the cost of compliance. In addition, the European Union is in the process of considering the Solvency II equivalence of Bermuda's insurance regulatory and supervisory regime. The European Union equivalence assessment considers whether Bermuda's regulatory regime provides a similar level of policyholder protection as provided under Solvency II. A finding that Bermuda's insurance regulatory regime is not equivalent to the European Union's Solvency II could have an adverse effect on the cost of PartnerRe Bermuda's European business due to the potential of having to post collateral. It would not affect PartnerRe Europe's ability to operate in Europe. Such a finding could also have adverse indirect commercial impacts on our operations. An interim assessment has determined that the Bermuda regime applicable to Class 3A, 3B and 4 Companies is equivalent with certain caveats, but a final determination is yet to be made. We are monitoring the ongoing legislative and regulatory steps associated with the adoption of Solvency II. The principles, standards and requirements of Solvency II may also, directly or indirectly, impact the future supervision of additional operating subsidiaries of ours.

Legislative and regulatory activity in health care and other employee benefits could increase the costs or administrative burdens of providing benefits to our employees or hinder or prevent us from attracting and retaining employees, or affect our profitability as a provider of accident and health insurance benefit products.

We derive revenues from the provision of accident and health premiums in the U.S., that is, providing insurance to institutions that participate in the U.S. healthcare delivery infrastructure. Changes in U.S. healthcare legislation, specifically the Patient Protection and Affordable Care Act of 2010 (the Healthcare Act), have made significant changes to the regulation of health insurance and may affect negatively affect our healthcare liability business including, but not limited to, the healthcare delivery system and the healthcare cost reimbursement structure in the U.S. In addition, the Company may be subject to regulations, guidance or determinations emanating from the various regulatory authorities authorized under the Healthcare Act. It is difficult to predict the effect that the Healthcare Act, or any regulatory pronouncement made thereunder, will have on its results of operations or financial condition. Additionally, future healthcare proposals could include tort reform provisions under which plaintiffs would be restricted in their ability to bring suit against healthcare providers, which could negatively impact the demand for our healthcare liability products. Any material changes in how healthcare providers insure their malpractice liability risks could have a material adverse effect on our results of operations.

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.

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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.

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 sometime 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.

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 cancellations of products and services we provide, which could adversely affect our business.

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 U.S. 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 U.S. 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 U.S. Federal securities laws in any Federal or state court in the U.S., it could be difficult for investors to effect service of process within the U.S. on our directors and officers who reside outside the U.S.. It could also be difficult for investors to enforce against us or our directors and officers judgments of a U.S. court predicated upon civil liability provisions of U.S. Federal securities laws.

There is no treaty in force between the U.S. and Bermuda providing for the reciprocal recognition and enforcement of judgments in civil and commercial matters. As a result, whether a U.S. judgment would be enforceable in Bermuda against us or our directors and officers depends on whether the U.S. 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 U.S. court that is final and for a sum certain based on U.S. Federal securities laws will not be enforceable in Bermuda unless the judgment debtor had submitted to the jurisdiction of the U.S. court, and the issue of submission and jurisdiction is a matter of Bermuda law and not U.S. law.

In addition to and irrespective of jurisdictional issues, Bermuda courts will not enforce a U.S. 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 U.S. jurisdictions, including certain remedies under U.S. 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 U.S. 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.

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Risks Related to Our Common Shares and Preferred Shares

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 common and preferred shares and other obligations.

We are a holding company with no operations or significant assets other than the capital stock of our subsidiaries and other intercompany balances. We have cash outflows in the form of operating expenses, dividends to both common and preferred shareholders and, from time to time, cash outflows for the repurchase of common shares under our share repurchase program. We rely primarily on cash dividends and payments from our subsidiaries to meet our cash outflows. We expect future dividends and other permitted payments from our subsidiaries to be the principal source of funds to pay expenses and dividends. The payment of dividends by our reinsurance subsidiaries is limited under Bermuda and Irish laws and certain statutes of various U.S. states in which our U.S. subsidiaries are licensed to transact business. As of December 31, 2012, there were no significant restrictions on the payment of dividends by the Company's subsidiaries that would limit the Company's ability to pay common and preferred shareholders' dividends and its corporate expenses.

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.

Provisions in our bye-laws may restrict the voting rights of our shares and may restrict the transferability of our shares.

Our bye-laws generally provide that if any person owns, directly, indirectly or by attribution, more than 9.9% of the total combined voting power of our shares entitled to vote, the voting rights attached to such shares will be reduced so that such person may not exercise and is not attributed more than 9.9% of the total combined voting power. In addition, our board of directors may limit a shareholder's exercise of voting rights where it deems it necessary to do so to avoid non-de minimis adverse tax, legal or regulatory consequences to us, any of our subsidiaries or any of our shareholders.

Under our bye-laws, subject to waiver by our board of directors, no transfer of our shares is permitted if such transfer would result in a shareholder controlling more than 9.9% determined by value or by voting power of our outstanding shares. Our bye-laws also provide that if our board of directors determines that share ownership by a person may result in (i) shareholder owning directly, indirectly or by retribution, more than 9.9% of the total combined voting power of our shares entitled to vote, or (ii) any non-de minimis adverse tax, legal or regulatory consequences to us, any of our subsidiaries or any of our shareholders, then we have the option, but not the obligation, to require that shareholder to sell to us for fair market value the minimum number of shares held by such person which is necessary so that after such purchase such shareholder will not own more than 9.9% of the total combined voting power, or is necessary to eliminate the non-de minimis adverse tax, legal or regulatory consequences.

We also have the authority under our bye-laws to request information from any shareholder for the purpose of determining whether a shareholder's voting rights are to be limited pursuant to our bye-laws. If a shareholder fails to timely respond to our request for information or submits incomplete or inaccurate information in response to a request by us, we may, in our sole discretion, eliminate or reduce the shareholder's voting rights.

Taxation Risks

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

We believe that we and our non-U.S. subsidiaries (other than business sourced by PartnerRe Europe through PartnerRe Miami and PartnerRe Connecticut) 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 U.S. and, on this basis, we do not expect that either we or our non-U.S. subsidiaries 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

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there is considerable uncertainty as to the activities that constitute being engaged in a trade or business within the U.S., the IRS may contend that either we or our non-U.S. subsidiaries are engaged in a trade or business in the U.S. If either we or our non-U.S. subsidiaries are subject to U.S. income tax, our shareholders' equity and net income will be reduced by the amount of such taxes, which might be material.

PartnerRe U.S. Corporation and its subsidiaries conduct business in the U.S., and are subject to U.S. corporate income taxes.

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 initiative 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.

If proposed U.S. legislation is passed, our U.S. reinsurance subsidiary may be subject to higher U.S. taxation and our net income would decrease.

Currently, our U.S. reinsurance subsidiary retrocedes or may retrocede a portion of its U.S. business to our non-U.S. reinsurance subsidiaries and is generally entitled to deductions for premiums paid for such retrocessions. Proposed legislation has been introduced that if enacted would impose a limitation on such deductions, which could result in increased U.S. tax on this business and decreased net income. It is not possible to predict whether this or similar legislation may be enacted in the future.

ITEM 1B. UNRESOLVED STAFF COMMENTS

None.

ITEM 2. PROPERTIES

The Company leases office space in Hamilton (Bermuda) where the Company's principal executive offices are located. Additionally, the Company leases office space in various locations, principally in Dublin, Greenwich (Connecticut), Paris and Zurich.

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.

At December 31, 2012, the Company was not a party to any litigation or arbitration that it believes could have a material effect on the financial condition, results of operations or liquidity of the Company.

ITEM 4. MINE SAFETY DISCLOSURES

Not applicable.

Table of Contents**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 (NYSE):

Common shares	PRE
6.75% Series C cumulative preferred shares ⁽¹⁾	PRE-PrC
6.50% Series D cumulative preferred shares	PRE-PrD
7.25% Series E cumulative preferred shares	PRE-PrE
5.875% Series F non-cumulative preferred shares	PRE-PrF

(1) On February 14, 2013, the Company announced that it expects to redeem the Series C preferred shares for the aggregate redemption value of \$290 million plus accrued dividends on March 18, 2013.

The Company's common shares are also traded on the Bermuda Stock Exchange under the symbol PRE.

As of February 15, 2013, the approximate number of common shareholders was 98,090.

The following table provides information about purchases by the Company during the quarter ended December 31, 2012, of equity securities that are registered by the Company pursuant to Section 12 of the Exchange Act.

Issuer Purchases of Equity Securities

Period	Total number of shares purchased	Average price paid per share	Total number of shares purchased as part of a publicly announced program ^{(1) (2)}	Maximum number of shares that may yet be purchased under the program ⁽¹⁾
10/01/2012-10/31/2012	153,480	\$ 77.71	153,480	5,720,920
11/01/2012-11/30/2012	689,015	79.91	689,015	5,031,905
12/01/2012-12/31/2012	1,870,625	80.90	1,870,625	3,161,280
Total	2,713,120	\$ 80.47	2,713,120	

(1) In September 2012, the Company's Board of Directors approved a new share repurchase authorization up to a total of 6 million common shares, which replaced the prior authorization of 7 million common shares approved in November 2011. 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.

(2) At December 31, 2012, approximately 26.6 million common shares were held in treasury and available for reissuance.

The following table sets forth the high and low sales prices per share of the Company's common shares for each of the fiscal quarters in the last two fiscal years as reported on the New York Stock Exchange Composite Tape and dividends declared by the Company:

Period	High	2012 Low	High	2011 Low
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			Dividends Declared			Dividends Declared
Three months ended March 31	\$ 68.41	\$ 63.02	\$ 0.62	\$ 83.18	\$ 72.78	\$ 0.55
Three months ended June 30	75.67	65.87	0.62	82.52	67.28	0.60
Three months ended September 30	76.55	72.44	0.62	69.50	51.98	0.60
Three months ended December 31	82.88	75.32	0.62	67.78	50.67	0.60

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Other information with respect to the Company's common shares, dividends and other related shareholder matters is contained in Notes 11, 12, 13 and 15 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.

Comparison of 5-Year Cumulative Total Return

The graph below compares the cumulative shareholder return, including reinvestment of dividends, on the Company's common shares to such return for Standard & Poor's (S&P) 500 Composite Stock Price Index and S&P's 1500 Composite Property & Casualty Insurance Index for the period commencing on December 31, 2007 and ending on December 31, 2012, assuming \$100 was invested on December 31, 2007. Each measurement point on the graph below represents the cumulative shareholder return as measured by the last sale price at the end of each year during the period from December 31, 2007 through December 31, 2012. As depicted in the graph below, during this period the cumulative total shareholder return on the Company's common shares was 13%, the cumulative total return for the S&P 500 Composite Stock Price Index was 9% and the cumulative total return for the S&P 1500 Composite Property & Casualty Insurance Index was 13%.

The Company has attempted to identify an index which most closely matches its business. There are no indices that properly reflect the returns of the reinsurance industry. The S&P 1500 Composite Property & Casualty Insurance Index is used as it is the broadest index of companies in the property and casualty industry. We caution the reader that this index of 27 companies does not include any companies primarily engaged in the reinsurance business, and therefore it is provided to offer context for evaluating performance, rather than direct comparison.

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This data should be read in conjunction with the Consolidated Financial Statements and the accompanying Notes to Consolidated Financial Statements in Item 8 of Part II of this report and with other information contained in this report, including Management's Discussion and Analysis of Financial Condition and Results of Operations in Item 7 of Part II of this report.

The Statement of Operations Data reflects the consolidated results of the Company and its subsidiaries for 2008, 2009, 2010, 2011 and 2012, including the results of Paris Re from October 2, 2009. The acquisition of Presidio was effective December 31, 2012 and, accordingly, Presidio's results are not included in the Statement of Operations Data presented below. The Balance Sheet Data reflects the consolidated financial position of the Company and its subsidiaries at December 31, 2008, 2009, 2010, 2011 and 2012, including Paris Re from December 31, 2009 and Presidio from December 31, 2012.

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

Statement of Operations Data	For the years ended December 31,				
	2012	2011	2010	2009	2008
Gross premiums written	\$ 4,718	\$ 4,633	\$ 4,885	\$ 4,001	\$ 4,028
Net premiums written	4,573	4,486	4,705	3,949	3,989
Net premiums earned	\$ 4,486	\$ 4,648	\$ 4,776	\$ 4,120	\$ 3,928
Net investment income	571	629	673	596	573
Net realized and unrealized investment gains (losses)	494	67	402	591	(531)
Net realized gain on purchase of capital efficient notes				89	
Other income	12	8	10	22	10
Total revenues	5,563	5,352	5,861	5,418	3,980
Losses and loss expenses and life policy benefits	2,805	4,373	3,284	2,296	2,609
Total expenses	4,234	5,797	4,892	3,635	3,918
Income (loss) before taxes and interest in earnings (losses) of equity investments	1,329	(445)	969	1,783	62
Income tax expense	204	69	129	262	10
Interest in earnings (losses) of equity investments	10	(6)	13	16	(5)
Net income (loss)	\$ 1,135	\$ (520)	\$ 853	\$ 1,537	\$ 47
Basic net income (loss) per common share	\$ 17.05	\$ (8.40)	\$ 10.65	\$ 23.93	\$ 0.22
Diluted net income (loss) per common share	\$ 16.87	\$ (8.40)	\$ 10.46	\$ 23.51	\$ 0.22
Dividends declared and paid per common share	\$ 2.48	\$ 2.35	\$ 2.05	\$ 1.88	\$ 1.84
Operating earnings (loss) available to common shareholders ^{(1) (3)}	\$ 664	\$ (642)	\$ 492	\$ 931	\$ 433
Operating return on beginning diluted book value per common share and common share equivalents outstanding ^{(2) (3)}	12.3%	(10.1)%	7.4%	22.3%	11.5%
Weighted average number of common shares and common share equivalents outstanding	63.6	67.6	78.2	63.9	55.6
Non-life ratios					
Loss ratio	58.5%	96.7%	65.9%	52.7%	63.9%
Acquisition ratio	22.3	21.3	21.3	21.9	23.3
Other operating expense ratio	7.0	7.4	7.8	7.2	6.9
Combined ratio	87.8%	125.4%	95.0%	81.8%	94.1%

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Balance Sheet Data	At December 31,				
	2012	2011	2010	2009	2008
Total investments, funds held directly managed and cash and cash equivalents	\$ 18,026	\$ 17,898	\$ 18,181	\$ 18,165	\$ 11,724
Total assets	22,980	22,855	23,364	23,733	16,279
Unpaid losses and loss expenses and policy benefits for life and annuity contracts	12,523	12,919	12,417	12,427	8,943
Debt related to senior notes	750	750	750	250	250
Debt related to capital efficient notes	71	71	71	71	258
Long-term debt					200
Total shareholders equity	6,933	6,468	7,207	7,646	4,199
Diluted book value per common share and common share equivalents outstanding	\$ 100.84	\$ 84.82	\$ 93.77	\$ 84.51	\$ 63.95
Number of common shares outstanding, net of treasury shares	58.9	65.3	70.0	82.6	56.5

- (1) *Operating earnings or loss available to common shareholders is calculated as net income or loss available to common shareholders excluding net realized and unrealized gains or losses on investments, net of tax, net realized gain on purchase of capital efficient notes, net of tax, net foreign exchange gains or losses, net of tax, and certain interest in earnings or losses of equity investments, net of tax, where the investee's operations are not insurance or reinsurance related and the Company does not control the investee companies' activities, and is calculated after preferred dividends. The presentation of operating earnings or loss available to common shareholders is a non-GAAP financial measure within the meaning of Regulation G. See Key Financial Measures in Item 7 of Part II of this report for a detailed discussion of the measures used by the Company to evaluate its financial performance.*
- (2) *Operating return on beginning diluted book value per common share and common share equivalents outstanding (Operating ROE) is calculated using operating earnings or loss, as defined above, per diluted common share and common share equivalents outstanding, divided by diluted book value per common share and common share equivalents outstanding at the beginning of the year. The presentation of Operating ROE is a non-GAAP financial measure within the meaning of Regulation G. See Key Financial Measures in Item 7 of Part II of this report for a detailed discussion of the measures used by the Company to evaluate its financial performance.*
- (3) *Effective January 1, 2011, Management redefined its operating earnings or loss available to common shareholders calculation to additionally exclude net foreign exchange gains or losses. In addition, Management redefined its Operating return on beginning diluted book value per share and common share equivalents outstanding calculation to measure operating return on a diluted per share basis (Operating ROE, previously referred to as operating return on beginning common shareholders' equity). Operating earnings or loss and Operating ROE for all periods presented have been recast to reflect the Company's redefined non-GAAP measures. See Key Financial Measures in Item 7 of Part II of this report for a discussion of Management's reasons for redefining these measures.*

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ITEM 7. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

The following discussion and analysis reflects the consolidated results of the Company and its subsidiaries for the years ended December 31, 2012, 2011 and 2010.

Executive Overview

The Company is a leading global reinsurer, with a broadly diversified and balanced portfolio of traditional reinsurance risks and capital markets risks.

Successful risk management is the foundation of the Company's value proposition, with diversification of risks at the core of its risk management strategy. The Company's ability to succeed in the risk assumption and management 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 limits for the risks assumed. All risks, whether they are reinsurance related risks or capital market risks, are managed by the Company within an integrated framework of policies and processes to ensure the intelligent and consistent evaluation and valuation of risk, and to ultimately provide an appropriate return to shareholders. For further discussion of the Company's risk management framework, see Risk Management in Item 1 of Part I of this report.

The Company's economic objective is to manage a portfolio of risks that will generate growth in compound annual diluted book value per share and share equivalents outstanding over a reinsurance cycle. Management assesses this economic objective over the reinsurance cycle, rather than any particular quarterly or annual period, given the Company's profitability is significantly affected by the level of large catastrophic losses that it incurs each period. The Company uses a number of metrics to monitor its performance in meeting its economic objective, which are discussed further below under Key Financial Measures.

The following discussion provides an overview of the Company's business and trends and commentary regarding the outlook for 2013 in each business.

Non-life reinsurance business, trends and 2013 outlook

The Company generates its Non-life reinsurance revenue 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.

In its reinsurance portfolio, the Company writes all lines of business in virtually all markets worldwide, and differentiates itself through its risk management strategy and its financial strength. In assuming its clients' risks, the Company removes the volatility associated with those risks from the client, and then manages those risks and the risk-related volatility. Through its broad product and geographic diversification, its execution capabilities and its local presence in most major markets, the Company is able to stabilize returns, respond quickly to market needs, and capitalize on business opportunities virtually anywhere in the world.

A key challenge facing the Company is to successfully manage risk through all phases of the reinsurance cycle. The Company believes that its long-term strategy of 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, will optimize returns over the reinsurance cycle. 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

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of business, length of tail, and distribution channel. Further, Management believes 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 achieve a more stable return over the reinsurance cycle.

The Non-life reinsurance market has historically been highly cyclical in nature. The reinsurance 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, asset and geographic diversification of risks.

The cyclical nature of the Non-life reinsurance market is characterized by cycles of growth and decline, known as hard and soft insurance cycles. Since late 2003, the Company began to see the emergence of a soft market across most lines of business with general decreases in pricing and profitability. With the exception of lines and markets impacted by specific catastrophic or large loss events, this trend continued throughout the decade. In 2011 and 2012, the Company experienced increases in pricing in certain loss affected lines of business and markets, which were primarily related to the increased catastrophic and large loss activity during 2011. In addition, the impact of Superstorm Sandy in 2012 has resulted in rate increases in the loss affected lines of business and markets at the January 1, 2013 renewals. In lines of business and markets that have not been specifically impacted by any recent large losses, during 2012 and for the January 1, 2013 renewals, the terms and conditions continued to be mainly static and soft in most markets, with price deteriorations observed in some markets.

During the January 2013 renewals, the Company experienced an increase of approximately 12% in renewable Non-life treaty business, on a constant foreign exchange basis. The increase in expected premium volume was driven by new business and growth opportunities in all Non-life sub-segments, with the exception of the Catastrophe sub-segment, where the Company experienced a modest decline in the premium volume as a result of slightly declining pricing in some markets that were not loss affected. The renewal of the 2013 U.S. agriculture book remains in process and is expected to be completed in the first quarter of 2013, however, Management expects a significant increase in premium in this line compared to the January 1, 2012 renewals due to new business.

Life reinsurance business, trends and 2013 outlook

The Company's Life segment derives revenues primarily from renewal premiums from existing reinsurance treaties and new premiums from existing or new reinsurance treaties. The long-term profitability of the Life segment mainly depends on the volume and amount of death claims incurred and the ability to adequately price the risk the Company assumes. The life reinsurance policies are often in force for the remaining lifetime of the underlying individuals insured, with premiums earned typically over a period of 10 to 30 years. The volume of the business may be reduced each year by terminations of the underlying treaties related to lapses, voluntary surrenders, death of insureds and recaptures by ceding companies. While death claims are reasonably predictable over a period of many years, claims become less predictable over shorter periods and can fluctuate significantly from quarter to quarter or from year to year.

Within the Company's Life segment, the reinsurance market is differentiated between mortality (including disability) and longevity products, with mortality being the larger market. In addition, in December 2012 the Company acquired Presidio, a U.S. specialty accident and health insurance and reinsurance writer. The acquisition of Presidio provides additional specialty risks not previously written by the Company. Management believes the existing life business and Presidio's business provides the Company with diversification benefits and balance to its portfolio as they are generally non-correlated to the Company's Non-life business.

Currently, Presidio principally operates as a Managing General Underwriter (MGU), writing all of its business on behalf of third party insurance companies and earning a fee for producing the business. The third party insurance companies then cede a portion of the original business written through quota-share reinsurance agreements to Presidio's reinsurance subsidiary, such that Presidio participates in the original premiums and

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losses incurred related to the business it has produced and ensuring an alignment of interests with the third party insurance companies. During 2013, the Company will obtain the necessary licenses and approvals to write this business directly itself and will transition these relationships from the third party insurance companies.

For the years ended December 31, 2012, 2011 and 2010, the Company did not write any new life business in the U.S., however, following the acquisition of Presidio on December 31, 2012, the Company expects to write accident and health business in the U.S. in future periods.

The acquisition of Presidio is expected to result in substantial overall premium growth in the Company's Life segment in 2013 and beyond once the aforementioned transition is complete. In terms of the Company's existing Life portfolio, the majority of the premium arises from in-force contracts that are written on a continuous basis. The active January 1 renewals impact a relatively limited portion of the in-force premium in the mortality line. For those treaties that actively renewed, pricing conditions and terms were generally unchanged from the January 1, 2012 renewals. The expected premium volume from the Company's January 1, 2013 renewal, at constant foreign exchange rates, increased due to new short-term mortality business. Management expects moderate continued growth in the Company's existing Life portfolio in 2013, assuming constant foreign exchange rates.

Capital markets business, trends and 2013 outlook

The Company generates revenue from its high quality investment portfolio, as well as the investments underlying the funds held directly managed account, through net investment income, including coupon interest on fixed maturities and dividends on equities, and realized and unrealized gains and losses on investments.

For the Company's capital markets risks, which include both public and private market investments, diversification of risk is critical to achieving the risk and return objectives of the Company. The Company's investment policy distinguishes between liquid, high quality assets that support the Company's liabilities, and the more diversified, higher risk asset classes that make up the Company's capital funds. While there will be years where capital markets risks achieve less than the risk-free rate of return, or potentially even negative results, the Company believes 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 increases the overall diversification of the Company's total risk 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. The Company allocates its invested assets into two categories: liability funds and capital funds. See the discussion of liability funds and capital funds in Financial Condition, Liquidity and Capital Resources. 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 its funds held directly managed account and allocates investments to those asset classes the Company anticipates will outperform in the near future, subject to limits and guidelines. Similarly, the Company reduces its exposure to risk asset classes where returns are underperforming. The Company may also lengthen or shorten the duration of its fixed maturity 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 and investment operations, including public and private market investments, have experienced volatile market conditions since the middle of 2007. While the market conditions remained volatile in 2012, there were some improvements in the worldwide equity markets. During 2012, the Company shortened the duration of its fixed maturity portfolio given historically low interest rates and to limit the impact of a potential rise in interest rates.

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Assuming constant foreign exchange rates, Management expects net investment income to continue to decrease in 2013 compared to 2012 primarily due to lower reinvestment rates with low yields expected to continue throughout 2013. Management expects this decrease to be partially offset by expected positive cash flow from operations (including net investment income).

Overview of the Results of Operations

The Company measures its performance in several ways. Among the performance measures accepted under U.S. GAAP is diluted net income or loss per share, a measure that focuses on the return provided to the Company's common shareholders. Diluted net income or loss per share is obtained by dividing net income or loss available to common shareholders by the weighted average number of common shares and common share equivalents outstanding. Net income or loss available to common shareholders is defined as net income or loss less preferred dividends. See the discussion of the non-GAAP performance measures that the Company uses (operating earnings or loss and Operating ROE) and the reconciliation of those non-GAAP performance measures to the most directly comparable GAAP measures in Key Financial Measures below.

Net income (loss), preferred dividends, net income (loss) available to common shareholders and diluted net income (loss) per share for the years ended December 31, 2012, 2011 and 2010 were as follows (in millions of U.S. dollars, except per share data):

	2012	2011	2010
Net income (loss)	\$ 1,135	\$ (520)	\$ 853
Less: preferred dividends	62	47	35
Net income (loss) available to common shareholders	\$ 1,073	\$ (567)	\$ 818
Diluted net income (loss) per share	\$ 16.87	\$ (8.40)	\$ 10.46

The year over year comparison of the Company's net income (loss) and diluted net income (loss) per share is primarily affected by the level of losses related to large catastrophic and large loss events and continued volatility in the capital and credit markets during the years ended December 31, 2012, 2011 and 2010.

To the extent that these events have affected the year over year comparison of the Company's results, their impact has been quantified and discussed in each of the relevant sections.

2012 compared to 2011

The increase in net income of \$1,655 million in 2012 compared to 2011 resulted primarily from:

an increase of \$1,429 million in the Non-life underwriting result, which was primarily driven by a decrease of \$1,417 million in large catastrophic losses and large losses, from \$1,733 million related to the 2011 catastrophic events in 2011 to \$316 million related to Superstorm Sandy and the U.S. drought which impacted the agriculture line of business in the North America sub-segment in 2012; and

an increase of \$427 million in pre-tax net realized and unrealized investment gains primarily as a result of narrowing credit spreads, improvements in worldwide equity markets and decrease in risk-free rates; partially offset by

an increase of \$135 million in income tax expense, resulting from a higher pre-tax net income; and

a decrease of \$58 million in net investment income, primarily driven by lower reinvestment rates.

The increase in net income available to common shareholders and diluted net income per share in 2012 compared to 2011 was primarily due to the above factors, partially offset by an increase in preferred dividends following the issuance of preferred shares in June 2011. For diluted net income per share specifically, the increase was also due to a decrease in the diluted number of common shares outstanding as a result of share

repurchases during 2012.

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2011 compared to 2010

The decrease in net income of \$1,373 million in 2011 compared to 2010 resulted primarily from:

a decrease in the Non-life underwriting result of \$1,177 million, which was almost entirely driven by an increase of \$1,174 million in large catastrophic losses and large losses, from \$559 million in 2010 to \$1,733 million related to the 2011 catastrophic events in 2011; and

a decrease in pre-tax net realized and unrealized investment gains of \$335 million; partially offset by

a decrease in other corporate operating expenses of \$67 million, primarily driven by the charges related to the Company's voluntary termination plan in 2010; and

a decrease in income tax expense of \$60 million, resulting from a lower pre-tax net income.

The decrease in net income available to common shareholders and diluted net income per share from income in 2010 to losses in 2011 was primarily due to the above factors and an increase in preferred dividends following the issuance of preferred shares in June 2011. For diluted net income per share specifically, the decrease was partially offset by a decrease in the diluted number of common shares outstanding as a result of share repurchases during 2011.

These factors affecting the year over year comparison of the Company's results are discussed below in Review of Net Income (Loss), Results by Segment and Financial Condition, Liquidity and Capital Resources, and may continue to affect our results of operations and financial condition in the future.

Large catastrophic and large loss events

As the Company's reinsurance operations are exposed to low frequency and high severity risk events, some of which are seasonal, results for certain periods may include unusually low loss experience, while results for other periods may include significant catastrophic losses. For example, the Company's results for 2012 and 2010 included comparatively lower level of catastrophic losses, while 2011 included an unusually high frequency of high severity catastrophic events as discussed further below. The total impact of large catastrophic losses and large losses on pre-tax net income (loss) for the years ended December 31, 2012, 2011 and 2010 were as follows:

Year ended December 31,	Total ⁽¹⁾
2012	\$ 318
2011	1,790
2010	559

(1) Large catastrophic losses and large losses are shown net of any reinsurance, reinstatement premiums and profit commissions.

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The following tables reflect the combined impact of the large catastrophic losses and large losses, the impact on the Company's technical result, net realized and unrealized investment gains or losses, pre-tax net income or loss, loss ratio, technical ratio and combined ratio by segment and sub-segment, and the large catastrophic losses and large losses by event for the years ended December 31, 2012, 2011 and 2010 (in millions of U.S. dollars):

	North America	Global (Non-U.S.) P&C	Global (Non-U.S.) Specialty	Catastrophe	Total Non-life Segment	Life segment	Corporate and Other	Total
2012								
Net losses and loss expenses and life policy benefits	\$ 157	\$ 2	\$ 87	\$ 82	\$ 328	\$	\$	\$ 328
Reinstatement premiums			(1)	(11)	(12)			(12)
Impact on technical result	\$ 157	\$ 2	\$ 86	\$ 71	\$ 316	\$	\$	\$ 316
Net realized and unrealized investment losses							2	2
Impact on pre-tax net income					\$ 316	\$	\$ 2	\$ 318
Impact on the loss ratio	13.4%	0.3%	6.3%	17.8%	8.7%			
Impact on the technical ratio	13.4	0.3	6.3	17.6	8.7			
Impact on the combined ratio					8.7%			

								Total ⁽¹⁾
2012								
Superstorm Sandy								\$ 227
U.S. drought								91
Impact on pre-tax net income								\$ 318

(1) Large catastrophic losses and large losses are shown net of any reinsurance, reinstatement premiums and profit commissions.

	North America	Global (Non-U.S.) P&C	Global (Non-U.S.) Specialty	Catastrophe	Total Non-life segment	Life segment	Corporate and Other	Total
2011								
Net losses and loss expenses and life policy benefits	\$ 56	\$ 149	\$ 65	\$ 1,511	\$ 1,781	\$ 3	\$ 5	\$ 1,789
Reinstatement premiums				(33)	(33)			(33)
Acquisition costs	(6)			(9)	(15)			(15)
Impact on technical result	\$ 50	\$ 149	\$ 65	\$ 1,469	\$ 1,733	\$ 3	\$ 5	\$ 1,741
Net realized and unrealized investment losses							49	49
Impact on pre-tax net loss					\$ 1,733	\$ 3	\$ 54	\$ 1,790
Impact on the loss ratio	4.9%	19.7%	4.8%	262.1%	45.9%			
Impact on the technical ratio	4.4	19.7	4.8	260.1	45.3			
Impact on the combined ratio					45.2%			

		Total ⁽¹⁾
2011		
Japan Earthquake		\$ 919
February and June 2011 New Zealand Earthquakes		455

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Thailand Floods	120
U.S. tornadoes	107
Aggregate contracts covering losses in New Zealand and Australia	100
Australian Floods	41
Additional IBNR ⁽²⁾	48
Impact on pre-tax net loss	\$ 1,790

(1) Large catastrophic losses and large losses are shown net of any reinsurance, reinstatement premiums and profit commissions.

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(2) *The Company recorded an additional IBNR reserve related to the 2011 catastrophic events, above the sum of the recorded point estimates, given the high frequency of, and uncertainty related to, these complex and highly volatile events.*

	North America	Global (Non-U.S.) P&C	Global (Non-U.S.) Specialty	Catastrophe	Total Non-life segment	Life segment	Corporate and Other	Total
2010								
Net losses and loss expenses and life policy benefits	\$ 5	\$ 157	\$ 126	\$ 280	\$ 568	\$	\$	\$ 568
Reinstatement premiums		(1)	(2)	(6)	(9)			(9)
Impact on technical result and pre-tax net income	\$ 5	\$ 156	\$ 124	\$ 274	\$ 559	\$	\$	\$ 559
Impact on the loss ratio	0.5%	17.1%	8.9%	41.2%	14.1%			
Impact on the technical ratio	0.5	17.1	8.9	41.2	13.9			
Impact on the combined ratio					13.9%			

	Total ⁽¹⁾
2010	
Chile Earthquake	\$ 288
New Zealand Earthquake	149
Deepwater Horizon	74
Aggregate contract covering losses in Australia and New Zealand	48
Impact on pre-tax net income	\$ 559

(1) *Large catastrophic losses and large losses are shown net of any reinsurance, reinstatement premiums and profit commissions. Volatility in capital and credit markets*

In 2012, credit spreads narrowed, equity markets improved and U.S. and European risk-free interest rates decreased, while the U.S. dollar ending exchange rate at December 31, 2012 weakened against most major currencies compared to December 31, 2011. As a result of these movements, the value of the Company's investment portfolio and cash and cash equivalents at December 31, 2012 increased compared to December 31, 2011, positively affected by the impact of narrowing credit spreads, improvements in worldwide equity markets, impact of foreign exchange fluctuations and modest decreases in risk-free interest rates.

In 2011, U.S. and European risk-free interest rates decreased and credit spreads widened, while the U.S. dollar ending exchange rate at December 31, 2011 strengthened against most major currencies compared to December 31, 2010. As a result of these movements, the value of the Company's investment portfolio and cash and cash equivalents at December 31, 2011 increased compared to December 31, 2010, positively affected by the impact of decreased risk-free interest rates, which were largely offset by the impact of widening credit spreads and foreign exchange rates.

These factors affecting the year over year comparison of the Company's results are discussed below in Review of Net Income (Loss), Results by Segment and Financial Condition, Liquidity and Capital Resources, and may continue to affect our results of operations and financial condition in the future.

Table of Contents**Key Financial Measures**

In addition to the Consolidated Balance Sheets and Consolidated Statements of Operations and Comprehensive Income (Loss), Management uses certain key measures to evaluate its financial performance and the overall growth in value generated for the Company's common shareholders. The four key measures that Management uses, together with definitions of their calculations, are as follows at December 31, 2012 and 2011 and for the years ended December 31, 2012, 2011 and 2010:

	December 31, 2012	December 31, 2011	
Diluted book value per common share and common share equivalents outstanding ⁽¹⁾	\$ 100.84	\$ 84.82	
	2012	2011	2010
Operating earnings (loss) available to common shareholders (in millions of U.S. dollars) ⁽²⁾	\$ 664	\$ (642)	\$ 492
Operating return on beginning diluted book value per common share and common share equivalents outstanding ⁽³⁾	12.3%	(10.1)%	7.4%
Combined ratio ⁽⁴⁾	87.8%	125.4%	95.0%

- (1) Diluted book value per common share and common share equivalents outstanding is calculated using common shareholders' equity (shareholders' equity less the aggregate liquidation value of preferred shares) divided by the number of fully diluted common shares and common share equivalents outstanding (assuming exercise of all stock-based awards and other dilutive securities).
- (2) Operating earnings or loss available to common shareholders (operating earnings or loss) is calculated as net income or loss available to common shareholders excluding net realized and unrealized gains or losses on investments, net of tax, net foreign exchange gains or losses, net of tax, and interest in earnings or losses of equity investments, net of tax, where the investee's operations are not insurance or reinsurance related and where the Company does not control the investee companies' activities, and is calculated after preferred dividends. The presentation of operating earnings or loss is a non-GAAP financial measure within the meaning of Regulation G (see Comment on Non-GAAP Measures below) and is reconciled to the most directly comparable GAAP financial measure below. Effective January 1, 2011, Management redefined its operating earnings or loss calculation, as discussed below.
- (3) Operating return on beginning diluted book value per common share and common share equivalents outstanding (Operating ROE) is calculated using operating earnings or loss, as defined above, per diluted common share and common share equivalents outstanding, divided by diluted book value per common share and common share equivalents outstanding as of the beginning of the year, as defined above. The presentation of Operating ROE is a non-GAAP financial measure within the meaning of Regulation G (see Comment on Non-GAAP Measures below) and is reconciled to the most directly comparable GAAP financial measure below. Effective January 1, 2011, Management redefined its Operating ROE calculation, as discussed below.
- (4) The combined ratio of the Non-life segment is calculated as 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).

Effective January 1, 2011, Management redefined its operating earnings or loss available to common shareholders (operating earnings or loss) calculation to additionally exclude net foreign exchange gains or losses. Management believes that net foreign exchange gains or losses are not indicative of the performance of, and distort trends in, the Company's business as they predominantly result from general economic and foreign exchange market conditions. In addition, Management redefined its Annualized operating return on beginning diluted book value per common share and common share equivalents outstanding (Operating ROE, previously referred to as operating return on beginning common shareholders equity) calculation to measure Operating ROE on a diluted per share basis. Management believes that the redefined Operating ROE incorporates capital

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management activities whilst still being based on the concept of deploying available capital on an annual basis. Operating earnings or loss and Operating ROE for the year ended December 31, 2010 have been recast to reflect the Company's redefined non-GAAP measures.

Diluted book value per common share and common share equivalents outstanding (Diluted Book Value per Share): Management uses compound annual growth rate in Diluted Book Value per Share as a key 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 share price. Diluted Book Value per Share is impacted by the Company's net income or loss, capital resources management and external factors such as foreign exchange, interest rates, credit spreads and equity markets, which can drive changes in realized and unrealized gains or losses on its investment portfolio.

Over the past five years, since December 31, 2007, the Company has generated a compound annual growth rate in Diluted Book Value per Share in excess of 8% and over the past ten years, since December 31, 2002, the Company has generated a compound annual growth rate in Diluted Book Value per Share in excess of 11%.

During 2012, the Company's Diluted Book Value per Share increased by 19% to \$100.84 at December 31, 2012 from \$84.82 at December 31, 2011 primarily due to comprehensive income of \$1,158 million and the accretive impact of share repurchases. The comprehensive income was mainly driven by net income of \$1,135 million in 2012, which is described in Review of Net Income (Loss) below.

Operating earnings or loss available to common shareholders (operating earnings or loss): Management uses operating earnings or loss to measure its financial performance as this measure focuses on the underlying fundamentals of the Company's operations by excluding net realized and unrealized gains or losses on investments, certain interest in earnings or losses of equity investments and net foreign exchange gains or losses. Net realized and unrealized gains or losses on investments in any particular period are not indicative of the performance of, and distort trends in, the Company's business as they predominantly result from general economic and financial market conditions, and the timing of realized gains or losses on investments is largely opportunistic. Interest in earnings or losses of equity investments are also not indicative of the performance of, or trends in, the Company's business where the investee's operations are not insurance or reinsurance related and where the Company does not control the investee companies' activities. Net foreign exchange gains or losses are not indicative of the performance of, and distort trends in, the Company's business as they predominantly result from general economic and foreign exchange market conditions. Management believes that the use of operating earnings or loss enables investors and other users of the Company's financial information to analyze its performance in a manner similar to how Management analyzes performance. Management also believes that this measure follows industry practice and, therefore, allows the users of financial information to compare the Company's performance with its industry peer group, and that the equity analysts and certain rating agencies which follow the Company, and the insurance industry as a whole, generally exclude these items from their analyses for the same reasons.

Operating earnings increased by \$1,306 million, from a loss of \$642 million in 2011 to an income of \$664 million in 2012 primarily due to an increase in the Non-life underwriting result of \$1,429 million, partially offset by an increase in income tax expense on the higher level of operating earnings.

Operating earnings decreased by \$1,134 million, from \$492 million in 2010 to a loss of \$642 million in 2011 mainly due to a decrease in the Non-life underwriting result of \$1,177 million, which was driven primarily by the large 2011 catastrophic events, and to a lesser extent, a decrease in net investment income of \$44 million. These decreases were partially offset by lower corporate operating expenses of \$67 million and an increase in the Life underwriting result of \$24 million.

The other lesser factors contributing to the increases or decreases in operating earnings in 2012 compared to 2011 and in 2011 compared to 2010 are further described in Review of Net Income (Loss) below.

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The presentation of operating earnings or loss available to common shareholders is a non-GAAP financial measure within the meaning of Regulation G and should be considered in addition to, and not as a substitute for, measures of financial performance prepared in accordance with GAAP (see Comment on Non-GAAP Measures). The table below provides a reconciliation of operating earnings or loss to the most directly comparable GAAP financial measure for the years ended December 31, 2012, 2011 and 2010 (in millions of U.S. dollars):

	2012	2011	2010
Net income (loss)	\$ 1,135	\$ (520)	\$ 853
Less:			
Net realized and unrealized investment gains, net of tax	392	15	301
Net foreign exchange gains, net of tax	8	67	13
Interest in earnings (losses) of equity investments, net of tax	9	(7)	12
Dividends to preferred shareholders	62	47	35
Operating earnings (loss) available to common shareholders	\$ 664	\$ (642)	\$ 492

Operating ROE: Management uses Operating ROE as a measure of profitability that focuses on the return to common shareholders. To support the Company's growth objectives, most economic decisions, including capital attribution and underwriting pricing decisions, incorporate an Operating ROE impact analysis. For the purpose of that analysis, an appropriate amount of capital (equity) is attributed to each transaction for determining the transaction's priced return on attributed 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 attributed to the transactions generating the highest priced return on deployed capital. Management's challenge consists of (i) attributing an appropriate amount of capital to each transaction based on the 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, (iii) assessing the diversification benefit, if any, of each transaction, and (iv) deploying available capital. 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 growth objectives.

Operating ROE increased from a loss of 10.1% in 2011 to an income of 12.3% in 2012. The increase in Operating ROE was primarily due to the increase in operating earnings in 2012 compared to 2011, which was driven by the lower level of catastrophic loss activity. The factors contributing to increases or decreases in operating earnings are described further in Review of Net Income (Loss) below.

Operating ROE decreased from 7.4% in 2010 to a loss of 10.1% in 2011. The decrease in Operating ROE was primarily due to the decrease in operating earnings in 2011 compared to 2010, which was driven by the higher level of 2011 catastrophic loss activity.

The average Operating ROE for the last five years and ten years was 8.7% and 12.2%, respectively. Both the five-year and the ten-year averages primarily reflect some years that were impacted by significant catastrophic losses and other years that were not impacted by catastrophes. Due to the volatility related to the level of catastrophic losses incurred, Management believes that it is more appropriate to measure performance based on an average Operating ROE target over the reinsurance cycle rather than focusing on the results for single periods.

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The presentation of Operating ROE is a non-GAAP financial measure within the meaning of Regulation G and should be considered in addition to, and not as a substitute for, measures of financial performance prepared in accordance with GAAP (see Comment on Non-GAAP Measures). The table below provides a reconciliation of Operating ROE to the most directly comparable GAAP financial measure for the years ended December 31, 2012, 2011 and 2010:

	2012	2011	2010
Return on beginning diluted book value per common share calculated with net income (loss) per share available to common shareholders	19.9%	(9.0)%	12.4%
Less:			
Net realized and unrealized investment gains, net of tax, on beginning diluted book value per common share	7.3	0.2	4.6
Net foreign exchange gains, net of tax, on beginning diluted book value per common share	0.1	1.0	0.2
Net interest in earnings (losses) of equity investments, net of tax, on beginning diluted book value per common share	0.2	(0.1)	0.2

Operating return on beginning diluted book value per common share **12.3%** (10.1)% 7.4%

Combined ratio: The combined ratio is used industry-wide as a measure of underwriting profitability for Non-life business. 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 underwriting profitability, the combined ratio does not reflect all components of profitability, as it does not recognize the impact of investment income earned on premiums between the time premiums are received and the time loss payments are ultimately made to clients. 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.

Since 2003, the Company has had eight years of underwriting profitability reflected in combined ratios of less than 100% for its Non-life segment, with the only exceptions being 2005 and 2011. In 2005, when the industry recorded its worst year in history in terms of catastrophe losses in the U.S., with Hurricane Katrina being the largest insured event ever, the Company recorded a net underwriting loss and Non-life combined ratio of 116.3%. In 2011, when the industry incurred a high frequency of large losses related to the 2011 catastrophic events the Company recorded a net underwriting loss and Non-life combined ratio of 125.4%.

The Non-life combined ratio decreased by 37.6 points, from 125.4% in 2011 to 87.8% in 2012. The decrease in the combined ratio in 2012 compared to 2011 primarily reflected a decrease in the impact of large catastrophic losses and large losses of 36.5 points (from 45.2 points in 2011 to 8.7 points in 2012). The impact on the combined ratio by catastrophic event for each year is analyzed above.

The Non-life combined ratio increased by 30.4 points, from 95.0% in 2010 to 125.4% in 2011. The increase in the combined ratio for 2011 compared to 2010 was primarily due to an increase in catastrophic loss activity of 31.3 points (from 13.9 points in 2010 to 45.2 points in 2011). The impact on the combined ratio by catastrophic event for each year is analyzed above.

The other lesser factors contributing to increases or decreases in the combined ratio for all years presented are described further in Review of Net Income (Loss) below.

The Company uses the combined ratio to measure its overall underwriting profitability for its Non-life segment as a whole. Given the Company does not allocate operating expenses to its Non-life sub-segments, Management measures the underwriting profitability of the Non-life sub-segments by using the technical result and technical ratio as described in Results by Segment below.

Table of Contents***Comment on Non-GAAP Measures***

Throughout this filing, the Company's results of operations have been presented in the way that Management believes will be the most meaningful and useful to investors, analysts, rating agencies and others who use financial information in evaluating the performance of the Company. This presentation includes the use of operating earnings or loss and Operating ROE that are not calculated under standards or rules that comprise U.S. GAAP. These measures are referred to as non-GAAP financial measures within the meaning of Regulation G. Management believes that these non-GAAP financial measures are important to investors, analysts, rating agencies and others who use the Company's financial information and will help provide a consistent basis for comparison between years and for comparison with the Company's peer group, although non-GAAP measures may be defined or calculated differently by other companies. Investors should consider these non-GAAP measures in addition to, and not as a substitute for, measures of financial performance prepared in accordance with GAAP. A reconciliation of these measures to the most directly comparable U.S. GAAP financial measures, net income or loss and return on beginning common shareholders' equity calculated with net income or loss available to common shareholders, is presented above.

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 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. The Company updates its estimates for each of the aforementioned categories on a quarterly basis using information received from its cedants. 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 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.

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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 first 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 reserving 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.

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

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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.

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, 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.

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In determining the loss reserves, the Company often relies on a blend of the results from two or more methods (e.g., weighted averages). The judgment as to which of the above 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. 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. The table below identifies reserving lines for the Company's Non-life sub-segments, which are defined in Results by Segment below.

Reserving line	Non-life Sub-segment	Immature Underwriting Years	Mature Underwriting Years
Agriculture	North America and Global (Non-U.S.) Specialty	Expected Loss Ratio / Reported B-F	Reported B-F / Reported CL
Aviation / Space	Global (Non-U.S.) Specialty	Expected Loss Ratio / Reported B-F	Reported B-F / Reported CL
Casualty	North America	Expected Loss Ratio	Reported B-F
Casualty / Specialty Casualty	Global (Non-U.S.) P&C and 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	North America and Global (Non-U.S.) Specialty	Expected Loss Ratio / Reported B-F	Reported B-F / Reported B-K
Energy Onshore	Global (Non-U.S.) Specialty	Expected Loss Ratio / Reported B-F / Reported B-K	Reported CL / Reported B-F
Engineering	Global (Non-U.S.) Specialty	Expected Loss Ratio / Reported B-F	Reported B-F / Reported CL
Marine / Energy Offshore	Global (Non-U.S.) Specialty	Reported B-F / Expected Loss Ratio	Reported B-F
Motor	North America	Expected Loss Ratio / Reported B-F	Expected Loss Ratio / Reported B-F
Motor Non-proportional	Global (Non-U.S.) P&C	Expected Loss Ratio	Reported B-F
Motor Proportional	Global (Non-U.S.) P&C	Expected Loss Ratio / Reported B-F	Reported B-F
Multiline	North America	Expected Loss Ratio / Reported B-F	Reported B-F
Property	North America	Reported B-F / Expected Loss Ratio	Reported B-F
Property / Specialty Property	Global (Non-U.S.) P&C and Global (Non-U.S.) Specialty	Reported B-K / Expected Loss Ratio / Reported B-F	Reported CL
Other	North America, Global (Non-U.S.) P&C and Global (Non-U.S.) Specialty	Periodic actuarial studies	Periodic actuarial studies

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

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

The validity of all parameter assumptions used in the reserving process is reaffirmed on a quarterly basis. Reaffirmation of the parameter assumptions means that the actuaries determine that the parameter assumptions continue to form a sound basis for projection of future liabilities. Parameter assumptions used in projecting future liabilities are themselves estimates based on historical information. As new information becomes available (e.g., additional losses reported), the Company's actuaries determine whether a revised estimate of the parameter assumptions that reflects all available information is consistent with the previous parameter assumptions employed. In general, to the extent that the revised estimate of the 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;

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- (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 ultimate liability estimate. 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 these methodologies usually rely heavily on projections of prior year trends into the future. In selecting its best estimate of future liabilities, the Company considers both the results of actuarial point estimates of loss reserves as well as the potential variability of these estimates as captured by a reasonable range of actuarial liability estimates. The selected best estimates of reserves are always within the 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 estimates, such as potential for outstanding litigation, claims practices of cedants, etc.

During 2012, 2011 and 2010, the Company reviewed its estimate for prior year losses for the Non-life segment (defined below in Results by Segment) and, in light of developing data, adjusted its ultimate loss ratios for prior accident years. The following table summarizes the net prior year favorable loss development for each sub-segment of the Company's Non-life segment for the years ended December 31, 2012, 2011 and 2010 (in millions of U.S. dollars):

	2012	2011	2010
Net Non-life prior year favorable loss development:			
North America	\$ 218	\$ 189	\$ 165
Global (Non-U.S.) P&C	114	116	98
Global (Non-U.S.) Specialty	251	129	171
Catastrophe	45	96	44
Total net Non-life prior year favorable loss development	\$ 628	\$ 530	\$ 478

The net Non-life prior year favorable loss development for the years ended December 31, 2012, 2011 and 2010 was driven by the following factors (in millions of U.S. dollars):

	2012	2011	2010
Net Non-life prior year (adverse) favorable loss development:			
Net prior year loss development due to changes in premiums ⁽¹⁾	\$ (94)	\$ (59)	\$ (7)
Net prior year loss development due to all other factors ⁽²⁾	722	589	485
Total net Non-life prior year favorable loss development	\$ 628	\$ 530	\$ 478

- (1) Net prior year reserve development due to changes in premiums includes, but is not limited to, the impact to prior years' reserves associated with increases in the estimated or actual premium exposure reported by cedants.
- (2) Net prior year reserve development due to all other factors includes, but is not limited to, loss experience, changes in assumptions and changes in methodology.

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

The table below summarizes the net prior year favorable (adverse) loss development for the year ended December 31, 2012 by reserving line for the Company's Non-life segment (in millions of U.S. dollars):

Reserving lines	Net favorable (adverse) prior year loss development
Agriculture	\$ 27
Aviation / Space	53
Casualty / Specialty Casualty	209
Catastrophe	45
Credit / Surety	38
Energy Onshore	30
Engineering	(6)
Marine / Energy Offshore	49
Motor Non-U.S. Non-proportional business	27
Motor Non-U.S. Proportional business	(9)
Motor North America business	8
Multiline	4
Property / Specialty Property	150
Other	3
Total net Non-life prior year favorable loss development	\$ 628

Loss information provided by cedants in 2012, 2011 and 2010 for prior accident years was lower than the Company expected for most lines of business (higher for motor Non-U.S. proportional business and engineering) and included no individually significant losses or reductions but a series of attritional losses or reductions. Based on the Company's assessment of this loss information, the Company decreased (increased for motor Non-U.S. proportional business and engineering) its expected ultimate loss ratios, which had the net effect of decreasing (increasing for motor Non-U.S. proportional business and engineering) prior year loss estimates.

The following paragraphs discuss how losses paid and reported during the year ended December 31, 2012 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.

Agriculture: Aggregate losses reported in 2012 for North America business related to the 2011 underwriting year were below the Company's expectations. In addition, the Company's Global (Non-U.S.) business experienced lower than expected reported losses. The Company lowered its loss ratios, however, it did not otherwise materially alter its reserving assumptions.

Aviation / Space: Aggregate losses reported in 2012 were significantly lower than the Company's expectations. The Company reflected this experience by selecting lower loss ratios for underwriting years 2009 to 2011.

Casualty / Specialty Casualty: Aggregate losses reported in 2012 for North America business were below the Company's expectations as losses for all underwriting years for 2009 and prior continue to emerge at levels significantly below expectations. For Global (Non-U.S.) lines, aggregate losses reported in 2012 were below the Company's expectations for underwriting years 2004 to 2011 for both Global (Non-U.S.) P&C and Global (Non-U.S.) Specialty sub-segments. The Company reflected this experience by reducing the loss ratios as well as by changing the initial expected loss ratios.

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Catastrophe: Reserves established for the catastrophe line are primarily a function of the presence or absence of catastrophic events during the year, and the complexity and uncertainty associated with estimating unpaid losses from these large disclosed events. In addition, reserves are established in consideration of mid-sized and attritional loss events that occur during a year. The Company has not significantly changed its loss estimates for the Japan Earthquake and the 2010 and the February and June 2011 New Zealand Earthquakes, however, it has reflected reserve releases related to other prior years' loss events and lower than expected emergence of attritional losses.

Credit / Surety: Aggregate losses reported in 2012 were lower than expected for North America business, giving rise to a moderate level of reserve releases. For the Company's Global (Non-U.S.) business, loss development was significantly better than expected, primarily for the underwriting years 2009 to 2011. The Company reduced its loss ratios for the most recent underwriting years to reflect the lower than expected loss emergence.

Energy Onshore: Aggregate losses reported in 2012 were lower than expected across most underwriting years, with the exception of 2010 which was impacted by higher than expected losses on proportional treaties. The Company has reflected the favorable development by reducing its loss ratios for most underwriting years, with the exception of 2010.

Engineering: Aggregate losses reported in 2012 were higher than expected and were primarily driven by increases in prior year premium adjustments for various underwriting years on proportional business reflecting increased exposure. The Company did not materially change its reserving assumptions for this line.

Marine/Energy Offshore: Aggregate losses reported in 2012 were significantly lower than expected and impacted most underwriting years. The Company reduced its loss ratios for underwriting years 2006 to 2011 to reflect the lower than expected loss emergence.

Motor:

Aggregate losses reported in 2012 for the Global (Non-U.S.) motor non-proportional line were lower than expected resulting in the Company reducing its loss ratios. The Company also increased its weightings to more experience-based indications resulting in further prior year releases on underwriting years 2003 to 2007.

Aggregate losses reported in 2012 for the Global (Non-U.S.) motor proportional line were in line with expectations, however, the Company has increased its loss development factor assumptions slightly during the year due to adverse development reported on certain treaties.

Aggregate losses reported in 2012 for the North America motor line were modestly favorable. This reflected lower than expected reported losses for the 2005 to 2009 underwriting years, while the 2011 underwriting year experienced adverse development driven by higher than expected reported losses.

Multiline: Aggregate reported losses in 2012 were lower than expected for North America business for underwriting years 2010 and prior and were partly offset by higher than expected losses reported for the 2011 underwriting year.

Property / Specialty Property: Aggregate reported losses in 2012 were lower than expected for North America business and were driven by loss activity related to large property events and attritional property losses from most underwriting years. Aggregate losses reported in 2012 in the Global (Non-U.S.) property lines were lower than expected for most underwriting years. The Company reflected this experience by reducing its loss ratios for most underwriting years.

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

Reserving lines selected assumptions	Higher <i>a priori</i> loss ratios	Higher loss development factors	Higher tail factors (1)	Lower <i>a priori</i> loss ratios	Lower loss development factors	Lower tail factors (1)
Agriculture	5 points	3 months	2%	(5) points	(3) months	(2)%
Aviation / Space	5	3	5	(5)	(3)	(5)
Casualty / Specialty Casualty	10	6	10	(10)	(6)	(10)
Catastrophe	5	3	2	(5)	(3)	(2)
Credit / Surety	5	3	2	(5)	(3)	(2)
Energy Onshore	5	3	2	(5)	(3)	(2)
Engineering	10	6	5	(10)	(6)	(5)
Marine / Energy Offshore	5	3	5	(5)	(3)	(5)
Motor Non-U.S. Non-proportional business	10	12	10	(10)	(12)	(10)
Motor Non-U.S. Proportional business	5	3	2	(5)	(3)	(2)
Motor North America business	5	3	2	(5)	(3)	(2)
Multiline	5	6	5	(5)	(6)	(5)
Property / Specialty Property	5	3	2	(5)	(3)	(2)

Reserving lines selected sensitivity (in millions of U.S. dollars)	Higher <i>a priori</i> loss ratios	Higher loss development factors	Higher tail factors (1)	Lower <i>a priori</i> loss ratios	Lower loss development factors	Lower tail factors (1)
Agriculture	\$ 25	\$ 10	\$	\$ (25)	\$ (5)	\$
Aviation / Space	10	30	10	(10)	(20)	(10)
Casualty / Specialty Casualty	310	130	240	(310)	(90)	(220)
Catastrophe	10			(10)		
Credit / Surety	25	30	5	(25)	(25)	(5)
Energy Onshore	5	10		(5)	(5)	
Engineering	30	70	45	(30)	(50)	(30)
Marine / Energy Offshore	25	40	10	(25)	(35)	(5)
Motor Non-U.S. Non-proportional business	30	25	45	(30)	(25)	(50)
Motor Non-U.S. Proportional business	10	5		(10)		
Motor North America business	10	10	10	(10)	(5)	(5)
Multiline	10	20	25	(10)	(10)	(20)
Property / Specialty Property	50	90	10	(50)	(45)	(5)

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

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

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The following table shows the gross reserves reported by cedants (case reserves), those estimated by the Company (ACRs and IBNR reserves) and the total gross, ceded and net loss reserves recorded at December 31, 2012 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
Agriculture	\$ 25	\$	\$ 340	\$ 365	\$	\$ 365
Aviation / Space	227	1	193	421	(41)	380
Casualty / Specialty Casualty	1,523	114	2,528	4,165	(33)	4,132
Catastrophe	502	172	285	959	(52)	907
Credit / Surety	299	3	140	442		442
Energy Onshore	124	4	75	203	(2)	201
Engineering	289		223	512	(21)	491
Marine / Energy Offshore	348	15	406	769	(131)	638
Motor Non-U.S. Non-proportional business	454	3	367	824	(6)	818
Motor Non-U.S. Proportional business	108	1	87	196	(1)	195
Motor North America business	100	3	113	216		216
Multiline	87	19	109	215		215
Property / Specialty Property	786	19	591	1,396	(4)	1,392
Other	1		25	26		26
Total Non-life reserves	\$ 4,873	\$ 354	\$ 5,482	\$ 10,709	\$ (291)	\$ 10,418

The net loss reserves represent the Company's best estimate of future losses and loss expense amounts based on the information available at December 31, 2012. Loss reserves rely upon estimates involving actuarial and statistical projections at a given time that 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. These 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's best estimates are point estimates within a reasonable range of actuarial liability estimates. These ranges 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 point estimates for each Non-life sub-segment. However, due to the inherent volatility in the business written by the Company, there can be no assurance that the final settlement of the loss reserves will fall within these ranges.

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The point estimates related to net loss reserves recorded by the Company and the range of actuarial estimates at December 31, 2012 and 2011 were as follows for each sub-segment of the Non-life segment (in millions of U.S. dollars):

	Recorded Point Estimate	High	Low
2012 Net Non-life sub-segment loss reserves:			
North America	\$ 3,351	\$ 3,503	\$ 2,646
Global (Non-U.S.) P&C	2,490	2,616	2,132
Global (Non-U.S.) Specialty	3,670	3,795	3,205
Catastrophe	907	922	744
2011 Net Non-life sub-segment loss reserves:			
North America	\$ 3,265	\$ 3,427	\$ 2,620
Global (Non-U.S.) P&C	2,614	2,747	2,287
Global (Non-U.S.) Specialty	3,690	3,910	3,207
Catastrophe	1,351	1,392	1,212

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.

Of the Company's \$10,418 million of net Non-life loss reserves at December 31, 2012, net loss reserves for accident years 2005 and prior of \$857 million are guaranteed by Colisée Re, pursuant to the Reserve Agreement. The Company is not subject to any loss reserve variability associated with the guaranteed reserves. See Business Reserves in Item 1 of Part I of this report.

A significant amount of judgment was used to estimate the range of potential losses related to the earthquakes that occurred in New Zealand in September 2010, February 2011 and June 2011 (the 2010 and the February and June 2011 New Zealand Earthquakes) and the Japan Earthquake and there remains a considerable degree of uncertainty related to the range of possible ultimate losses. These risks and uncertainties include the ongoing cedant revisions of loss estimates for each of these events, the degree to which inflation impacts construction materials required to rebuild affected properties, the characteristics of the Company's program participation for certain affected cedants and potentially affected cedants, and the expected length of the claims settlement period for these events. In addition, there is additional complexity related to the 2010 and the February and June 2011 New Zealand Earthquakes given multiple earthquakes have occurred in the same region in a relatively short time period, resulting in cedants continuing to revise their allocation of losses between the various events impacting different treaties, under which the Company may provide different amounts of coverage. Loss estimates arising from earthquakes are inherently more uncertain than those from other catastrophic events and the Company believes there remains a high degree of uncertainty related to its loss estimates for the 2010 and the February and June 2011 New Zealand Earthquakes and the Japan Earthquake, and the ultimate losses arising from these events may be materially in excess of, or less than, the amounts provided for in the Consolidated Balance Sheet at December 31, 2012.

Based upon information currently available and the estimated range of potential ultimate liabilities, the Company believes that unpaid loss and loss expense reserves contemplate a reasonable provision for exposure related to the 2011 catastrophic events. In addition to the sum of the point estimates recorded for each of the 2011 catastrophic events, at December 31, 2011 the Company recorded additional gross reserves of \$50 million (net reserves of \$48 million after the impact of retrocession), specifically related to the 2011 catastrophic events within its Catastrophe sub-segment. The additional gross reserves recorded were in consideration of the number of events, the complexity of certain events and the continuing uncertainties in estimating the ultimate losses for these events in the aggregate. The Company continues to evaluate the additional gross reserves that were recorded as part of its periodic reserving process. At December 31, 2012, the Company decided to maintain the

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additional gross reserves and did not record any changes during the year ended December 31, 2012 given the uncertainties described above remain. Any changes to the amounts recorded will be based on updated or new information and Management's assessment of remaining uncertainty related to the specific factors regarding the 2011 catastrophic events. Changes to the amounts recorded may either result in: i) the reallocation of some or all of the additional reserves to one or more of the 2011 catastrophic events; or ii) the release of some or all of the additional reserves to net income in future periods; or iii) an increase in additional reserves recorded.

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 at December 31, 2012 included \$199 million that represents estimates of its net ultimate liability for asbestos and environmental claims. The gross liability for such claims at December 31, 2012 was \$205 million, which primarily relates to Paris Re's gross liability for asbestos and environmental claims for accident years 2005 and prior of \$125 million, with any favorable or adverse development being subject to the Reserve Agreement. Of the remaining \$80 million in gross reserves, the majority relates to casualty exposures in the United States arising from business written by PartnerRe SA and PartnerRe U.S..

Ultimate loss estimates for such claims cannot be estimated using traditional reserving techniques and there are significant uncertainties in estimating the amount of the Company's potential losses for these claims. In view of the legal and tort environment that affect the development of such claims, the uncertainties inherent in estimating asbestos and environmental claims are not likely to be resolved in the near future. There can be no assurance that the reserves established by the Company will not be adversely affected by development of other latent exposures, and further, there can be no assurance that the reserves established by the Company will be adequate. The Company does, however, actively evaluate potential exposure to asbestos and environmental claims and establishes additional reserves as appropriate. The Company believes that it has made a reasonable provision for these exposures and is unaware of any specific issues that would materially affect its unpaid losses and loss expense reserves related to this exposure (see Note 8 to Consolidated Financial Statements in Item 8 of Part II of this report).

Life Policy Benefits

Policy benefits for life and annuity contracts relate to the business in the Company's Life segment, which predominantly includes reinsurance of longevity, subdivided into standard and non-standard annuities, and mortality business, which includes death and disability covers (with various riders) primarily written in Continental Europe, TCI primarily written in the U.K. and Ireland, and GMD business primarily written in Continental Europe. Effective December 31, 2012, following the acquisition of Presidio, the Company writes specialty accident and health business, predominantly in the U.S.. Presidio's primary lines of business include HMO reinsurance, medical reinsurance and provider and employer excess of loss programs.

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 ceding companies, supplemented by the Company's actuarial estimates of mortality, critical illness, persistency and future investment income, with appropriate provision to reflect uncertainty. Case reserves, IBNR reserves and reserves for future policy benefits are generally calculated at the treaty level. The Company updates its estimates for each of the aforementioned categories on a periodic basis using information received from its cedants.

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The Company's reserving practices begin with the categorization of the contracts written as short duration, long duration, or universal life business for U.S. GAAP reserving purposes. This categorization determines the Company's reserving methodology which is described by line of business below.

Longevity

The reserves for the annuity portfolio of reinsurance contracts within the longevity book are established in accordance with the provisions for long duration insurance contracts under U.S. GAAP. 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. For long duration contracts, the Company establishes initial reserves based upon Management's best estimate of policy benefits and includes a provision for adverse deviation. Management's best estimate relies upon actuarial indications of future policy benefits. The provision for adverse deviation contemplates reasonable deviations from the best estimate assumptions for the key risk elements relevant to the product being evaluated, including mortality expenses, and discount rate among others, and are recorded in accordance with U.S. GAAP and applicable actuarial standards. The Company's actuaries annually verify the current reserving assumptions in consideration of evolving experience and the actuarial indications for assumptions relating to future policy benefits, including mortality and future investment income, among others. Management makes no adjustments to recorded deferred acquisition costs or future policy benefits if the actuarial indications conclude that current recorded U.S. GAAP policy benefits are adequate. The Company establishes a premium deficiency reserve, or an increase to future policy benefits to the extent that deferred acquisition costs are insufficient to cover the premium deficiency reserve, if the actuarial indication of life policy benefits is greater than current recorded aggregate amounts for policy benefits, settlement costs, and deferred acquisition costs.

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 health conditions and are usually medically underwritten on an individual basis and the main risk is the inadequate assessment of the future life span of the insured.

Mortality

The reserves for the short-term mortality business are established in accordance with the provisions for short duration insurance contracts under U.S. GAAP. They consist of case reserves and IBNR, calculated at the treaty level based upon cedant information. The Company's reserving methodology includes a quarterly review of actual experience against expected experience and the use of the Expected Loss Ratio method described in Losses and Loss Expenses above. Given the very short-term loss development of this portion of the portfolio, this method is considered appropriate.

The reserves for the long-term traditional mortality and TCI reinsurance portfolio are established in accordance with the provisions for long duration insurance contracts under U.S. GAAP and follow the reserving methodology discussed under the Longevity section above. In addition to the assumptions discussed above, persistency and critical illness assumptions are considered in the reserving process for mortality lines.

The reserves for the GMDB reinsurance business are established in accordance with the provisions for universal life contracts under U.S. GAAP. Key actuarial assumptions for this business are mortality, lapses, interest rates, expected returns on cash and bonds 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 expected future experience of the respective underlying funds available for policyholder investment options. Recorded reserves for GMDB reflect Management's best estimate which relies upon the quarterly actuarial indications.

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The reserves for accident and health business are established in accordance with the provisions for short duration insurance contracts under U.S. GAAP. Reserves are initially calculated using the Expected Loss Ratio method. Subsequently, the Company's reserving methodology utilizes actual reported loss experience and the Bornhuetter-Ferguson method to calculate IBNR.

The following table provides the Company's gross and net policy benefits for life and annuity contracts by reserving line at December 31, 2012 (in millions of U.S. dollars):

	Case reserves	IBNR reserves	Reserves for future policy benefits	Total gross Life reserves recorded	Ceded reserves	Total net Life reserves recorded
Mortality	\$ 200	\$ 502	\$ 512	\$ 1,214	\$ (15)	\$ 1,199
Longevity	1	92	432	525	(5)	520
Accident and health	8	66		74		74

Total policy benefits for life and annuity contracts

	\$ 209	\$ 660	\$ 944	\$ 1,813	\$ (20)	\$ 1,793
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Total gross policy benefits for life and annuity contracts include provisions for adverse deviation of \$104 million and \$108 million at December 31, 2012 and 2011, respectively.

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 millions of U.S. dollars)
Longevity			
Non-standard annuities	Life expectancy	+ 1 year	\$ 37
Standard annuities	Mortality improvements per annum	1%	173
Mortality			
Long-term and TCI	Mortality	1%	33
GMDB	Stock market performance	-10%	5

It is not appropriate to sum the total impact for a specific reserving 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 thus 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 premium reported data. Approximately, 43%, 43% and 42% of the Company's reported net premiums written for the years ended December 31, 2012, 2011 and 2010, respectively, were based upon estimates.

Under proportional treaties, which represented 72% of the Company's total gross premiums written for the year ended December 31, 2012, 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

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Company's ultimate premiums written and earned and acquisition costs are not known at the inception of the treaty. As such, 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 premium estimates requires a review of the Company's experience with cedants, familiarity with each market, an understanding of the characteristics of each line of business and Management's assessment of the impact of various other factors on the volume of business written and ceded to the Company. Premium and acquisition cost estimates are updated as new information is received from the cedants and differences between such estimates and actual amounts are recorded in the period in which estimates are changed or the actual amounts are determined.

Under non-proportional treaties, which represented 28% of the Company's total gross premiums written for the year ended December 31, 2012, 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. In addition, many of the non-proportional treaties include reinstatement premium provisions. Reinstatement premiums are recognized as written and earned at the time a loss event occurs, where coverage limits for the remaining life of the contract are reinstated under pre-defined contract terms. The accrual of reinstatement premiums is based on Management's estimate of losses and loss expenses associated with the loss event.

The magnitude and impact of changes in premium estimates differs for proportional and non-proportional treaties. Although proportional treaties may be subject to larger changes in premium estimates compared to non-proportional treaties, 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. Non-proportional treaties generally include a fixed minimum premium and an adjustment premium. While the fixed minimum premiums require no estimation, adjustment premiums are estimated and could be subject to changes in estimates.

The following table shows the amounts recorded within net premiums written and earned that related to changes in prior year premium estimates reported by cedants for each Non-life sub-segment for the year ended December 31, 2012 (in millions of U.S. dollars):

Non-life sub-segment	Net premiums written	Net premiums earned
North America	\$ 21	\$ 24
Global (Non-U.S.) P&C	9	(3)
Global (Non-U.S.) Specialty	91	52
Catastrophe	2	
Total	\$ 123	\$ 73

These increases in net premiums written and earned, after the corresponding adjustments to acquisition costs and losses and loss expenses, did not have a material impact on the Company's consolidated pre-tax net income.

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As an example of the sensitivity of the Company's Non-life net premiums written and acquisition costs to changes in estimates, the table below summarizes the effect of different assumption selections on pre-tax net income based on amounts recorded for the year ended December 31, 2012 (in millions of U.S. dollars):

		Change	Impact on pre-tax net income
Net premiums written	Non-life proportional treaties ⁽¹⁾	+/-5%	\$ +/-12
Net premiums written	Non-life non-proportional treaties ⁽²⁾	+/-5%	+/-24
Acquisition costs	all Non-life treaties ⁽³⁾	+/-1%	-/+4

- (1) The estimate assumes that the changes in net premiums written become known at the mid-point of the risk period and is made by applying the reported technical ratio for the year ended December 31, 2012.
- (2) The estimate assumes that the changes in net premiums written become known at the mid-point of the risk period and also assume there is no change in losses and loss expenses.
- (3) The estimate relates to all of the Company's Non-life treaties (both proportional and non-proportional) and assumes that the changes become known at the mid-point of the risk period and also assumes there is no change in premium estimates.

Acquisition costs, comprising only of incremental brokerage fees, commissions and excise taxes, which vary directly with, and are related to, the acquisition of reinsurance contracts, are capitalized and charged to expense as the related premium is earned. All other acquisition-related costs, including all indirect costs, are expensed as incurred. 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 periodically together with the reserve adequacy test, based on the latest best estimate assumptions by line of business.

Income Taxes

Under U.S. GAAP, a deferred tax asset or liability is to be recognized for the estimated future tax effects attributable to temporary differences and carryforwards. U.S. GAAP 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 has also established tax liabilities relating to uncertain tax positions as defined under U.S. GAAP of \$17 million at December 31, 2012 (see Notes 2(l) and 14 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, 2012 of \$142 million, after a valuation allowance of \$47 million. The most significant components of the deferred tax asset relate to loss reserve discounting for tax purposes and tax loss carryforwards.

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, capital gains and losses, and technical and expense ratios. Based on these projections and an analysis of the ability to utilize loss and foreign tax credits carryforwards at the taxable entity level, Management evaluates the need for a valuation allowance. The valuation allowance of \$47 million, recorded at December 31, 2012, primarily related to a tax loss carryforward in Singapore.

In accordance with U.S. GAAP, 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 that the Company will continue to generate taxable revenues in excess of deductions.

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As an example of the sensitivity of the Company's unrecognized tax benefit related to uncertain tax positions, deferred tax asset and net deferred tax liability, the table below summarizes the impact of different assumption selections on the Company's net income and the corresponding impact on net assets based on amounts recorded at December 31, 2012 (in millions of U.S. dollars):

	2012	Change	Impact on net income and net assets
Unrecognized tax benefit related to uncertain tax positions	\$ (17)	+10%	\$ (2)
Deferred tax asset	142	-10%	(14)
Net deferred tax liability	(300)	+10%	(30)

Valuation of Investments and Funds Held Directly Managed, including certain Derivative Financial Instruments

The Company defines fair value as the price received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. The Company measures the fair value of its financial instruments according to a fair value hierarchy that prioritizes the information used to measure fair value into three broad levels.

The fair value hierarchy prioritizes the inputs to valuation techniques used to measure fair value by maximizing the use of observable inputs and minimizing the use of unobservable inputs by requiring that the most observable inputs be used when available. Observable inputs are inputs that market participants would use in pricing an asset or liability based on market data obtained from sources independent of the Company. Unobservable inputs are inputs that reflect the Company's assumptions about what market participants would use in pricing the asset or liability based on the best information available in the circumstances. The level in the hierarchy within which a given fair value measurement falls is determined based on the lowest level input that is significant to the measurement.

The Company must determine the appropriate level in the hierarchy for each financial instrument that it measures at fair value. In determining fair value, the Company uses various valuation approaches, including market, income and cost approaches. See Note 3 to Consolidated Financial Statements in Item 8 of Part II of this report for more detail on the valuation techniques, methods and assumptions that were used by the Company to estimate the fair value of its fixed maturities and short-term investments, equities, other invested assets and its fixed maturities and other invested assets underlying the funds held directly managed account. See Note 6 to Consolidated Financial Statements in Item 8 of Part II of this report for more discussion of the Company's use of derivative financial instruments.

The Company records all of its fixed maturities, short-term investments and equities, certain other invested assets, including derivative financial instruments, and its fixed maturities and certain other invested assets underlying the funds held directly managed account at fair value in its Consolidated Balance Sheets. The changes in fair value of all of the Company's investments, carried at fair value, are recorded in net realized and unrealized investment gains and losses in the Consolidated Statements of Operations and are included in the determination of net income or loss in the period in which they are recorded.

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Under the fair value hierarchy, Management uses certain assumptions and judgments to derive the fair value of its investments, particularly for those assets with significant unobservable inputs, commonly referred to as Level 3 assets. At December 31, 2012, the Company's financial instruments that were measured at fair value and categorized as Level 3 were as follows (in millions of U.S. dollars):

	December 31, 2012
Fixed maturities	\$ 657
Equities	28
Other invested assets (including certain derivatives)	87
Funds held – directly managed account	18
Total	\$ 790

For the Company's fixed maturities, equities, other invested assets and investments underlying the funds held – directly managed account categorized as Level 3, a 10% decline in the fair value of these investments at December 31, 2012 would result in a \$79 million pre-tax charge to net income or loss and a corresponding reduction in total assets.

In addition, included in the Company's other invested assets are various investments which are accounted for using the cost method of accounting, equity method of accounting or investment company accounting, totaling \$262 million at December 31, 2012. The Company does not measure its investments that are accounted for using any of these methods at fair value. For investments that are accounted for using the cost method of accounting, equity method of accounting or investment company accounting, a 10% decline in the carrying value of these investments at December 31, 2012 would result in a \$26 million pre-tax charge to net income or loss and a corresponding reduction in investments and total assets.

The Company utilizes derivatives for a variety of purposes (see Note 6 to Consolidated Financial Statements in Item 8 of Part II of this report). The Company's derivatives are carried at fair value, which is based on quoted market prices or internal valuation models where quoted market prices are not available. Most of the Company's derivatives are fair valued using significant other observable inputs (fair value of \$16 million net unrealized loss at December 31, 2012), referred to as Level 2 assets. The Company's derivatives that are fair valued using quoted prices in active markets, referred to as Level 1 assets, had an insignificant fair value at December 31, 2012. In addition, the Company has certain total return swaps and insurance-linked securities that are fair valued using significant other unobservable inputs, and are included in the Level 3 other invested assets. The total return swaps and insurance-linked securities that are classified as Level 3 have a combined fair value of \$4 million net unrealized gain at December 31, 2012, based on a combined notional exposure of \$205 million.

In 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. At December 31, 2012, 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 \$4 million decrease or a \$5 million increase, respectively, in the fair value of its total return and interest rate swap portfolio categorized as Level 3.

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, 2012, the notional value of the total return swap portfolio categorized as Level 3 was \$69 million and the fair value of the assets underlying the total return swap portfolio categorized as Level 3 was \$75 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 an insignificant increase or decrease, respectively, in the fair value of its total return swap portfolio at December 31, 2012.

At December 31, 2012, the Company's insurance-linked securities that are classified as Level 3 include longevity swaps and weather derivatives, with a combined fair value of \$2 million net unrealized loss. At

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December 31, 2012, the notional exposure of the longevity swaps and weather derivatives classified as Level 3 was \$136 million and \$nil, respectively. At December 31, 2012, the Company estimated that a 10% improvement in the mortality assumption used in the Company's internal valuation models for its longevity swaps would result in a \$5 million decrease in the fair value of its longevity swap portfolio. The weather derivatives categorized as Level 3 are exposed to various wind events, and any change in the assumptions used in the Company's internal models would have an insignificant impact on the fair value of weather derivatives at December 31, 2012.

Goodwill

Goodwill represents the excess of the purchase price over the fair value of the net assets acquired of PartnerRe SA, Winterthur Re, Paris Re and Presidio. The Company assesses the appropriateness of its valuation of goodwill on at least an annual basis. If, as a result of the assessment, the Company determines that the value of its goodwill 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 of \$456 million at December 31, 2012.

In making an assessment of the value of its goodwill, the Company uses both market based and non-market based valuations. The fair value of the reporting units is determined based on the earnings multiple, price to tangible book value multiple, present value of estimated cash flows and present value of future profits methods. 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.

Intangible Assets

Intangible assets represent the fair value adjustments related to unpaid losses and loss expenses and the fair values of renewal rights, customer relationships, U.S. licenses and fronting arrangements arising from the acquisitions of Paris Re and Presidio. Definite-lived intangible assets are amortized over their useful lives, generally ranging from one to thirteen years. The Company recognizes the amortization of all intangible assets in the Consolidated Statement of Operations. Indefinite-lived intangible assets are not subject to amortization. The carrying values of intangible assets are reviewed for indicators of impairment on at least an annual basis. Impairment is recognized if the carrying values of the intangible assets are not recoverable from their undiscounted cash flows and are measured as the difference between the carrying value and the fair value. Based upon the Company's assessment, there was no impairment of its intangible assets of \$214 million at December 31, 2012.

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 significant 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(m) to Consolidated Financial Statements in Item 8 of Part II of this report for a discussion of 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 average exchange rate was stronger against most currencies, except the Japanese yen, in 2012 compared to 2011 and was weaker against most currencies in 2011 compared to 2010; and

the U.S. dollar ending exchange rate weakened against most currencies, except the Japanese yen, at December 31, 2012 compared to December 31, 2011 and strengthened against most currencies, except the Japanese yen, at December 31, 2011 compared to December 31, 2010.

Review of Net Income (Loss)

Management analyzes the Company's net income or loss in three parts: underwriting result, investment result and other components of net income or loss. 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. Investment result consists of net investment income, net realized and unrealized investment gains or losses and interest in earnings or losses of equity investments. Net investment income includes interest and dividends, net of investment expenses, generated by the Company's investment activities, as well as interest income generated on funds held assets. Net realized and unrealized investment gains or losses include sales of the Company's fixed income, equity and other invested assets and investments underlying the funds held directly managed account and changes in net unrealized gains or losses. Interest in earnings or losses of equity investments includes the Company's strategic investments. Other components of net income or loss include technical result and other income or loss, other operating expenses, interest expense, amortization of intangible assets, net foreign exchange gains or losses and income tax expense or benefit.

The components of net income (loss) for the years ended December 31, 2012, 2011 and 2010 were as follows (in millions of U.S. dollars):

	2012	% Change	2011	% Change	2010
Underwriting result:					
Non-life	\$ 456	NM%	\$ (973)	NM%	\$ 204
Life	(16)	(39)	(27)	(47)	(51)
Investment result:					
Net investment income	571	(9)	629	(6)	673
Net realized and unrealized investment gains	494	640	67	(83)	402
Interest in earnings (losses) of equity investments ⁽¹⁾	10	NM	(6)	NM	13
Corporate and Other:					
Technical result ⁽²⁾	4	(23)	6	NM	
Other income ⁽²⁾	3	15	3	6	3
Other operating expenses	(102)	3	(99)	(41)	(166)
Interest expense	(49)		(49)	10	(44)
Amortization of intangible assets ⁽³⁾	(32)	(13)	(36)	16	(31)
Net foreign exchange (losses) gains		NM	34	NM	(21)
Income tax expense	(204)	196	(69)	(46)	(129)
Net income (loss)	\$ 1,135	NM	\$ (520)	NM	\$ 853

NM: not meaningful

(1) Interest in earnings (losses) of equity investments represents the Company's aggregate share of earnings related to several private placement investments and limited partnerships within the Corporate and Other segment.

(2) Technical result and other income primarily relate to income on insurance-linked securities and principal finance transactions within the Corporate and Other segment.

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(3) *Amortization of intangible assets relates to intangible assets acquired in the acquisition of Paris Re in 2009. The acquisition of Presidio was effective December 31, 2012 and, accordingly, no amortization expense related to the intangible assets acquired has been recorded during the years ended December 31, 2012, 2011 and 2010.*

Underwriting result is a measurement that the Company uses to manage and evaluate its Non-life and Life 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 or loss separately and in the aggregate. Underwriting result should not be considered a substitute for net income or loss and does not reflect the overall profitability of the business, which is also impacted by investment results and other items.

The following table provides the components of the underwriting result and combined ratio for the Non-life segment for the years ended December 31, 2012, 2011 and 2010 and the components are discussed further below (in millions of U.S. dollars):

	2012		2011		2010	
Current accident year technical result and ratio						
Adjusted for large catastrophic losses and large losses	\$ 396	89.1%	\$ 509	86.5%	\$ 597	85.2%
Large catastrophic losses and large losses ⁽¹⁾	(316)	8.7	(1,733)	45.3	(559)	13.9
Prior accident years technical result and ratio						
Net favorable prior year loss development	628	(17.0)	530	(13.8)	478	(11.9)
Technical result and ratio, as reported	\$ 708	80.8%	\$ (694)	118.0%	\$ 516	87.2%
Other income	5		4		5	
Other operating expenses	(257)	7.0	(283)	7.4	(317)	7.8
Underwriting result and combined ratio, as reported	\$ 456	87.8%	\$ (973)	125.4%	\$ 204	95.0%

(1) *Large catastrophic losses and large losses are shown net of any reinsurance, reinstatement premiums and profit commissions. 2012 compared to 2011*

The underwriting result for the Non-life segment increased by \$1,429 million (corresponding to a decrease of 37.6 points on the combined ratio), from a loss of \$973 million (125.4 points on the combined ratio) in 2011 to an income of \$456 million (87.8 points on the combined ratio) in 2012. The increase in the Non-life underwriting result and the corresponding decrease in the combined ratio in 2012 compared to 2011 was primarily attributable to:

Large catastrophic losses and large losses a decrease of \$1,417 million (decrease of 36.6 points on the technical ratio) from \$1,733 million (45.3 points on the technical ratio) related to the 2011 catastrophic events to \$316 million (8.7 points on the technical ratio) related to Superstorm Sandy and the U.S. drought, which impacted the agriculture line of business in the North America sub-segment, in 2012.

Net favorable prior year loss development an increase of \$98 million (decrease of 3.2 points on the technical ratio) from \$530 million (13.8 points on the technical ratio) in 2011 to \$628 million (17.0 points on the combined ratio) in 2012. The increase was primarily driven by the Global (Non-U.S.) Specialty and North America sub-segments. The components of the net favorable prior year loss development are described in more detail in the discussion of individual sub-segments in Results by Segment below.

Other operating expenses a decrease of \$26 million (a decrease of 0.4 points on the combined ratio) from \$283 million (7.4 points on the combined ratio) in 2011 to \$257 million (7.0 points on the combined ratio) in 2012, primarily resulting from a favorable impact of foreign exchange fluctuations and lower information technology costs.

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These factors driving the increase in the Non-life underwriting result and the corresponding decrease in the combined ratio in 2012 compared to 2011 were partially offset by:

The current accident year technical result, adjusted for large catastrophic losses and large losses a decrease of \$113 million (an increase of 2.6 points on the technical ratio) from \$509 million (86.5 points on the technical ratio) in 2011 to \$396 million (89.1 points on the technical ratio) in 2012. The decrease was driven by a lower level of net premiums earned in the Catastrophe sub-segment, which absent catastrophe losses, directly reduces the underwriting result, and a lower level of losses recovered under the retrocessional programs. These decreases were partially offset by a lower level of mid-sized loss activity in the Global (Non-U.S.) Specialty and North America sub-segments.

The underwriting result for the Life segment, which does not include allocated investment income, improved by \$11 million, from a loss of \$27 million in 2011 to a loss of \$16 million in 2012, primarily due to higher net favorable prior year loss development, which was driven by the mortality line of business. See Results by Segment below.

Net investment income decreased by \$58 million, from \$629 million in 2011 to \$571 million in 2012. The decrease in net investment income is primarily attributable to a decrease in net investment income from fixed maturities due to lower reinvestment rates. See Corporate and Other Net Investment Income below for more details.

Net realized and unrealized investment gains increased by \$427 million, from \$67 million in 2011 to \$494 million in 2012. The net realized and unrealized investment gains of \$494 million in 2012 were primarily due to narrowing credit spreads, improvements in worldwide equity markets and decreases in U.S. and European risk-free interest rates. See Corporate and Other Net Realized and Unrealized Investment Gains below for more details.

Other operating expenses included in Corporate and Other increased by \$3 million, from \$99 million in 2011 to \$102 million in 2012. The increase was primarily due to higher consulting costs in 2012.

Interest expense in 2012 was comparable to 2011.

Net foreign exchange gains decreased by \$34 million, from \$34 million in 2011 to \$nil in 2012. The net foreign exchange result in 2012 was primarily due to losses related to the timing of hedging activities, which were offset by gains arising from the difference in the forward points embedded in the Company's hedges. 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.

Income tax expense increased by \$135 million, from \$69 million in 2011 to \$204 million in 2012. The increase in the income tax expense was primarily due to the Company's taxable jurisdictions generating a higher pre-tax income in 2012 compared to 2011. See Corporate and Other Income Taxes below for more details.

2011 compared to 2010

The underwriting result for the Non-life segment decreased by \$1,177 million (corresponding to an increase of 30.4 points on the combined ratio), from \$204 million (95.0 points on the combined ratio) in 2010 to a loss of \$973 million (125.4 points on the combined ratio) in 2011. The decrease in the Non-life underwriting result and the corresponding increase in the combined ratio in 2011 compared to 2010 was attributable to:

Large catastrophic losses and large losses an increase of \$1,174 million (increase of 31.4 points on the technical ratio), from \$559 million (13.9 points on the technical ratio) related to the 2010 catastrophic events and Deepwater Horizon in 2010 to \$1,733 million (45.3 points on the technical ratio) related to the 2011 catastrophic events.

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The current accident year technical result, adjusted for large catastrophic losses and large losses a decrease of \$88 million (increase of 1.3 points on the technical ratio), from \$597 million (85.2 points on the technical ratio) in 2010 to \$509 million (86.5 points on the technical ratio) in 2011. The decrease was driven by the reduced book of business, declining profitability due to reduced pricing and reduced catastrophe exposures in certain lines of business and a modestly higher level of mid-sized loss activity, which was reduced by the impact of a change in mix towards the agriculture line in the North America sub-segment.

These factors driving the decrease in the Non-life underwriting result and the corresponding increase in the combined ratio in 2011 compared to 2010 were partially offset by:

Net favorable prior year loss development an increase of \$52 million (decrease of 1.9 points on the technical ratio), from \$478 million (11.9 points on the technical ratio) in 2010 to \$530 million (13.8 points on the technical ratio) in 2011. The increase was primarily driven by the Catastrophe sub-segment. The components of the net favorable prior year loss development are described in more detail in the discussion of individual sub-segments in Results by Segment below.

Other operating expenses a decrease of \$34 million (decrease of 0.4 points on the combined ratio), from \$317 million (7.8 points on the combined ratio) in 2010 to \$283 million (7.4 points on the combined ratio) in 2011 primarily resulting from lower personnel costs.

The underwriting result for the Life segment, which does not include allocated investment income, improved by \$24 million, from a loss of \$51 million in 2010 to a loss of \$27 million in 2011. The improvement in the Life underwriting result was primarily due to a decrease in net adverse prior year loss development and increased profitability generated from new and existing business. See Results by Segment below.

Net investment income decreased by \$44 million, from \$673 million in 2010 to \$629 million in 2011. The decrease in net investment income is primarily attributable to a decrease in net investment income from fixed maturities and the fixed maturities underlying the funds held directly managed account due to lower reinvestment rates. See Corporate and Other Net Investment Income below for more details.

Net realized and unrealized investment gains decreased by \$335 million, from \$402 million in 2010 to \$67 million in 2011. The net realized and unrealized investment gains of \$67 million in 2011 were primarily due to declining U.S. and European risk-free interest rates, which were partially offset by widening credit spreads, realized and unrealized losses on treasury note futures and losses on insurance-linked securities impacted by the Japan Earthquake. See Corporate and Other Net Realized and Unrealized Investment Gains below for more details.

Other operating expenses included in Corporate and Other decreased by \$67 million, from \$166 million in 2010 to \$99 million in 2011. The decrease was primarily due to the charges related to the Company's voluntary termination plan in 2010, as well as lower personnel costs in 2011.

Interest expense increased by \$5 million, from \$44 million in 2010 to \$49 million in 2011. The increase was primarily due to the timing of the issuance of \$500 million 5.500% Senior Notes in March 2010, which was not outstanding for the entire year in 2010.

Net foreign exchange gains increased by \$55 million, from a loss of \$21 million in 2010 to a gain of \$34 million in 2011. The increase in net foreign exchange gains in 2011 resulted primarily from gains arising from the timing of the hedging activities and lower forward points paid, which reflects the interest rate differential between currencies bought and sold against the U.S. dollar. 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.

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Income tax expense decreased by \$60 million, from \$129 million in 2010 to \$69 million in 2011. The decrease in the income tax expense was primarily due to the Company's taxable jurisdictions generating a lower pre-tax income in 2011 compared to 2010. See Corporate and Other Income Taxes below for more details.

Results by Segment

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, North America, 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. 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 20 to Consolidated Financial Statements included in Item 8 of Part II of this report.

Non-life Segment**North America**

The North America sub-segment is comprised of lines of business that are considered to be either short, medium or long-tail. The short-tail lines consist primarily of agriculture, property and motor business. Casualty is considered to be long-tail, while credit/surety and multiline are considered to have a medium tail. The casualty line typically tends to have a higher loss ratio and a lower technical result, due to the long-tail nature of the risks involved. Casualty treaties typically provide for investment income on premiums invested over a longer period as losses are typically paid later than for other lines. Investment income, however, is not considered in the calculation of technical result.

The following table provides the components of the technical result and the corresponding ratios for this sub-segment for the years ended December 31, 2012, 2011 and 2010 (in millions of U.S. dollars):

	2012	% Change	2011	% Change	2010
Gross premiums written	\$ 1,221	11%	\$ 1,104	7%	\$ 1,028
Net premiums written	1,219	11	1,104	8	1,026
Net premiums earned	\$ 1,176	4	\$ 1,135	9	\$ 1,038
Losses and loss expenses	(816)	10	(741)	28	(577)
Acquisition costs	(291)	5	(276)	(4)	(288)
Technical result ⁽¹⁾	\$ 69	(41)	\$ 118	(32)	\$ 173
Loss ratio ⁽²⁾	69.4%		65.3%		55.6%
Acquisition ratio ⁽³⁾	24.7		24.3		27.8
Technical ratio ⁽⁴⁾	94.1%		89.6%		83.4%

(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.

Table of Contents**Premiums**

The North America sub-segment represented 27%, 24% and 22% of total net premiums written in 2012, 2011 and 2010, respectively. The following table summarizes the net premiums written and net premiums earned by line of business for this sub-segment for years ended December 31, 2012, 2011 and 2010 (in millions of U.S. dollars):

	2012				2011				2010			
	Net premiums written		Net premiums earned		Net premiums written		Net premiums earned		Net premiums written		Net premiums earned	
Casualty	\$ 520	43%	\$ 484	41%	\$ 440	40%	\$ 434	38%	\$ 431	42%	\$ 430	41%
Property	238	20	227	19	198	18	218	19	261	26	271	26
Agriculture	231	19	231	20	222	20	223	20	87	8	88	9
Credit/Surety	54	4	54	5	53	5	60	5	62	6	61	6
Multiline	89	7	87	7	79	7	77	7	53	5	55	5
Motor	51	4	65	6	95	8	100	9	111	11	113	11
Other	36	3	28	2	17	2	23	2	21	2	20	2
Total	\$ 1,219	100%	\$ 1,176	100%	\$ 1,104	100%	\$ 1,135	100%	\$ 1,026	100%	\$ 1,038	100%

2012 compared to 2011

Gross and net premiums written increased by 11% and net premiums earned increased by 4% in 2012 compared to 2011. The increases in gross and net premiums written were driven by most lines of business, except the motor line, and were most pronounced in the casualty and property lines of business. The increase in the casualty line of business was primarily driven by new business written and higher upward prior year premium adjustments. The increase in the property line of business was due to new business written. These increases in gross and net premiums written were partially offset by reductions in the motor line of business as a result of non-renewals of certain treaties. The increase in net premiums earned was lower than the increase in gross and net premiums written due to the earning of the reduced level of premiums written in 2011, primarily in the property line as a result of cancellations and lower renewals, and due to the impact of the new casualty and property business in 2012 being written on a proportional basis, which is yet to be fully reflected in net premiums earned. Notwithstanding the diverse conditions prevailing in various markets within this sub-segment, with terms and conditions in most markets deteriorating slightly, and price increases generally in loss affected markets only, the Company was able to write business that met its portfolio objectives.

2011 compared to 2010

Gross and net premiums written and net premiums earned increased by 7%, 8% and 9%, respectively, in 2011 compared to 2010. The increases in gross and net premiums written and net premiums earned were primarily attributable to the agriculture line of business and were mainly driven by increased demand, higher agricultural commodity prices and lower downward premium adjustments. The increase in gross and net premiums written and net premiums earned was partially offset by decreases in certain lines, primarily in the property line, driven by cancellations and lower renewals due to increased retentions and reductions in pricing, as well as higher downward premium adjustments in 2011.

Table of Contents**Technical result and technical ratio**

The following table provides the components of the technical result and ratio for this sub-segment for the years ended December 31, 2012, 2011 and 2010 (in millions of U.S. dollars):

	2012		2011		2010	
Current accident year technical result and ratio						
Adjusted for large catastrophic losses and large losses	\$ 8	99.3%	\$ (21)	101.9%	\$ 13	98.9%
Large catastrophic losses and large losses ⁽¹⁾	(157)	13.4	(50)	4.4	(5)	0.5
Prior accident years technical result and ratio						
Net favorable prior year loss development	218	(18.6)	189	(16.7)	165	(16.0)
Technical result and ratio, as reported	\$ 69	94.1%	\$ 118	89.6%	\$ 173	83.4%

(1) Large catastrophic losses and large losses are shown net of any related reinsurance, reinstatement premiums and profit commissions. 2012 compared to 2011

The decrease of \$49 million in the technical result (and the corresponding increase of 4.5 points on the technical ratio) in 2012 compared to 2011 was primarily attributable to:

Large catastrophic losses and large losses an increase of \$107 million (increase of 9.0 points on the technical ratio) from \$50 million (4.4 points on the technical ratio) related to the U.S. tornadoes in 2011 to \$157 million (13.4 points on the technical ratio) related to the U.S. drought and Superstorm Sandy in 2012.

This factor driving the decrease in the technical result in 2012 compared to 2011 was partially offset by:

Net favorable prior year loss development an increase of \$29 million (decrease of 1.9 points on the technical ratio) from \$189 million (16.7 points on the technical ratio) in 2011 to \$218 million (18.6 points on the technical ratio) in 2012. The net favorable loss development for prior accident years in 2012 was driven by most lines of business, with the casualty line of business being the most pronounced. The net favorable loss development for prior accident years of \$189 million in 2011 is described below.

The current accident year technical result, adjusted for large catastrophic losses and large losses an increase in the technical result (and corresponding decrease in the technical ratio) due to a lower level of mid-sized loss activity, higher upward premium adjustments in 2012 compared to 2011 and normal fluctuations in profitability between periods.

2011 compared to 2010

The decrease of \$55 million in the technical result (and the corresponding increase of 6.2 points on the technical ratio) in 2011 compared to 2010 was primarily attributable to:

Large catastrophic losses and large losses an increase of \$45 million (increase of 3.9 points on the technical ratio) from \$5 million (0.5 points on the technical ratio) related to Deepwater Horizon in 2010 to \$50 million (4.4 points on the technical ratio) related to the U.S. tornadoes in 2011.

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The current accident year technical result, adjusted for large catastrophic losses and large losses a decrease in the technical result (and corresponding increase in the technical ratio) due to the change in the mix of business towards the agriculture line, which generally carries a higher loss ratio compared to most of the other lines of business in this sub-segment. In addition, the decrease in the technical result was also due to the impact of declining pricing and profitability of the business and a higher level of mid-sized loss activity.

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These factors driving the decrease in the technical result in 2011 compared to 2010 were partially offset by:

Net favorable prior year loss development an increase of \$24 million (decrease of 0.7 points on the technical ratio) from \$165 million (16.0 points on the technical ratio) in 2010 to \$189 million (16.7 points on the technical ratio) in 2011. The net favorable loss development for prior accident years in 2011 was driven by most lines of business, predominantly the casualty line, while the credit/surety and motor lines experienced combined adverse loss development for prior years of \$11 million. The net favorable loss development for prior accident years in 2010 was driven by most lines of business, predominantly the casualty and agriculture lines, while the motor line experienced adverse loss development for prior accident years of \$8 million.

2013 Outlook

During the January 1, 2013 renewals, the Company observed a fairly stable environment with competitive conditions in most markets and price increases in loss affected lines. The expected premium volume from the Company's January 1, 2013 renewal increased compared to the prior year primarily as a result of new business. The agriculture business renewals remain largely in process and are expected to be completed in the first quarter of 2013, however, management expects a significant increase in premium in this line compared to the prior year due to new business. Management expects a continuation of the observed trends in pricing and conditions during the remainder of 2013.

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 83%, 84% and 82% of net premiums written in 2012, 2011 and 2010, respectively, 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 for years ended December 31, 2012, 2011 and 2010 (in millions of U.S. dollars):

	2012	% Change	2011	% Change	2010
Gross premiums written	\$ 684	%	\$ 682	(25)%	\$ 909
Net premiums written	681		678	(24)	898
Net premiums earned	\$ 678	(11)	\$ 759	(17)	\$ 914
Losses and loss expenses	(415)	(27)	(567)	(19)	(702)
Acquisition costs	(167)	(12)	(191)	(16)	(227)
Technical result	\$ 96	NM	\$ 1	NM	\$ (15)
Loss ratio	61.3%		74.7%		76.8%
Acquisition ratio	24.6		25.1		24.9
Technical ratio	85.9 %		99.8%		101.7%

NM: not meaningful

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The Global (Non-U.S.) P&C sub-segment represented 15%, 15% and 19% of total net premiums written in 2012, 2011 and 2010, respectively. The following table summarizes the net premiums written and net premiums earned by line of business for this sub-segment for years ended December 31, 2012, 2011 and 2010 (in millions of U.S. dollars):

	2012				2011				2010			
	Net premiums written		Net premiums earned		Net premiums written		Net premiums earned		Net premiums written		Net premiums earned	
Property	\$ 419	61%	\$ 440	65%	\$ 476	70%	\$ 509	67%	\$ 595	66%	\$ 581	64%
Casualty	75	11	74	11	70	10	82	11	105	12	121	13
Motor	187	28	164	24	132	20	168	22	198	22	212	23
Total	\$ 681	100%	\$ 678	100%	\$ 678	100%	\$ 759	100%	\$ 898	100%	\$ 914	100%

Business reported in this sub-segment is, to a significant extent, originally denominated in foreign currencies and is reported in U.S. dollars. The U.S. dollar can fluctuate significantly against other currencies and this should be considered when making year to year comparisons. The following table summarizes the effect of a stronger U.S. dollar compared to most other currencies in 2012 compared to 2011, and of a weaker U.S. dollar compared to most currencies in 2011 compared to 2010, on gross and net premiums written and net premiums earned:

	Gross premiums written	Net premiums written	Net premiums earned
<i>2012 compared to 2011</i>			
Increase (decrease) in original currency	4%	4%	(6)%
Foreign exchange effect	(4)	(4)	(5)
Increase (decrease) as reported in U.S. dollars	%	%	(11)%
<i>2011 compared to 2010</i>			
Decrease in original currency	(27)%	(26)%	(21)%
Foreign exchange effect	2	2	4
Decrease as reported in U.S. dollars	(25)%	(24)%	(17)%
<i>2012 compared to 2011</i>			

Gross and net premiums written increased by 4% and net premiums earned decreased by 6% on a constant foreign exchange basis in 2012 compared to 2011. The increases in gross and net premiums written were primarily due to new business written in the motor line of business, partially offset by decreases in the property line of business. The decreases in the property line were driven by the effects of the Company's decisions in prior periods to reduce certain business to reposition its portfolio. Net premiums earned decreased in 2012 compared to 2011 due to the earning of the reduced level of premiums written in 2011 given a significant percentage of the business is written on a proportional basis with the impact of these reductions reflected in net premiums earned over time, and the new business written in 2012 is yet to be fully reflected in net premiums earned. Notwithstanding the continued soft market conditions, with terms and conditions stable and price increases only observed in loss affected markets, the Company was able to write business that met its portfolio objectives.

2011 compared to 2010

Gross and net premiums written and net premiums earned decreased by 27%, 26% and 21% on a constant foreign exchange basis, respectively, in 2011 compared to 2010. The decreases in gross and net premiums written and net premiums earned resulted from all lines of business and were mainly driven by the effects of the Company's decision to cancel or reduce business due to lower pricing in competitive markets, the repositioning

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of the Company's portfolio following the integration of Paris Re's business, which included reducing catastrophe-exposed business in the property line, and higher retentions by cedants. The decrease in net premiums earned was less pronounced than the decreases in gross and net premiums written due to the impact of continuing to earn the higher level of net premiums written in 2010 during 2011, given most business in this sub-segment is written on a proportional basis.

Technical result and technical ratio

The following table provides the components of the technical result and ratio for this sub-segment for the years ended December 31, 2012, 2011 and 2010 (in millions of U.S. dollars):

	2012		2011		2010	
Current accident year technical result and ratio						
Adjusted for large catastrophic losses	\$ (16)	102.5%	\$ 34	95.4%	\$ 43	95.3%
Large catastrophic losses ⁽¹⁾	(2)	0.3	(149)	19.7	(156)	17.1
Prior accident years technical result and ratio						
Net favorable prior year loss development	114	(16.9)	116	(15.3)	98	(10.7)
Technical result and ratio, as reported	\$ 96	85.9%	\$ 1	99.8%	\$ (15)	101.7%

(1) Large catastrophic losses are shown net of any related reinsurance, reinstatement premiums and profit commissions. 2012 compared to 2011

The increase of \$95 million in the technical result (and the corresponding decrease of 13.9 points on the technical ratio) in 2012 compared to 2011 was primarily attributable to:

Large catastrophic losses a decrease of \$147 million (decrease of 19.4 points on the technical ratio) from \$149 million (19.7 points on the technical ratio) related to the Thailand Floods, the February and June 2011 New Zealand Earthquakes, Japan Earthquake and Australian Floods in 2011 to \$2 million (0.3 points on the technical ratio) related to Superstorm Sandy in 2012.

This factor driving the increase in the technical result in 2012 compared to 2011 was partially offset by:

The current accident year technical result, adjusted for large catastrophic losses a decrease in the technical result due to a lower level of net premiums earned in 2012 compared to 2011, including a decrease in the catastrophe exposed business, which in the absence of catastrophic losses, directly reduces the technical result (and increases the technical ratio). In addition, the decrease in the technical result was due to a higher level of mid-sized loss activity and lower pricing, partially offset by normal fluctuations in profitability between periods.

Net favorable prior year loss development a decrease of \$2 million (decrease of 1.6 points on the technical ratio due to the lower level of net premiums earned in 2012) from \$116 million (15.3 points on the technical ratio) in 2011 to \$114 million (16.9 points on the technical ratio) in 2012. The net favorable loss development for prior accident years in 2012 was driven by all lines of business, with the property line being the most pronounced. The net favorable loss development for prior accident years of \$116 million in 2011 is described below.

2011 compared to 2010

The increase of \$16 million in the technical result (and the corresponding decrease of 1.9 points on the technical ratio) in 2011 compared to 2010 was primarily attributable to:

Net favorable prior year loss development an increase of \$18 million (decrease of 4.6 points on the technical ratio) from \$98 million (10.7 points on the technical ratio) in 2010 to \$116 million (15.3 points on the technical ratio) in 2011. The net favorable loss development for prior accident years in

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2011 was driven by all lines of business, with the motor line being the most pronounced. The net favorable loss development for prior accident years in 2010 was driven by all lines of business, and was most pronounced in the property line.

Large catastrophic losses a decrease of \$7 million (increase of 2.6 points on the technical ratio due to the lower level of net premiums earned in 2011) from \$156 million (17.1 points on the technical ratio) in 2010 related to the Chile Earthquake and 2010 New Zealand Earthquake to \$149 million (19.7 points on the technical ratio) related to the Thailand Floods, the February and June 2011 New Zealand Earthquakes, Japan Earthquake and Australian Floods in 2011.

These factors driving the increase in the technical result in 2011 compared to 2010 were partially offset by:

The current accident year technical result, adjusted for large catastrophic losses a modest decrease in the technical result due to a lower level of net premiums earned in 2011 compared to 2010 and normal fluctuations in profitability between periods.

2013 Outlook

During the January 1, 2013 renewals, the Company generally observed a fairly stable environment with continuing competitive conditions in most markets. Modest price increases were observed in certain loss affected markets, while price reductions were observed in other markets. Overall, the expected premium volume from the Company's January 1, 2013 renewal, at constant foreign exchange rates, increased compared to the prior year renewal primarily as a result of new business. Management expects a continuation of the observed trends in pricing and terms and conditions during the remainder of 2013.

Global (Non-U.S.) Specialty

The Global (Non-U.S.) Specialty sub-segment is primarily comprised of lines of business that are considered to be either short, medium or long-tail. The short-tail lines consist of agriculture, energy and specialty property. Aviation/space, credit/surety, engineering and marine are considered to have a medium tail, while specialty casualty is considered to be long-tail.

The following table provides the components of the technical result and the corresponding ratios for this sub-segment for the years ended December 31, 2012, 2011 and 2010 (in millions of U.S. dollars):

	2012	% Change	2011	% Change	2010
Gross premiums written	\$ 1,505	4%	\$ 1,446	(2)%	\$ 1,479
Net premiums written	1,415	5	1,344	(3)	1,391
Net premiums earned	\$ 1,373		\$ 1,376	(2)	\$ 1,405
Losses and loss expenses	(821)	(14)	(950)	(3)	(985)
Acquisition costs	(321)	(2)	(328)	12	(292)
Technical result	\$ 231	135	\$ 98	(24)	\$ 128
Loss ratio	59.8%		69.1%		70.0%
Acquisition ratio	23.4		23.8		20.8
Technical ratio	83.2%		92.9%		90.8%

Table of Contents**Premiums**

The Global (Non-U.S.) Specialty sub-segment represented 31%, 30% and 29% of total net premiums written in 2012, 2010 and 2011, respectively. The following table summarizes the net premiums written and net premiums earned by line of business for this sub-segment for years ended December 31, 2012, 2011 and 2010 (in millions of U.S. dollars):

	2012				2011				2010			
	Net premiums written		Net premiums earned		Net premiums written		Net premiums earned		Net premiums written		Net premiums earned	
Aviation/Space	\$ 217	15%	\$ 215	15%	\$ 211	16%	\$ 217	16%	\$ 223	16%	\$ 220	16%
Credit/Surety	273	19	261	19	272	20	279	20	229	17	223	16
Engineering	171	12	176	13	183	14	198	14	187	13	195	14
Energy	95	7	100	7	111	8	112	8	108	8	120	9
Marine	313	22	298	22	271	20	253	18	279	20	261	19
Specialty casualty	101	7	90	7	108	8	112	8	155	11	174	12
Specialty property	164	12	150	11	134	10	129	10	116	8	106	7
Other	81	6	83	6	54	4	76	6	94	7	106	7
Total	\$ 1,415	100%	\$ 1,373	100%	\$ 1,344	100%	\$ 1,376	100%	\$ 1,391	100%	\$ 1,405	100%

Business reported in this sub-segment is, to a significant extent, originally denominated in foreign currencies and is reported in U.S. dollars. The U.S. dollar can fluctuate significantly against other currencies and this should be considered when making year to year comparisons. The following table summarizes the effect of a stronger U.S. dollar compared to most other currencies in 2012 compared to 2011, and of a weaker U.S. dollar compared to most currencies in 2011 compared to 2010, on gross and net premiums written and net premiums earned:

	Gross premiums written	Net premiums written	Net premiums earned
<i>2012 compared to 2011</i>			
Increase in original currency	7%	8%	3%
Foreign exchange effect	(3)	(3)	(3)
Increase (decrease) as reported in U.S. dollars	4%	5%	%
<i>2011 compared to 2010</i>			
Decrease in original currency	(4)%	(5)%	(6)%
Foreign exchange effect	2	2	4
Decrease as reported in U.S. dollars	(2)%	(3)%	(2)%
<i>2012 compared to 2011</i>			

Gross and net premiums written and net premiums earned increased by 7%, 8% and 3% on a constant foreign exchange basis, respectively, in 2012 compared to 2011. The increases in gross and net premiums written and net premiums earned resulted primarily from the marine and specialty property lines of business primarily due to new business written, while the marine line of business also benefitted from upward prior year premium adjustments. The increase in net premiums earned was lower than the increases in gross and net premiums written due to the earning of the reduced level of premiums written in 2011 given a significant percentage of the business is written on a proportional basis with the impact of these reductions reflected in net premiums earned over time, and the new business written in 2012 is yet to be fully reflected in net premiums earned. Notwithstanding the diverse conditions prevailing in various markets within this sub-segment, with terms in most markets flat and terms in loss affected lines strengthening, the Company was able to write business that met its portfolio objectives.

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2011 compared to 2010

Gross and net premiums written and net premiums earned decreased by 4%, 5% and 6% on a constant foreign exchange basis, respectively, in 2011 compared to 2010. The decrease in gross and net premiums written and net premiums earned resulted from most lines of business and was primarily due to the effects of the Company's decision to cancel or reduce business as a result of modestly reduced pricing in certain competitive lines of business and the repositioning of the Company's portfolio following the integration of Paris Re's business. These decreases were partially offset by an increase in upward prior year premium adjustments reported by cedants in 2011 compared to 2010, which were primarily driven by the energy and engineering lines of business, increases in treaty participations in the credit/surety line of business and new business written in the specialty property line of business.

Technical result and technical ratio

The following table provides the components of the technical result and ratio for this sub-segment for the years ended December 31, 2012, 2011 and 2010 (in millions of U.S. dollars):

	2012		2011		2010	
Current accident year technical result and ratio						
Adjusted for large catastrophic losses and large losses	\$ 66	95.1%	\$ 34	97.5%	\$ 81	94.1%
Large catastrophic losses and large losses ⁽¹⁾	(86)	6.3	(65)	4.8	(124)	8.9
Prior accident years technical result and ratio						
Net favorable prior year loss development	251	(18.2)	129	(9.4)	171	(12.2)
Technical result and ratio, as reported	\$ 231	83.2%	\$ 98	92.9%	\$ 128	90.8%

(1) Large catastrophic losses and large losses are shown net of any related reinsurance, reinstatement premiums and profit commissions. 2012 compared to 2011

The increase of \$133 million in the technical result (and the corresponding decrease of 9.7 points on the technical ratio) in 2012 compared to 2011 was primarily attributable to:

Net favorable prior year loss development an increase of \$122 million (decrease of 8.8 points on the technical ratio) from \$129 million (9.4 points on the technical ratio) in 2011 to \$251 million (18.2 points on the technical ratio) in 2012. The net favorable loss development for prior accident years in 2012 was driven by most lines of business, predominantly the specialty property, aviation/space and marine lines, while the engineering line experienced adverse loss development for prior accident years of \$6 million. The net favorable loss development for prior accident years of \$129 million in 2011 is described below.

The current accident year technical result, adjusted for large catastrophic losses a decrease in the technical result (and corresponding increase in the technical ratio) due to a lower level of mid-sized loss activity in 2012 compared to 2011 and normal fluctuations in profitability between periods, which were partially offset by lower pricing and a lower level of losses recoverable from the retrocessional programs.

These factors driving the increase in the technical result in 2012 compared to 2011 were partially offset by:

Large catastrophic losses an increase of \$21 million (increase of 1.5 points on the technical ratio) from \$65 million (4.8 points on the technical ratio) related to the 2011 catastrophic events to \$86 million (6.3 points on the technical ratio) related to Superstorm Sandy in 2012.

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2011 compared to 2010

The decrease of \$30 million in the technical result (and the corresponding increase of 2.1 points on the technical ratio) in 2011 compared to 2010 was primarily attributable to:

The current accident year technical result, adjusted for large catastrophic losses and large losses a decrease in the technical result (and corresponding increase in the technical ratio) due to a higher level of mid-sized loss activity, higher acquisition costs and modestly declining profitability in certain lines of business in 2011 compared to 2010 and normal fluctuations in profitability between periods.

Net favorable prior year loss development a decrease of \$42 million (increase of 2.8 points on the technical ratio) from \$171 million (12.2 points on the technical ratio) in 2010 to \$129 million (9.4 points on the technical ratio) in 2011. The net favorable loss development for prior accident years in 2011 was driven by most lines of business, except for the energy and engineering lines, which experienced combined adverse loss development for prior accident years of \$13 million. The net favorable loss development for prior accident years in 2010 was driven by most lines of business, except for the specialty casualty line, which experienced adverse loss development for prior accident years of \$37 million.

These factors driving the decrease in the technical result in 2011 compared to 2010 were partially offset by:

Large catastrophic losses and large losses a decrease of \$59 million (decrease of 4.1 points on the technical ratio) from \$124 million (8.9 points on the technical ratio) related to the Chile Earthquake and Deepwater Horizon in 2010 to \$65 million (4.8 points on the technical ratio) related to the 2011 catastrophic events.

2013 Outlook

During the January 1, 2013 renewals, the Company generally observed price improvements in certain loss affected markets and increased competition and pressure on pricing and terms in other markets. Overall, the expected premium volume from the Company's January 1, 2013 renewal, at constant foreign exchange rates, increased compared to the prior year renewal as a result of new growth opportunities in several of our specialty lines markets. Management expects a continuation of the observed trends in pricing and terms and conditions during the remainder of 2013.

Catastrophe

The Catastrophe sub-segment writes business predominantly on a non-proportional basis and is exposed to volatility from catastrophic losses, as demonstrated by the sub-segment results for 2012, 2011 and 2010, and as a result, profitability in any one year is not necessarily predictive of future profitability. The Catastrophe sub-segment results for 2012 included a comparatively low level of catastrophic losses related to Superstorm Sandy, while the results for 2010 included a comparatively large level of catastrophic losses related to the Chile Earthquake and 2010 New Zealand Earthquake and the results for 2011 included a comparatively significant amount of losses from a high frequency of high severity catastrophic events related to the 2011 catastrophic events. The varying amounts of catastrophic losses significantly impacted the technical result and ratio and affected year over 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 for the years ended December 31, 2012, 2011 and 2010 (in millions of U.S. dollars):

	2012	% Change	2011	% Change	2010
Gross premiums written	\$ 500	(17)%	\$ 599	(16)%	\$ 716
Net premiums written	453	(19)	562	(13)	646
Net premiums earned	\$ 457	(20)	\$ 574	(15)	\$ 672
Losses and loss expenses	(103)	(93)	(1,459)	271	(393)
Acquisition costs	(42)	64	(26)	(47)	(49)
Technical result	\$ 312	NM	\$ (911)	NM	\$ 230
Loss ratio	22.4%		254.2%		58.5%
Acquisition ratio	9.3		4.5		7.2
Technical ratio	31.7%		258.7%		65.7%

NM: not meaningful

Premiums

The Catastrophe sub-segment represented 10%, 13% and 14% of total net premiums written in 2012, 2011 and 2010, respectively.

Business reported in this sub-segment is, to an extent, originally denominated in foreign currencies and is reported in U.S. dollars. The U.S. dollar can fluctuate significantly against other currencies and this should be considered when making year to year comparisons. The following table summarizes the effect of a stronger U.S. dollar compared to most other currencies in 2012 compared to 2011, and of a weaker U.S. dollar compared to most currencies in 2011 compared to 2010, on gross and net premiums written and net premiums earned:

	Gross premiums written	Net premiums written	Net premiums earned
<i>2012 compared to 2011</i>			
Decrease in original currency	(16)%	(19)%	(19)%
Foreign exchange effect	(1)		(1)
Decrease as reported in U.S. dollars	(17)%	(19)%	(20)%
<i>2011 compared to 2010</i>			
Decrease in original currency	(18)%	(15)%	(19)%
Foreign exchange effect	2	2	4
Decrease as reported in U.S. dollars	(16)%	(13)%	(15)%
<i>2012 compared to 2011</i>			

Gross and net premiums written and net premiums earned decreased by 16%, 19% and 19% on a constant foreign exchange basis, respectively, in 2012 compared to 2011. The decreases in gross and net premiums written and net premiums earned were primarily due to the Company reducing certain exposures during 2012 by cancelling and decreasing certain treaty participations and a lower level of reinstatement premiums. These decreases in gross and net premiums written and net premiums earned were partially offset by new business written in 2012.

2011 compared to 2010

Gross and net premiums written and net premiums earned decreased by 18%, 15% and 19% on a constant foreign exchange basis, respectively, in 2011 compared to 2010. The decreases in gross and net premiums written and net premiums earned were primarily due to the Company's

decision to reduce certain catastrophe exposures

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and reposition its portfolio following the integration of Paris Re's business, and were partially offset by new business written, reinstatement premiums related to the 2011 catastrophic events and increases in certain treaty participations.

Technical result and technical ratio

The following table provides the components of the technical result and ratio for this sub-segment for the years ended December 31, 2012, 2011 and 2010 (in millions of U.S. dollars):

	2012		2011		2010	
Current accident year technical result and ratio						
Adjusted for large catastrophic losses	\$ 338	23.9%	\$ 462	15.4%	\$ 460	31.0%
Large catastrophic losses ⁽¹⁾	(71)	17.6	(1,469)	260.1	(274)	41.2
Prior accident years technical result and ratio						
Net favorable prior year loss development	45	(9.8)	96	(16.8)	44	(6.5)
Technical result and ratio, as reported	\$ 312	31.7%	\$ (911)	258.7%	\$ 230	65.7%

(1) Large catastrophic losses and large losses are shown net of any related reinsurance, reinstatement premiums and profit commissions. 2012 compared to 2011

The increase of \$1,223 million in the technical result (and the corresponding decrease of 227.0 points on the technical ratio) in 2012 compared to 2011 was primarily attributable to:

Large catastrophic losses a decrease of \$1,398 million (decrease of 242.5 points on the technical ratio) from \$1,469 million (260.1 points on the technical ratio) related to the 2011 catastrophic events and losses related to aggregate contracts covering losses in Australia and New Zealand in 2011 to \$71 million (17.6 points on the technical ratio) related to Superstorm Sandy in 2012.

This factor driving the increase in the technical result in 2012 compared to 2011 was partially offset by:

The current accident year technical result, adjusted for large catastrophic losses a decrease in the technical result (and corresponding increase in the technical ratio) due to the reduced book of business and exposure, a modestly higher level of mid-sized loss activity and normal fluctuations in profitability between periods.

Net favorable prior year loss development a decrease of \$51 million (increase of 7.0 points on the technical ratio) from \$96 million (16.8 points on the technical ratio) in 2011 to \$45 million (9.8 points on the technical ratio) in 2012. The net favorable loss development for prior accident years in 2012 and 2011 were primarily due to favorable loss emergence.

2011 compared to 2010

The decrease of \$1,141 million in the technical result (and the corresponding increase of 193.0 points on the technical ratio) in 2011 compared to 2010 was primarily attributable to:

Large catastrophic losses an increase of \$1,195 million (increase of 218.9 points on the technical ratio) from \$274 million (41.2 points on the technical ratio) related to the 2010 catastrophic events and large losses related to an aggregate contract covering losses in Australia and New Zealand in 2010 to \$1,469 million (260.1 points on the technical ratio) related to the 2011 catastrophic events and losses related to aggregate contracts covering losses in Australia and New Zealand in 2011. The large catastrophic losses in 2011

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include a specific IBNR reserve of \$48 million related to the 2011 catastrophic events, above the sum of recorded point estimates, given the high frequency of, and uncertainty related to, these complex and volatile events.

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The current accident year technical result, adjusted for large catastrophic losses a modest increase in the technical result (and corresponding decrease in the technical ratio) due to a decrease in losses and loss expenses related to business written by Paris Re and a lower level of mid-sized loss activity, partially offset by the reduced book of business and exposure and normal fluctuations in profitability between periods.

This factor driving the decrease in the technical result in 2011 compared to 2010 were partially offset by:

Net favorable prior year loss development an increase of \$52 million (increase of 10.3 points on the technical ratio) from \$44 million (6.5 points on the technical ratio) in 2010 to \$96 million (16.8 points on the technical ratio) in 2011. The net favorable loss development for prior accident years in 2011 and 2010 was primarily due to favorable loss emergence.

2013 Outlook

During the January 1, 2013 renewals, the Company observed pricing that was either flat or slightly lower in most markets compared to the prior year renewal. The exception to this was in certain loss affected markets, where modest price increases were observed. The expected premium volume from the Company's January 1, 2013 renewal, at constant foreign exchange rates, decreased compared to the prior year renewal primarily as a result of modestly declining market conditions and cedants retaining more business. Management expects a continuation of these trends for the remainder of 2013.

Life Segment

The following table provides the components of the allocated underwriting result for this segment for the years ended December 31, 2012, 2011 and 2010 (in millions of U.S. dollars):

	2012	% Change	2011	% Change	2010
Gross premiums written	\$ 802	2%	\$ 790	5%	\$ 749
Net premiums written	799	2	786	6	742
Net premiums earned	\$ 795		\$ 792	7	\$ 744
Life policy benefits	(647)	(1)	(650)	4	(624)
Acquisition costs	(116)	(1)	(117)	1	(116)
Technical result	\$ 32	27	\$ 25	583	\$ 4
Other income	4	475	1	(62)	2
Other operating expenses	(52)	(1)	(53)	(7)	(57)
Net investment income	64	(3)	66	(8)	71
Allocated underwriting result ⁽¹⁾	\$ 48	23	\$ 39	94	\$ 20

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

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The Life segment represented 17%, 18% and 16% of total net premiums written in 2012, 2011 and 2010, respectively. The following table summarizes the net premiums written and net premiums earned by line of business for this sub-segment for years ended December 31, 2012, 2011 and 2010 (in millions of U.S. dollars):

	2012				2011				2010			
	Net premiums written		Net premiums earned		Net premiums written		Net premiums earned		Net premiums written		Net premiums earned	
Mortality	\$ 531	66%	\$ 528	66%	\$ 563	71%	\$ 569	72%	\$ 517	70%	\$ 519	70%
Longevity	247	31	247	31	202	26	202	25	205	27	205	27
Health	21	3	20	3	21	3	21	3	20	3	20	3
Total	\$ 799	100%	\$ 795	100%	\$ 786	100%	\$ 792	100%	\$ 742	100%	\$ 744	100%

Business reported in this sub-segment is, to a significant extent, originally denominated in foreign currencies and is reported in U.S. dollars. The U.S. dollar can fluctuate significantly against other currencies and this should be considered when making year to year comparisons. The following table summarizes the effect of a stronger U.S. dollar compared to most other currencies in 2012 compared to 2011, and of a weaker U.S. dollar compared to most currencies in 2011 compared to 2010, on gross and net premiums written and net premiums earned:

	Gross premiums written	Net premiums written	Net premiums earned
<i>2012 compared to 2011</i>			
Increase in original currency	6%	6%	5%
Foreign exchange effect	(4)	(4)	(5)
Increase as reported in U.S. dollars	2%	2%	0%
<i>2011 compared to 2010</i>			
Increase in original currency	1%	2%	3%
Foreign exchange effect	4	4	4
Increase as reported in U.S. dollars	5%	6%	7%
<i>2012 compared to 2011</i>			

Gross and net premiums written and net premiums earned increased by 6%, 6% and 5% on a constant foreign exchange basis, respectively, in 2012 compared to 2011. The increases in gross and net premiums written resulted from the longevity line driven by new business written during the fourth quarter of 2011, which was partially offset by a decrease in the GMDB business in the mortality line.

2011 compared to 2010

Gross and net premiums written and net premiums earned increased by 1%, 2% and 3% on a constant foreign exchange basis, respectively, in 2011 compared to 2010. The increase in gross and net premiums written and net premiums earned was primarily due to new business written during 2010 in the longevity line, which is fully reflected in 2011, as well as new business and growth in the mortality line. These increases in gross and net premiums written and net premiums earned were partially offset by a decrease related to the restructuring of a longevity treaty.

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Allocated underwriting result

2012 compared to 2011

The allocated underwriting result increased by \$9 million, from \$39 million in 2011 to \$48 million in 2012. The increase was primarily due to an increased level of net favorable prior year loss development of \$13 million in the mortality line of business, as described below. To a lesser extent, the increase was due to improvements in the profitability of the longevity line of business driven by the new business written during the fourth quarter of 2011 and an increase in other income due to a higher volume of insurance-linked securities and treaties accounted for using deposit accounting, where the Company earns a margin. These increases were partially offset by an increase in claims activity on certain long-term treaties in the mortality line of business.

The increase in the net favorable prior year loss development of \$13 million reflects net favorable loss development of \$14 million in 2012 compared to net favorable loss development of \$1 million in 2011. The net favorable prior year loss development of \$14 million in 2012 was primarily due to the GMDB business, mainly driven by improvements in the capital markets, and due to certain short-term treaties in the mortality line of business. The net favorable prior year loss development of \$1 million in 2011 is described below.

2011 compared to 2010

The allocated underwriting result increased by \$19 million, from \$20 million in 2010 to \$39 million in 2011. The increase in the allocated underwriting result was due to a decrease of \$13 million in net adverse prior year loss development, increased profitability generated from new and existing business and a decrease in other operating expenses, which were partially offset by a decrease in net investment income.

The decrease in the net adverse prior year loss development of \$13 million in 2011, reflected \$1 million of net favorable prior year loss development in 2011 compared to \$12 million of net adverse prior year loss development in 2010. The modest net favorable prior year loss development of \$1 million in 2011 was the net result of favorable prior year loss development of \$11 million related to certain mortality treaties and the GMDB business, which was almost entirely offset by adverse prior year loss development related to disability riders on certain short-term non-proportional treaties in the mortality line. The net adverse prior year loss development of \$12 million in 2010 was primarily driven by adverse development of \$23 million due to an improvement in mortality trend related to an impaired life annuity treaty in the longevity line and adverse development on certain mortality treaties. This adverse development was partially offset by favorable prior year loss development of \$17 million resulting from the GMDB business.

Net investment income decreased by \$5 million, from \$71 million in 2010 to \$66 million in 2011 primarily due to a decrease in the funds held balance related to the restructuring of a longevity treaty and lower positive adjustments on funds held contracts reported by cedants.

2013 Outlook

The acquisition of Presidio, which will be reported in the Life segment from January 1, 2013, is expected to result in substantial overall premium growth in the Life segment in 2013 and beyond. Currently, Presidio principally operates as an MGU, writing all of its business on behalf of third party insurance companies and earning a fee for producing the business. The third party insurance companies then cede a portion of the original business written through quota-share reinsurance agreements to Presidio's reinsurance subsidiary, such that Presidio participates in the original premiums and losses incurred related to the business it has produced and ensuring an alignment of interests with the third party insurance companies. During 2013, the Company will obtain the necessary licenses and approvals to write this business directly itself and will transition these relationships from the third party insurance companies.

In terms of the Company's existing Life portfolio, the majority of the premium arises from in-force contracts that are written on a continuous basis. The active January 1 renewals impact a relatively limited portion of the in-force premium in the mortality line. For those treaties that actively renewed, pricing conditions and

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terms were generally unchanged from the January 1, 2012 renewals. The expected premium volume from the Company's January 1, 2013 renewal, at constant foreign exchange rates, increased due to new short-term mortality business. Management expects moderate continued growth in the Company's existing Life portfolio in 2013, assuming constant foreign exchange rates.

Premium Distribution by Line of Business

The distribution of net premiums written by line of business for the years ended December 31, 2012, 2011 and 2010 was as follows:

	2012	2011	2010
Non-life			
Property and casualty			
Casualty	13%	11%	11%
Motor	5	5	7
Multiline and other	3	2	2
Property	14	15	18
Specialty			
Agriculture	7	7	4
Aviation / Space	5	5	5
Catastrophe	10	13	14
Credit / Surety	7	7	6
Energy	2	2	2
Engineering	4	4	4
Marine	7	6	6
Specialty casualty	2	2	3
Specialty property	4	3	2
Life	17	18	16
Total	100%	100%	100%

The changes in the distribution of net premiums written by line of business between 2012, 2011 and 2010 reflected the Company's response to existing market conditions, with the comparison between 2011 and 2010 specifically affected by the repositioning of its portfolio following the integration of Paris Re and the reduction of catastrophe exposed business. The distribution of net premiums written may also be affected by the timing of renewals of treaties, a change in treaty structure, premium adjustments reported by cedants and significant increases or decreases in other lines of business. In addition, foreign exchange fluctuations affected the comparison for all lines.

Casualty: the increase in the distribution of net premiums written in 2012 compared to 2011 was driven primarily by new business written and higher upward prior year premium adjustments in the North America sub-segment.

Property: the decrease in the distribution of net premiums written between 2012, 2011 and 2010 was driven primarily by the effects of the Company's decisions to reduce certain exposures, lower pricing and the repositioning of its portfolio following the integration of Paris Re's business, which included reducing the level of catastrophe exposed business.

Agriculture: the increase in the distribution of net premiums written in 2012 and 2011 compared to 2010 was driven by increased demand, higher agricultural commodity prices and lower downward premium adjustments in the North America sub-segment.

Catastrophe: the decrease in the distribution of net premiums written in 2012 compared to 2011 was due to the Company reducing certain exposures by cancelling and decreasing treaty participations. The decrease in the distribution of net premiums written in 2011 compared to 2010 was driven by the

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repositioning of the Company's portfolio following the integration of Paris Re, which included reducing the level of catastrophe exposed business. Given the absolute decrease in Catastrophe net premiums written was 13%, the percentage distribution by line of business only decreased by 1% in 2011 compared to 2010 due to significant decreases in other lines of business.

2013 Outlook

Based on information received from cedants and brokers during the January 1, 2013 renewals, and assuming that similar trends and conditions to those experienced during the January 1, 2013 renewals continue through the year, Management expects the distribution of net premiums written by lines to be broadly comparable to 2012. The exceptions to this are expected to be an increase in the agriculture line of business due to new business and an increase in the Life segment due to the Presidio acquisition, and a modest decline in the Catastrophe sub-segment due to lower January 1, 2013 renewals and increases in other lines of business.

Premium Distribution by Reinsurance 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 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 reinsurance type for the years ended December 31, 2012, 2011 and 2010 was as follows:

	2012	2011	2010
Non-life segment			
Proportional	50%	47%	47%
Non-proportional	25	27	31
Facultative	8	9	7
Life segment ⁽¹⁾	17	17	15
Total	100%	100%	100%

(1) Substantially all of the Life segment's gross premiums written for the periods presented are written on a proportional basis.

The distribution of gross premiums written by reinsurance type is affected by changes in the allocation of capacity among lines of business, the timing of receipt by the Company of cedant accounts and premium adjustments by cedants. In addition, foreign exchange fluctuations affected the comparison for all treaty types.

The changes in the distribution of gross premiums written by reinsurance type between 2012 and 2011 primarily reflect a shift from non-proportional business to proportional business in the Non-life segment. This shift was driven by an increase in the casualty and property lines of business in the North America sub-segment and by a reduction in the business written in the Catastrophe sub-segment.

The changes in the distribution of gross premiums written by reinsurance type between 2011 and 2010 primarily reflect a shift from non-proportional business to facultative business in the Non-life segment and a shift in mix from the Non-life segment to the Life segment. The shift from non-proportional to facultative business was driven by a reduction in catastrophe exposed business, new business written and positive premium

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adjustments. The shift in the mix of business from the Non-life segment to the Life segment results from the decreases in gross premiums written following the cancellation and reduction of business and the repositioning of the Company's portfolio in certain lines of the Non-life segment compared to increases in gross premiums written in the Life segment.

2013 Outlook

Based on renewal information from cedants and brokers during the January 1, 2013 renewals, and assuming that similar trends and conditions to those experienced during the January 1, 2013 renewals continue through the year, Management expects the relative distribution of gross premiums written by reinsurance type to shift modestly from non-proportional business to proportional business. This expected shift in the distribution of gross premiums written reflects the expected increase in the agriculture line of business as described above, which is primarily written on a proportional basis, and a modest decline in the Catastrophe sub-segment's gross premiums written as described above, which is primarily written on a non-proportional basis.

Premium Distribution by Geographic Region

The following table provides the geographic distribution of gross premiums written based on the location of the underlying risk for the years ended December 31, 2012, 2011 and 2010:

	2012	2011	2010
Europe	41%	41%	43%
North America	37	36	36
Asia, Australia and New Zealand	11	12	10
Latin America, Caribbean and Africa	11	11	11
Total	100%	100%	100%

The distribution of gross premiums written in 2012 was comparable to 2011.

The decrease in the distribution of gross premiums written in Europe in 2011 compared to 2010 was primarily driven by the cancellation and reduction of business and the repositioning of the Company's portfolio following the integration of Paris Re. This decrease was partially offset by higher gross premiums written in the Company's Life segment and the impact of foreign exchange fluctuations, as premiums denominated in currencies that have appreciated against U.S. dollar were converted into U.S. dollar at higher average exchange rates.

2013 Outlook

Based on information received from cedants and brokers during the January 1, 2013 renewals, and assuming that similar trends and conditions to those experienced during the January 1, 2013 renewals continue through the year and based on constant foreign exchange rates, Management expects the distribution of gross premiums written by geographic region in 2013 to shift modestly from most geographic regions to North America as a result of the expected increases in gross premiums written in the agriculture line of business and the Life segment as described above.

Table of Contents**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 production source for the years ended December 31, 2012, 2011 and 2010 was as follows:

	2012	2011	2010
Broker	69%	72%	73%
Direct	31	28	27
Total	100%	100%	100%

The percentage of gross premiums written through brokers in 2012 decreased compared to 2011 due to a decrease in the business written through brokers, and an increase in the business written directly, in the Company's Global (Non-U.S.) P&C and Specialty sub-segments and a decrease related to certain treaties written through brokers in the Catastrophe sub-segment. The percentage of gross premiums written through brokers in 2011 was comparable to 2010.

2013 Outlook

Based on information received from cedants and brokers during the January 1, 2013 renewals, and assuming that similar trends and conditions to those experienced during the January 1, 2013 renewals continue through the year, Management expects the production source of gross premiums written in 2013 to be comparable to 2012.

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 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, 2012, 2011 and 2010 (in millions of U.S. dollars):

	2012	% Change	2011	% Change	2010
Fixed maturities	\$ 513	(9)%	\$ 562	(3)%	\$ 580
Short-term investments, cash and cash equivalents	3	(24)	4	(55)	8
Equities	26	32	20	(5)	21
Funds held and other	44	(11)	49	(6)	53
Funds held directly managed	29	(23)	38	(27)	52
Investment expenses	(44)	1	(44)	5	(41)
Net investment income	\$ 571	(9)	\$ 629	(6)	\$ 673

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.

2012 compared to 2011

Net investment income decreased in 2012 compared to 2011 primarily due to:

a decrease in net investment income from fixed maturities as a result of lower reinvestment rates;

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a decrease in net investment income from funds held directly managed primarily related to the lower average balance in the funds held directly managed account, which was driven by the release of assets due to the run-off of the underlying liabilities; and

the strengthening of the U.S. dollar, on average, in 2012 compared to 2011, which contributed a 1% decrease in net investment income; partially offset by

an increase in dividends received from equities in 2012.

2011 compared to 2010

Net investment income decreased in 2011 compared to 2010 primarily due to:

a decrease in net investment income from fixed maturities, short-term investments and cash and cash equivalents primarily due to lower reinvestment rates, which was partially offset by purchases of higher yielding investments and the reinvestment of cash flows from operations; and

a decrease in net investment income from funds held directly managed primarily related to the lower average balance in the funds held directly managed account, which was related to the release of assets following the Endorsement (see Funds Held Directly Managed below) to the quota share retrocessional agreement with Colisée Re in February 2011 and the run-off of the underlying liabilities. The assets released from the funds held directly managed account were reinvested in the Company's fixed maturity portfolio at lower reinvestment rates; partially offset by

the weakening of the U.S. dollar, on average, in 2011 compared to 2010 which contributed a 1% increase in net investment income.

2013 Outlook

Assuming constant foreign exchange rates, Management expects net investment income to decrease in 2013 compared to 2012 primarily due to lower reinvestment rates with low yields expected to continue throughout 2013. Management expects this decrease to be partially offset by expected positive cash flow from operations (including net investment income).

Net Realized and Unrealized Investment Gains

The Company's portfolio managers have dual investment objectives of optimizing current investment income and achieving capital appreciation. To meet these objectives, it is often desirable to buy and sell securities to take advantage of changing market conditions and to reposition the investment portfolios. Accordingly, recognition of realized gains and losses is considered by the Company to be a normal consequence of its ongoing investment management activities. In addition, the Company records changes in fair value for substantially all of its investments as unrealized investment gains or losses in its Consolidated Statements of Operations. Realized and unrealized investment gains and losses are generally a function of multiple factors, with the most significant being prevailing interest rates, credit spreads, and equity market conditions.

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The components of net realized and unrealized investment gains for the years ended December 31, 2012, 2011 and 2010 were as follows (in millions of U.S. dollars):

	2012	2011	2010
Net realized investment gains on fixed maturities and short-term investments	\$ 173	\$ 157	\$ 173
Net realized investment gains on equities	72	91	45
Net realized investment losses on other invested assets	(16)	(176)	(68)
Change in net unrealized investment (losses) gains on other invested assets	(9)	(46)	4
Change in net unrealized investment gains on fixed maturities and short-term investments	186	128	143
Change in net unrealized investment gains (losses) on equities	66	(102)	65
Net other realized and unrealized investment gains	6	4	13
Net realized and unrealized investment gains on funds held directly managed	16	11	27
Net realized and unrealized investment gains	\$ 494	\$ 67	\$ 402

2012 compared to 2011

Net realized and unrealized investment gains increased by \$427 million, from \$67 million in 2011 to \$494 million in 2012. The net realized and unrealized investment gains of \$494 million in 2012 were primarily due to narrowing credit spreads, improvements in worldwide equity markets and decreases in U.S. and European risk-free interest rates. Net realized and unrealized investment gains of \$494 million in 2012 primarily consisted of the change in net unrealized investment gains on fixed maturities, short-term investments and equities of \$252 million and net realized investment gains on fixed maturities, short-term investments and equities of \$245 million.

Net realized losses and the change in net unrealized investment losses on other invested assets were a combined loss of \$25 million in 2012 and primarily related to realized losses on treasury note futures. Net realized losses and the change in net unrealized investment losses on other invested assets were a combined loss of \$222 million in 2011 and are described below.

Net realized and unrealized investment gains on funds held directly managed of \$16 million and \$11 million in 2012 and 2011, respectively, primarily related to net realized gains and the change in net unrealized investment gains on fixed maturities in the segregated investment portfolio underlying the funds held directly managed account and were driven by decreases in risk-free interest rates.

2011 compared to 2010

Net realized and unrealized investment gains decreased by \$335 million, from \$402 million in 2010 to \$67 million in 2011. The net realized and unrealized investment gains of \$67 million in 2011 were primarily due to declining U.S. and European risk-free interest rates, which were partially offset by widening credit spreads, realized and unrealized losses on treasury note futures and losses on insurance-linked securities impacted by the Japan Earthquake. Net realized and unrealized investment gains of \$67 million in 2011 primarily consisted of net realized investment gains on fixed maturities and short-term investments and equities of \$248 million and the change in net unrealized investment gains on fixed maturities and short-term investments of \$128 million, which were partially offset by net realized investment losses on other invested assets (mainly related to treasury note futures) of \$176 million and the change in net unrealized investment losses on equities and other invested assets of \$148 million.

Net realized and the change in net unrealized investment losses on other invested assets were a combined loss of \$222 million in 2011 and primarily related to realized and unrealized losses on treasury note futures, net realized and unrealized losses on certain non-publicly traded investments, and a realized loss on insurance-linked derivative securities impacted by the Japan Earthquake. Net realized investment losses and the change in net

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unrealized investment gains on other invested assets were a combined loss of \$64 million in 2010 and primarily related to losses on treasury note futures, which were partially offset by unrealized gains on certain non-publicly traded investments and net realized and unrealized gains on total return swaps.

Net realized and unrealized investment gains on funds held directly managed of \$11 million and \$27 million in 2011 and 2010, respectively, primarily related to net realized and the change in net unrealized investment gains on fixed maturities and short-term investments in the segregated investment portfolio underlying the funds held directly managed account and were due to decreases in U.S. and European risk-free interest rates.

Other Operating Expenses

The Company's total other operating expenses for the years ended December 31, 2012, 2011 and 2010 were as follows (in millions of U.S. dollars):

	2012	% Change	2011	% Change	2010
Other operating expenses	\$ 411	(5)%	\$ 435	(19)%	\$ 540

Other operating expenses represent 9.2%, 9.4% and 11.3% of net premiums earned (both Non-life and Life) for the years ended December 31, 2012, 2011 and 2010, respectively. Other operating expenses included in Corporate and Other were \$102 million, \$99 million and \$166 million, of which \$88 million, \$83 million and \$151 million are related to corporate activities for the years ended December 31, 2012, 2011 and 2010, respectively.

2012 compared to 2011

Other operating expenses decreased by 5% in 2012 compared to 2011 primarily due to the impact of foreign exchange fluctuations which decreased other operating expenses by 3% due to the stronger U.S. dollar. To a lesser extent, the decrease was also due to decreases in information technology, banking-related and travel costs.

2011 compared to 2010

Other operating expenses decreased by 19% in 2011 compared to 2010. The decrease was primarily due to a charge of \$41 million in 2010 related to the Company's voluntary plan, lower personnel costs (including lower share-based compensation expenses) and lower costs related to Paris Re's operations following its integration into the Company's operations. These decreases in other operating expenses were partially offset by foreign exchange fluctuations, which increased other operating expenses by 5% due to the weakening of the U.S. dollar in 2011 compared to 2010.

Income Taxes

The Company's effective income tax rate, which we calculate as income tax expense or benefit divided by net income or loss before taxes, may fluctuate significantly from period to period depending on the geographic distribution of pre-tax net income or loss in any given period between different jurisdictions with comparatively higher tax rates and those with comparatively lower tax rates. The geographic distribution of pre-tax net income or loss can vary significantly between periods due to, but not limited to, the following factors: the business mix of net premiums written and earned; the geographic location, quantum and nature of net losses and loss expenses incurred; the quantum and geographic location of other operating expenses, net investment income, net realized and unrealized investment gains and losses; and the quantum of specific adjustments to determine the income tax basis in each of the Company's operating jurisdictions. In addition, a significant portion of the Company's gross and net premiums are currently written and earned in Bermuda, a non-taxable jurisdiction, including the majority of the Company's catastrophe business, which can result in significant volatility in the Company's pre-tax net income or loss from period to period.

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The Company's income tax expense and effective income tax rate for the years ended December 31, 2012, 2011 and 2010 were as follows (in millions of U.S. dollars):

	2012	2011	2010
Income tax expense	\$ 204	\$ 69	\$ 129
Effective income tax rate	15.3%	(15.3)%	13.1%

2012 compared to 2011

Income tax expense and the effective income tax rate during 2012 were \$204 million and 15.3%, respectively. Income tax expense and the effective income tax rate during 2012 were primarily driven by the geographic distribution of the Company's pre-tax net income between its various taxable and non-taxable jurisdictions. Specifically, the income tax expense and the effective income tax rate included a relatively even distribution of the Company's pre-tax net income between its various jurisdictions. The Company's pre-tax net income recorded in non-taxable jurisdictions and jurisdictions with comparatively lower tax rates reflects net favorable prior year loss development and net realized and unrealized investment gains, which were partially offset by catastrophe losses. The Company's pre-tax net income recorded in jurisdictions with comparatively higher tax rates was driven by net favorable prior year loss development and net realized and unrealized investment gains, which were partially offset by catastrophe losses.

Income tax expense and the effective income tax rate during 2011 were \$69 million and (15.3)%, respectively. Income tax expense and the effective income tax rate during 2011 were primarily driven by the geographic distribution of the Company's pre-tax net loss between its various taxable and non-taxable jurisdictions. Specifically, the income tax expense and the effective income tax rate included a significant portion of the Company's pre-tax net loss recorded in non-taxable jurisdictions and jurisdictions with comparatively lower tax rates with no associated tax benefit, which were driven by losses related to the 2011 catastrophic events. The Company's taxable jurisdictions recorded pre-tax net income and an income tax expense, which resulted from a relatively low level of catastrophe losses and realized and unrealized investment gains. The income tax expense recorded by the Company's taxable jurisdictions was partially offset by the recognition of a tax benefit during 2011 related to the expiration of the statute of limitations of uncertain tax positions following the completion of certain tax examinations.

2011 compared to 2010

Income tax expense and the effective income tax rate during 2011 were \$69 million and (15.3)%, respectively. Income tax expense and the effective income tax rate during 2011 were primarily driven by the geographic distribution of the Company's pre-tax net loss between its various taxable and non-taxable jurisdictions, as described above.

Income tax expense and the effective income tax rate during 2010 were \$129 million and 13.1%, respectively. Income tax expense and the effective income tax rate during 2010 were driven by the geographic distribution of the Company's pre-tax net income between its various taxable and non-taxable jurisdictions. Specifically, the income tax expense and the effective income tax rate during 2010, included a relatively even distribution of the Company's pre-tax net income between its various jurisdictions. The Company's taxable jurisdictions recorded significant realized and unrealized investment gains, which were partially offset by significant catastrophe losses related to the Chile Earthquake and the 2010 New Zealand Earthquake, losses related to Deepwater Horizon, and charges related to the Company's voluntary plan. The Company's non-taxable jurisdictions benefitted from comparatively lower levels of catastrophe losses and realized and unrealized investment gains.

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Financial Condition, Liquidity and Capital Resources

The Company purchased, as part of its acquisition of Paris Re, an investment portfolio and a funds held directly managed account. The discussion of the acquired Paris Re investment portfolio is included in the discussion of Investments below. The discussion of the segregated investment portfolio underlying the funds held directly managed account is included separately in Funds Held Directly Managed below.

Investments

Investment philosophy

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 (including funds held directly managed) represent invested assets supporting the net reinsurance liabilities, defined as the Company's operating and reinsurance liabilities net of reinsurance assets, and are invested primarily in high quality fixed maturity 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 (referred to as asset-liability matching) in terms of both duration and major currency composition to provide the Company with a natural hedge against changes in interest and foreign exchange rates. In addition, the Company utilizes certain derivatives to further protect against changes in interest and foreign exchange rates.

Capital funds represent shareholder capital of the Company 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 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 maturity securities, preferred and common stocks, private placement equity and bond investments, emerging markets and high-yield fixed income securities and certain other specialty asset classes. The Company believes that an allocation of a portion of its investments to equities is both prudent and desirable, as it helps to achieve broader asset diversification (lower risk) and maximizes the portfolio's total return over time. The Company's total invested assets at December 31, 2012 and 2011 were split between liability and capital funds as follows (in millions of U.S. dollars):

	2012	% of Total Invested Assets	2011	% of Total Invested Assets
Liability funds	\$ 10,723	59%	\$ 11,144	62%
Capital funds	7,453	41	6,923	38
Total	\$ 18,176	100%	\$ 18,067	100%

The liability funds were comprised of cash and cash equivalents and high quality fixed income securities. The decrease in the liability funds at December 31, 2012 compared to December 31, 2011 primarily reflects a decrease in unpaid losses and loss expenses which was largely driven by a significant level of loss payments related to the 2011 catastrophic events. The capital funds were generally comprised of accrued investment income, investment grade and below investment grade fixed maturity securities, preferred and common stocks, private placement equity and bond investments, emerging markets and high-yield fixed income securities and certain other specialty asset classes. At December 31, 2012, approximately 48% of the capital funds were invested in investment grade fixed income securities.

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The Company's investment strategy allows for the use of derivative instruments, subject to strict limitations. The Company utilizes various derivative instruments such as treasury note and equity futures contracts, credit default swaps, foreign currency option contracts, foreign exchange forward contracts, total return and interest rate swaps, insurance-linked securities and to-be-announced mortgage-backed securities (TBAs) for the purpose of managing and hedging currency risk, market exposure and portfolio duration, hedging certain investments, mitigating the risk associated with underwriting operations, or enhancing investment performance 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 Risk and Finance Committee of the Board.

Overview

Total investments and cash were \$17.1 billion at December 31, 2012 compared to \$16.6 billion at December 31, 2011. The major factors resulting in the increase during 2012 were:

net cash provided by operating activities of \$693 million; and

net realized and unrealized gains related to the investment portfolio of \$478 million primarily resulting from an increase in the fixed maturity and short-term investment portfolios of \$359 million (reflecting narrowing credit spreads and decreasing U.S. and European risk-free interest rates) and an increase in the equity portfolio of \$138 million, which were partially offset by a decrease in other invested assets of \$25 million (primarily driven by realized losses on treasury note futures – see discussion related to duration below); partially offset by

a net decrease of \$474 million, due to the repurchase of common shares of \$533 million under the Company's share repurchase program, partially offset by the issuance of common shares under the Company's employee equity plans of \$59 million;

dividend payments on common and preferred shares totaling \$218 million; and

various other factors which net to approximately \$14 million, the largest being the amortization of net premium on investments, which is partially offset by the effect of a weaker U.S. dollar at December 31, 2012 relative to most major currencies.

Trading securities

The following discussion relates to the composition of the Company's trading securities, the Company's other invested assets and the investments underlying the funds held – directly managed account are discussed separately below. Trading securities are carried at fair value with changes in fair value included in net realized and unrealized investment gains and losses in the Consolidated Statements of Operations.

At December 31, 2012, approximately 94% of the Company's fixed maturity and short-term investments, which includes fixed income type mutual funds, were publicly traded and approximately 92% were rated investment grade (BBB- or higher) by Standard & Poor's (or estimated equivalent).

The average credit quality, the average yield to maturity and the expected average duration of the Company's fixed maturities and short-term investments, which includes fixed income type mutual funds, at December 31, 2012 and 2011 were as follows:

	2012	2011
Average credit quality	A	AA
Average yield to maturity	2.0%	2.4%
Expected average duration	2.7 years	2.9 years

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The lower average credit quality at December 31, 2012 compared to December 31, 2011, reflects the impact of Standard & Poor's decision in January 2012 to downgrade nine European sovereign governments (the Eurozone downgrade) and also reflects a shift in asset allocation to corporate securities from non-U.S. sovereign government, supranational and government related securities (which are predominantly rated AAA and AA). While other ratings agencies did not take a similar rating action, it is the Company's policy to use Standard & Poor's ratings, when available, to rate its investments.

The decrease in the average yield to maturity on fixed maturities, short-term investments and cash and cash equivalents at December 31, 2012 compared to December 31, 2011, was primarily due to narrowing credit spreads and declining U.S. and European risk-free interest rates.

For the purposes of managing portfolio duration, the Company uses exchange traded treasury note futures. The use of treasury note futures reduced the expected average duration of the investment portfolio from 3.5 years to 2.7 years at December 31, 2012, and reflects the Company's decision to hedge against potential rises in risk-free interest rates.

The Company's investment portfolio generated a positive total accounting return (calculated based on the carrying value of all investments in local currency) of 6.5% for the year ended December 31, 2012, compared to 4.2% in 2011. The higher total accounting return in 2012 was mainly due to narrowing credit spreads, improvements in equity markets and modest declines in U.S. and European risk-free interest rates, while 2011 was primarily impacted by declines in U.S. and European risk-free interest rates, which were partially offset by widening credit spreads.

The cost, fair value and credit ratings of the Company's fixed maturities, short-term investments and equities classified as trading at December 31, 2012 and 2011 were as follows (in millions of U.S. dollars):

December 31, 2012	Cost ⁽¹⁾	Fair Value	Credit Rating ⁽²⁾				Below investment grade/ Unrated
			AAA	AA	A	BBB	
Fixed maturities							
U.S. government	\$ 1,092	\$ 1,113	\$	\$ 1,113	\$	\$	\$
U.S. government sponsored enterprises	17	18		18			
U.S. states, territories and municipalities	232	243	7			3	233
Non-U.S. sovereign government, supranational and government related	2,221	2,376	872	1,401	92	11	
Corporate	6,198	6,656	427	625	3,089	2,153	362
Asset-backed securities	701	723	153	117	80	13	360
Residential mortgage-backed securities	3,129	3,200	385	2,672	57		86
Other mortgage-backed securities	64	66	55		7	2	2
Total fixed maturities	13,654	14,395	1,899	5,946	3,325	2,182	1,043
Short-term investments	151	151	16	110	14	4	7
Total fixed maturities and short term investments	13,805	14,546	\$ 1,915	\$ 6,056	\$ 3,339	\$ 2,186	\$ 1,050
Equities	1,000	1,094					
Total	\$ 14,805	\$ 15,640					
% of Total fixed maturities and short-term investments			13%	42%	23%	15%	7%

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December 31, 2011	Cost ⁽¹⁾	Fair Value	Credit Rating ⁽²⁾				Below investment grade/ Unrated
			AAA	AA	A	BBB	
Fixed maturities							
U.S. government	\$ 1,060	\$ 1,090	\$	\$ 1,090	\$	\$	\$
U.S. government sponsored enterprises	25	26		26			
U.S. states, territories and municipalities	118	124	7		4	1	112
Non-U.S. sovereign government, supranational and government related	2,807	2,964	2,439	432	85	8	
Corporate	5,461	5,747	622	579	2,672	1,568	306
Asset-backed securities	626	634	189	40	115	3	287
Residential mortgage-backed securities	3,225	3,283	206	2,968	31		78
Other mortgage-backed securities	72	74	60		10	2	2
Total fixed maturities	13,394	13,942	3,523	5,135	2,917	1,582	785
Short-term investments	42	42	29	8	4	1	
Total fixed maturities and short term investments	13,436	13,984	\$ 3,552	\$ 5,143	\$ 2,921	\$ 1,583	\$ 785
Equities	918	945					
Total	\$ 14,354	\$ 14,929					
% of Total fixed maturities and short-term investments			25%	37%	21%	11%	6%

(1) Cost is amortized cost for fixed maturities and short-term investments and cost for equity securities.

(2) All references to credit rating reflect Standard & Poor's (or estimated equivalent). Investment grade reflects a rating of BBB- or above. The increase in the fair value of the Company's fixed maturities of \$0.5 billion from \$13.9 billion at December 31, 2011 to \$14.4 billion at December 31, 2012, primarily reflects an increase in the market value of the portfolio due to narrowing credit spreads and modest decreases in U.S. and European risk-free interest rates. At December 31, 2012, the Company's fixed maturities also reflect a reallocation to corporate securities from the non-U.S. sovereign government, supranational and government related category compared to December 31, 2011, which reflects the Company's decision to move into higher yielding investments.

The decrease in the Company's AAA rated securities, as a percentage of its total fixed maturities and short-term investments, from 25% at December 31, 2011 to 13% at December 31, 2012, and the corresponding increases in AA, A and BBB rated securities at December 31, 2012 compared to December 31, 2011, largely reflects the Eurozone downgrade and the reallocation to corporate securities during 2012, discussed above.

The U.S. government category includes U.S. treasuries which are not rated, however, they are generally considered to have a credit quality equivalent to or greater than AA+ corporate issues.

The U.S. government sponsored enterprises (GSEs) category includes securities that carry the implicit backing of the U.S. government and securities issued by U.S. government agencies (such as the Federal Home Loan Mortgage Corporation, or Freddie Mac as it is commonly known, and the Federal National Mortgage Association, or Fannie Mae as it is commonly known). At December 31, 2012, 68% of this category was rated AA with the remaining 32%, although not specifically rated, generally considered to have a credit quality equivalent to AA+ corporate issues.

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The U.S. states, territories and municipalities category includes obligations of U.S. states, territories, or counties.

The non-U.S. sovereign government, supranational and government related category includes obligations of non-U.S. sovereign governments, political subdivisions, agencies and supranational debt. The fair value and credit ratings of non-U.S. sovereign government, supranational and government related obligations at December 31, 2012 were as follows (in millions of U.S. dollars):

December 31, 2012	Non-U.S. Sovereign Government	Supranational Debt	Non-U.S. Government Related	Total Fair Value	Credit Rating ⁽¹⁾			
					AAA	AA	A	BBB
Non-European Union								
Canada	\$ 159	\$	\$ 368	\$ 527	\$ 200	\$ 247	\$ 80	\$
Singapore	120			120	120			
All Other	61		12	73		50	12	11
Total Non-European Union	\$ 340	\$	\$ 380	\$ 720	\$ 320	\$ 297	\$ 92	\$ 11
European Union								
France	\$ 543	\$	\$ 50	\$ 593	\$	\$ 593	\$	\$
Germany	370			370	370			
Belgium	267			267		267		
Austria	171			171		171		
Netherlands	140			140	140			
All Other	19	96		115	42	73		
Total European Union	\$ 1,510	\$ 96	\$ 50	\$ 1,656	\$ 552	\$ 1,104	\$	\$
Total	\$ 1,850	\$ 96	\$ 430	\$ 2,376	\$ 872	\$ 1,401	\$ 92	\$ 11
% of Total	78%	4%	18%	100%	37%	59%	4%	%

(1) All references to credit rating reflect Standard & Poor's (or estimated equivalent).

At December 31, 2012, the Company did not have any investments in securities issued by peripheral European Union (EU) sovereign governments (Portugal, Italy, Ireland, Greece and Spain).

Corporate bonds are comprised of obligations of U.S. and foreign corporations. The fair values of corporate bonds issued by U.S. and foreign corporations by economic sector at December 31, 2012 were as follows (in millions of U.S. dollars):

December 31, 2012	U.S.	Foreign	Total Fair Value	Percentage to Total Fair Value of Corporate Bonds
Sector				
Finance	\$ 1,069	\$ 385	\$ 1,454	22%
Consumer noncyclical	770	213	983	15
Communications	364	384	748	11
Utilities	421	265	686	10
Energy	209	279	488	7
Industrials	362	120	482	7
Consumer cyclical	350	58	408	6
Government guaranteed corporate debt		322	322	5
Insurance	256	38	294	4

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Basic materials	96	134	230	4
All Other	278	283	561	9
Total	\$ 4,175	\$ 2,481	\$ 6,656	100%
% of Total	63%	37%	100%	

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At December 31, 2012, other than the U.S., no other country accounted for more than 10% of the Company's corporate bonds.

At December 31, 2012, the ten largest issuers accounted for 15% of the corporate bonds held by the Company (6% of total investments and cash) and no single issuer accounted for more than 2% of total corporate bonds (1% of total investments and cash). Within the finance sector, 98% of corporate bonds were rated investment grade and 85% were rated A- or better at December 31, 2012.

At December 31, 2012, the fair value of the Company's corporate bond portfolio issued by companies in the European Union was as follows (in millions of U.S. dollars):

December 31, 2012	Government Guaranteed Corporate Debt	Finance Sector Corporate Bonds	Non-Finance Sector Corporate Bonds	Total Fair Value
European Union				
United Kingdom	\$ 10	\$ 83	\$ 439	\$ 532
Netherlands	163	19	195	377
France		14	144	158
Luxembourg			97	97
Spain		7	83	90
Italy		9	66	75
Germany	28	8	19	55
Austria	52		3	55
All Other		12	82	94
Total	\$ 253	\$ 152	\$ 1,128	\$ 1,533
% of Total	16%	10%	74%	100%

At December 31, 2012, the Company did not hold any government guaranteed corporate debt issued in peripheral EU countries (Portugal, Italy, Ireland, Greece and Spain) and held less than \$20 million in total finance sector corporate bonds issued by companies in those countries.

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Asset-backed securities, residential mortgaged-backed securities and other mortgaged-backed securities include U.S. and non-U.S. originations. The fair value and credit ratings of asset-backed securities, residential mortgaged-backed securities and other mortgaged-backed securities at December 31, 2012 were as follows (in millions of U.S. dollars):

December 31, 2012	Credit Rating ⁽¹⁾						Below investment grade/Unrated	Total Fair Value
	GNMA ⁽²⁾	GSEs ⁽³⁾	AAA	AA	A	BBB		
Asset-backed securities								
U.S.	\$	\$	\$ 68	\$ 94	\$ 54	\$ 13	\$ 360	\$ 589
Non-U.S.			85	23	26			134
Asset-backed securities	\$	\$	\$ 153	\$ 117	\$ 80	\$ 13	\$ 360	\$ 723
Residential mortgaged-backed securities								
U.S.	\$ 628	\$ 1,993	\$	\$	\$	\$	\$ 86	\$ 2,707
Non-U.S.			385	51	57			493
Residential mortgaged-backed securities	\$ 628	\$ 1,993	\$ 385	\$ 51	\$ 57	\$	\$ 86	\$ 3,200
Other mortgaged-backed securities								
U.S.	\$	\$	\$ 31	\$	\$ 7	\$ 2	\$ 2	\$ 42
Non-U.S.			24					24
Other mortgaged-backed securities	\$	\$	\$ 55	\$	\$ 7	\$ 2	\$ 2	\$ 66
Total	\$ 628	\$ 1,993	\$ 593	\$ 168	\$ 144	\$ 15	\$ 448	\$ 3,989
% of Total	16%	50%	15%	4%	4%	%	11%	100%

(1) All references to credit rating reflect Standard & Poor's (or estimated equivalent).

(2) GNMA represents the Government National Mortgage Association. The GNMA, or Ginnie Mae as it is commonly known, is a wholly owned U.S. government corporation within the Department of Housing and Urban Development which guarantees mortgage loans of qualifying first-time home buyers and low-income borrowers.

(3) GSEs, or government sponsored enterprises, includes securities that are issued by U.S. government agencies, such as Freddie Mac and Fannie Mae.

Residential mortgage-backed securities includes U.S. residential mortgage-backed securities, which generally have a low risk of default and carry the implicit backing of the U.S. government. The issuers of these securities are U.S. government agencies or GSEs, which set standards on the mortgages before accepting them into the program. Although these U.S. government backed securities do not carry a formal rating, they are generally considered to have a credit quality equivalent to or greater than AA+ corporate issues. They are considered prime mortgages and the major risk is uncertainty of the timing of prepayments. While there have been market concerns regarding sub-prime mortgages, the Company did not have direct exposure to these types of securities in its own portfolio at December 31, 2012, other than \$24 million of investments in distressed asset vehicles (included in Other invested assets). At December 31, 2012, the Company's U.S. residential mortgage-backed securities included approximately \$2 million (less than 1% of U.S. residential mortgage-backed securities) of collateralized mortgage obligations, where the Company deemed the entry point and price of the investment to be attractive.

Other mortgaged-backed securities includes U.S. and non-U.S. commercial mortgage-backed securities.

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Short-term investments consisted of foreign and U.S. government obligations and corporate bonds. At December 31, 2012, the fair value and credit ratings of short-term investments were as follows (in millions of U.S. dollars):

December 31, 2012 Country				Total Fair Value	Credit Rating ⁽¹⁾				Below investment grade/ Unrated
	U.S. Government	Non-U.S. Government	Corporate		AAA	AA	A	BBB	
U.S.	\$ 19	\$	\$ 5	\$ 24	\$	\$ 19	\$ 5	\$	\$
New Zealand		91		91		91			
All Other		24	12	36	16		9	4	7
Total	\$ 19	\$ 115	\$ 17	\$ 151	\$ 16	\$ 110	\$ 14	\$ 4	\$ 7
% of Total	13%	76%	11%	100%	10%	73%	9%	3%	5%

(1) All references to credit rating reflect Standard & Poor's (or estimated equivalent). Investment grade reflects a rating of BBB- or above. Equities are comprised of publicly traded common stocks, public exchange traded funds (ETFs), real estate investment trusts (REITs) and funds holding fixed income securities. The fair value of equities (including equities held in ETFs, REITs and funds holding fixed income securities) at December 31, 2012 were as follows (in millions of U.S. dollars):

December 31, 2012 Sector	Fair Value	Percentage to Total Fair Value of Equities
Consumer noncyclical	\$ 131	17%
Energy	118	15
Finance	100	13
Technology	79	10
Real estate investment trusts	67	9
Communications	66	8
Consumer cyclical	63	8
Industrials	59	8
All Other	99	12
Total	\$ 782	100%
Mutual funds and exchange traded funds		
Funds holding fixed income securities	278	
Funds and ETFs holding equities	34	
Total equities	\$ 1,094	

At December 31, 2012, U.S. issuers represented 73% of the publicly traded common stocks and ETFs. At December 31, 2012, the ten largest common stocks accounted for 19% of equities (excluding equities held in ETFs and funds holding fixed income securities) and no single common stock issuer accounted for more than 3% of total equities (excluding equities held in ETFs and funds holding fixed income securities) or more than 1% of the Company's total investments and cash. At December 31, 2012, approximately 97% (or \$270 million) of the funds holding fixed income securities were emerging markets funds. At December 31, 2012, the Company held less than \$2 million of equities (excluding equities held in EFTs and funds holding fixed income securities) issued by finance sector institutions based in certain peripheral EU countries (Spain and Italy).

Table of Contents*Maturity Distribution*

The distribution of fixed maturities and short-term investments at December 31, 2012, by contractual maturity date, 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.

December 31, 2012	Cost	Fair Value
One year or less	\$ 1,073	\$ 1,081
More than one year through five years	4,022	4,198
More than five years through ten years	4,000	4,337
More than ten years	816	941
Subtotal	9,911	10,557
Mortgage/asset-backed securities	3,894	3,989
Total	\$ 13,805	\$ 14,546

Other Invested Assets

The Company's other invested assets consisted primarily of investments in non-publicly traded companies, asset-backed securities, notes and loans receivable, annuities and residuals and other specialty asset classes. These assets, together with the Company's derivative financial instruments that were in a net unrealized gain or loss position are reported within Other invested assets in the Company's Consolidated Balance Sheets. The fair value and notional value (if applicable) of other invested assets at December 31, 2012 were as follows (in millions of U.S. dollars):

December 31, 2012	Carrying Value ⁽¹⁾	Notional Value of Derivatives
Strategic investments	\$ 203	\$ n/a
Asset-backed securities (including annuities and residuals)	94	n/a
Notes and loans receivable	34	n/a
Total return swaps	6	69
Interest rate swaps ⁽²⁾	(8)	n/a
Credit default swaps (protection purchased)	(1)	55
Credit default swaps (assumed risks)	1	18
Insurance-linked securities	(2)	136
Futures contracts	1	3,981
Foreign exchange forward contracts	(10)	2,171
Foreign currency option contracts	1	133
TBAs		156
Other	14	n/a
Total	\$ 333	

n/a: Not applicable

- (1) Included in Other invested assets are investments that are accounted for using the cost method of accounting, equity method of accounting or investment company accounting, and derivatives that are accounted for using fair value accounting.
- (2) The Company enters into interest rate swaps to mitigate notional exposures on certain total return swaps. Accordingly, the notional value of interest rate swaps is not presented separately in the table.

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At December 31, 2012, the Company's strategic investments included \$203 million of investments classified in Other invested assets. These strategic investments include investments in non-publicly traded companies, private placement equity and bond investments and other specialty asset classes, and the investments

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in distressed asset vehicles comprised of sub-prime mortgages, which were discussed above in the residential mortgaged-backed securities category of Investments Trading Securities. In addition to the Company's strategic investments that are classified in Other invested assets, strategic investments of \$30 million are recorded in equities and Other assets.

The Company's principal finance activities included \$131 million of investments classified in Other invested assets, which were comprised primarily of asset-backed securities, notes and loans receivable, annuities and residuals and private placement equity investments, which were partially offset by the combined fair value of total return, interest rate and certain credit default swaps related to principal finance activities.

For total return swaps within the principal finance portfolio, 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, credit spreads and the general level of interest rates. For interest rate swaps, the Company uses externally modeled quoted prices that use observable market inputs. At December 31, 2012, substantially all of the Company's principal finance total return and interest rate swap portfolio was related to tax advantaged real estate income with the remainder related to apparel and retail future flow income or intellectual property backed transactions, for which the underlying investments were rated investment grade. For credit default swaps within the principal finance portfolio, the Company uses externally modeled quoted prices that use observable market inputs to estimate the fair value.

The Company also utilizes credit default swaps to mitigate the risk associated with certain of its underwriting obligations, most notably in the credit/surety line, to replicate investment positions or to manage market exposures and to reduce the credit risk for specific fixed maturities in its investment portfolio. The counterparties to the Company's credit default swaps are all investment grade financial institutions rated A- or better by Standard & Poor's at December 31, 2012. The Company uses externally modeled quoted prices that use observable market inputs to estimate the fair value of these swaps.

The Company has entered into various weather derivatives and longevity total return swaps for which the underlying risks reference parametric weather risks and longevity risks, respectively. The Company uses internal valuation models to estimate the fair value of these derivatives and develops assumptions that require significant judgment, except for exchange traded weather derivatives. In determining the fair value of exchange traded weather derivatives, the Company uses quoted market prices.

The Company uses exchange traded treasury note futures for the purposes of managing portfolio duration. The Company also uses equity futures to replicate equity investment positions.

The Company utilizes foreign exchange forward contracts and foreign currency option contracts as part of its overall currency risk management and investment strategies.

The Company utilizes TBAs as part of its overall investment strategy and to enhance investment performance. TBAs represent commitments to purchase future issuances of U.S. government agency mortgage backed securities. For the period between purchase of a TBA and issuance of the underlying security, the Company's position is accounted for as a derivative. The Company's policy is to maintain designated cash balances at least equal to the amount of outstanding TBA purchases.

At December 31, 2012, the Company's other invested assets did not include any exposure to peripheral EU countries (Portugal, Italy, Ireland, Greece and Spain) and included direct exposure to mutual fund investments in other EU countries of less than \$4 million. The counterparties to the Company's credit default swaps, foreign exchange forward contracts and foreign currency option contracts include British, French, and German finance sector institutions rated A- or better by Standard & Poor's and the Company manages its exposure to individual institutions. The Company also has exposure to the euro related to the utilization of foreign exchange forward contracts and other derivative financial instruments in its hedging strategy (see Quantitative and Qualitative Disclosures About Market Risk Foreign Currency Risk in Item 7A of Part II of this report).

Table of Contents***Funds Held Directly Managed***

Following Paris Re's acquisition of substantially all of the reinsurance operations of Colisée Re in 2006, Paris Re and its subsidiaries entered into an issuance agreement and a quota share retrocession agreement to assume business written by Colisée Re from January 1, 2006 to September 30, 2007 as well as the in-force business as of December 31, 2005. The agreements provided that the premium related to the transferred business was retained by Colisée Re and credited to a funds held account. During the year ended December 31, 2011, the Company and Colisée Re entered into an endorsement to the quota share retrocession agreement (the Endorsement) which resulted in a release of assets of approximately \$358 million from the funds held directly managed account to PartnerRe Europe. During the year ended December 31, 2012, pursuant to the terms of the Reserve Agreement with Colisée Re, the Company settled the payable to Colisée Re of approximately \$265 million based on the estimated cumulative balance of net favorable prior year loss development related to the guaranteed reserves. The settlement was funded by the sale of assets underlying the funds held directly managed account. The assets underlying the funds held directly managed account are predominantly maintained by Colisée Re in a segregated investment portfolio which is directly managed by the Company. The composition of the investments underlying the funds held directly managed account at December 31, 2012 is discussed below. See the discussion in Counterparty Credit Risk in Item 7A of Part II of this report.

Substantially all of the investments in the segregated investment portfolio underlying the funds held directly managed account are carried at fair value. Realized and unrealized investment gains and losses and net investment income related to this account inure to the benefit of the Company. The Company elects the fair value option for all of the fixed maturities, short-term investments and certain other invested assets in the segregated investment portfolio underlying this account, and accordingly, all changes in fair value are recorded in net realized and unrealized investment gains and losses in the Consolidated Statements of Operations.

At December 31, 2012, approximately 97% of the fixed income investments underlying the funds held directly managed account were publicly traded and substantially all (more than 99%) were rated investment grade (BBB- or higher) by Standard & Poor's (or estimated equivalent).

The average credit quality, the average yield to maturity and the expected average duration of the fixed maturities and short-term investments underlying the funds held directly managed account at December 31, 2012 and 2011 were as follows:

	2012	2011
Average credit quality	AA	AA
Average yield to maturity	1.0 %	1.7 %
Expected average duration	3.0 years	2.7 years

The average credit quality of the fixed maturities underlying the funds held directly managed account at December 31, 2012 were comparable to December 31, 2011 and did not change following the Eurozone downgrade.

The decrease in the average yield to maturity on fixed maturities and cash and cash equivalents underlying the funds held directly managed account was primarily due to decreases in U.S. and European risk-free rates.

The increase in the expected average duration of fixed maturities and cash and cash equivalents underlying the funds held directly managed account was primarily due to a decrease in the level of cash and cash equivalents at December 31, 2012 compared December 31, 2011.

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The cost, fair value and credit rating of the investments underlying the funds held directly managed account at December 31, 2012 and 2011 were as follows (in millions of U.S. dollars):

December 31, 2012	Cost (1)	Fair Value	Credit Rating (2)			
			AAA	AA	A	BBB
Fixed maturities						
U.S. government	\$ 126	\$ 129	\$	\$ 129	\$	\$
U.S. government sponsored enterprises	85	90		90		
Non-U.S. sovereign government, supranational and government related	218	234	57	130	47	
Corporate	342	362	44	123	148	47
Total fixed maturities	771	815	\$ 101	\$ 472	\$ 195	\$ 47
Other invested assets	27	18				
Total	\$ 798	\$ 833				
% of Total fixed maturities			12%	58%	24%	6%

December 31, 2011	Cost (1)	Fair Value	Credit Rating (2)			
			AAA	AA	A	BBB
Fixed maturities						
U.S. government	\$ 106	\$ 111	\$	\$ 111	\$	\$
U.S. government sponsored enterprises	150	158		158		
Non-U.S. sovereign government, supranational and government related	261	275	133	85	57	
Corporate	470	480	84	162	188	46
Total fixed maturities	987	1,024	217	516	245	46
Short-term investments	18	18	11	7		
Total fixed maturities and short-term investments	1,005	1,042	\$ 228	\$ 523	\$ 245	\$ 46
Other invested assets	26	16				
Total	\$ 1,031	\$ 1,058				
% of Total fixed maturities and short-term investments			22%	50%	24%	4%

(1) Cost is amortized cost for fixed maturities and short-term investments.

(2) All references to credit rating reflect Standard & Poor's (or estimated equivalent).

The decrease in the fair value of the investment portfolio underlying the funds held directly managed account from \$1,058 million at December 31, 2011 to \$833 million at December 31, 2012 was primarily related to the sale of the assets to fund a payment of approximately \$265 million to Colisée Re reflecting the estimated cumulative balance of net favorable prior year loss development on the guaranteed reserves, as described above.

The decrease in AAA rated fixed maturities and short-term investments underlying the funds held directly managed account from 22% at December 31, 2011 to 12% at December 31, 2012, and the corresponding increase in AA rated securities from 50% at December 31, 2011 to 58% at December 31, 2012, largely reflects the Eurozone downgrade described above.

The U.S. government category includes U.S. treasuries which are not rated, however, they are generally considered to have a credit quality equivalent to or greater than AA+ corporate issues.

The U.S. government sponsored enterprises (GSEs) category includes securities that carry the implicit backing of the U.S. government and securities issued by U.S. government agencies (such as Freddie Mac and Fannie Mae). At December 31, 2012, 83% of this category was rated AA with the remaining 17%, although not specifically rated, generally considered to have a credit quality equivalent to AA+ corporate issues.

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The non-U.S. sovereign government, supranational and government related category includes obligations of non-U.S. sovereign governments, political subdivisions, agencies and supranational debt. The fair value and credit ratings of non-U.S. sovereign government, supranational and government related obligations underlying the funds held directly managed account at December 31, 2012 were as follows (in millions of U.S. dollars):

December 31, 2012	Non-U.S. Sovereign Government	Supranational Debt	Non-U.S. Government Related	Total Fair Value	Credit Rating ⁽¹⁾		
					AAA	AA	A
Non-European Union							
Canada	\$	\$	\$ 143	\$ 143	\$ 27	\$ 69	47
All Other		4		4	4		
Total Non-European Union	\$	\$ 4	\$ 143	\$ 147	\$ 31	\$ 69	\$ 47
European Union							
France	\$ 15	\$	\$ 30	\$ 45	\$	\$ 45	\$
Belgium	6			6		6	
Austria			5	5		5	
All Other	3	28		31	26	5	
Total European Union	\$ 24	\$ 28	\$ 35	\$ 87	\$ 26	\$ 61	\$
Total	\$ 24	\$ 32	\$ 178	\$ 234	\$ 57	\$ 130	\$ 47
% of Total	9%	14%	76%	100%	24%	56%	20%

(1) All references to credit rating reflect Standard & Poor's (or estimated equivalent).

At December 31, 2012, the investments underlying the funds held directly managed account included less than \$1 million of securities issued by peripheral European Union (EU) sovereign governments (Portugal, Italy, Ireland, Greece and Spain).

Corporate bonds underlying the funds held directly managed account are comprised of obligations of U.S. and foreign corporations. The fair value of corporate bonds issued by U.S. and foreign corporations underlying funds held directly managed account by economic sector at December 31, 2012 were as follows (in millions of U.S. dollars):

December 31, 2012	U.S.	Foreign	Total Fair Value	Percentage to Total
				Fair Value of Corporate Bonds
Sector				
Finance	\$ 30	\$ 108	\$ 138	38%
Consumer noncyclical	51	10	61	17
Energy	6	44	50	14
Utilities	6	22	28	8
Basic materials	11	9	20	5
Communications	5	12	17	5
Government guaranteed corporate debt		14	14	4
Consumer cyclical	8	3	11	3
All Other	19	4	23	6
Total	\$ 136	\$ 226	\$ 362	100%
% of Total	38%	62%	100%	

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At December 31, 2012, other than the U.S. and France, which accounted for 38% and 17%, respectively, no other country accounted for more than 10% of the Company's corporate bonds underlying the funds held directly managed account.

At December 31, 2012, the ten largest issuers accounted for 27% of the corporate bonds underlying the funds held directly managed account and no single issuer accounted for more than 4% of corporate bonds underlying the funds held directly managed account (or more than 2% of the investments and cash underlying the funds held directly managed account). At December 31, 2012, all of the finance sector corporate bonds held were rated investment grade (BBB- or higher) by Standard & Poor's (or estimated equivalent) and 98% were rated A- or better.

At December 31, 2012, the fair value of corporate bonds underlying the funds held directly managed account that were issued by companies in the European Union were as follows (in millions of U.S. dollars):

	Government Guaranteed Corporate Debt	Finance Sector Corporate Bonds	Non-Finance Sector Corporate Bonds	Total Fair Value
December 31, 2012				
European Union				
France	\$	\$ 30	\$ 30	\$ 60
United Kingdom	3	17	12	32
Netherlands		12	19	31
Germany	10		2	12
Sweden	1	5	5	11
All Other		10	16	26
Total	\$ 14	\$ 74	\$ 84	\$ 172
% of Total	8%	43%	49%	100%

At December 31, 2012, corporate bonds underlying the funds held directly managed account included less than \$11 million in total of finance sector corporate bonds issued by companies in peripheral EU countries (Portugal, Italy, Ireland, Greece and Spain).

Other invested assets underlying the funds held directly managed account consist primarily of real estate fund investments.

Maturity Distribution

The distribution of fixed maturities underlying the funds held directly managed account at December 31, 2012, by contractual maturity date, 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.

December 31, 2012	Cost	Fair Value
One year or less	\$ 132	\$ 133
More than one year through five years	492	515
More than five years through ten years	124	141
More than ten years	23	26
Total	\$ 771	\$ 815

European Exposures

As discussed in Item I of Part I of this report, the Company conducts its operations in various countries and in a variety of non-U.S. denominated currencies. A significant portion of the Company's reinsurance business is conducted with cedants in Europe, with the collection of premiums and the payment of claims denominated in

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the euro. As described above, the currency composition of the Company's liability funds generally matches the underlying net reinsurance liabilities to protect against changes in foreign exchange rates. Accordingly, the Company's liability funds that are held to match net reinsurance liabilities that are denominated in the euro, expose the Company's investment portfolio and the investments underlying the funds held directly managed account to bonds that are denominated in the euro that are issued by European sovereign governments and government agencies, corporate bonds that are issued by companies in Europe (including those that are also guaranteed by a European sovereign government) and equities issued by companies in Europe.

As a result of the uncertainties related to European sovereign government debt exposures, and uncertainties surrounding Europe in general, the Company implemented additional risk management guidelines to reduce and mitigate potential risks arising from these exposures in its investment portfolio and in the investments underlying the funds held directly managed account. These guidelines reflect the Company's response to current conditions and the guidelines may change as the dynamics of the underlying conditions and uncertainties change. The Company's current guidelines include, but are not limited to, the following:

Since the beginning of 2010 the Company has eliminated substantially all of its investment exposure to bonds issued by European sovereign governments in the peripheral countries (Portugal, Italy, Ireland, Greece and Spain); and

During the second half of 2011, the Company focused its European sovereign government exposure to five highly-rated countries. These five countries, Germany, France, Netherlands, Belgium, and Austria are rated AAA, AA+, AAA, AA and AA+ by Standard & Poor's.

The Company's exposures to European sovereign governments and other European related investment risks are discussed above within each category of the Company's investment portfolio and the investments underlying the funds held directly managed account. In addition, the Company's other investment and derivative exposures to European counterparties are discussed in Other Invested Assets above. See Risk Factors in Item IA of Part I of this report for further discussion on the Company's exposure to the European sovereign debt crisis.

Funds Held by Reinsured Companies (Cedants)

In addition to the funds held directly managed account described above, the Company writes certain business on a funds held basis. The following discussion excludes the funds held directly managed account. 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.

At December 31, 2012 and 2011, the Company recorded \$805 million and \$796 million, respectively, of funds held assets in its Consolidated Balance Sheets. At December 31, 2012, the five largest cedants represented 62% of the funds held balance. Approximately 77% of the funds held balance at December 31, 2012 related to contracts that 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 ranged from 2.0% to 5.0% for the year ended December 31, 2012. Under these contractual arrangements, there are no specific assets linked to the funds held assets, and the Company is only exposed to the credit risk of the cedant. These arrangements include three of the five cedants with the largest funds held assets, which represented 44% of the Company's total funds held balance.

With respect to the remaining 23% of the funds held balance at December 31, 2012, 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. This portion of the Company's funds held assets at December 31, 2012 included two of the five cedants with the largest funds held assets, which represented 19% of the Company's total funds held balance. 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

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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 Company's credit risk in some jurisdictions is mitigated by a mandatory right of offset of amounts payable by the Company to a cedant against amounts due to the Company. In certain other jurisdictions the Company is able to mitigate this risk, depending on the nature of the funds held arrangements, to the extent that the Company 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. 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.

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, 2012.

The Non-life reserves for unpaid losses and loss expenses at December 31, 2012 and 2011 include reserves guaranteed by Colisée Re (see Business Reserves in Item 1 of Part I and Note 8 to Consolidated Financial Statements included in Item 8 of Part II of this report for a discussion of the Reserve Agreement). At December 31, 2012 and 2011, the Company recorded gross and net Non-life reserves for unpaid losses and loss expenses as follows (in millions of U.S. dollars):

	2012	2011
Gross Non-life reserves for unpaid losses and loss expenses	\$ 10,709	\$ 11,273
Net Non-life reserves for unpaid losses and loss expenses	10,418	10,920
Net reserves guaranteed by Colisée Re	857	1,012

See Business Reserves Non-life Reserves in Item 1 of Part I of this report for a reconciliation of the net Non-life reserves for unpaid losses and loss expenses for the years ended December 31, 2012, 2011 and 2010 and a discussion of the impact of foreign exchange on unpaid losses and loss expenses.

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.

Table of Contents**Policy Benefits for Life and Annuity Contracts**

At December 31, 2012 and 2011, the Company recorded gross and net policy benefits for life and annuity contracts as follows (in millions of U.S. dollars):

	2012	2011
Gross policy benefits for life and annuity contracts	\$ 1,813	\$ 1,646
Net policy benefits for life and annuity contracts	1,793	1,636

See Business Reserves in Item 1 of Part I of this report for a reconciliation of the net policy benefits for life and annuity contracts for the years ended December 31, 2012, 2011 and 2010.

See Critical Accounting Policies and Estimates Losses and Loss Expenses and Life Policy Benefits and Results by Segment above for a discussion of life policy benefits.

Reinsurance Recoverable on Paid and Unpaid Losses

The Company has exposure to credit risk related to reinsurance recoverable on paid and unpaid losses. See Note 9 to Consolidated Financial Statements in Item 8 of Part II of this report and Quantitative and Qualitative Disclosures about Market Risk Counterparty Credit Risk in Item 7A of Part II of this report for a discussion of the Company's risk related to reinsurance recoverable on paid and unpaid losses and the Company's process to evaluate the financial condition of its reinsurers.

At December 31, 2012 and 2011, the Company recorded \$312 million and \$363 million, respectively, of reinsurance recoverable on paid and unpaid losses in its Consolidated Balance Sheets. At December 31, 2012, the distribution of the Company's reinsurance recoverable on paid and unpaid losses categorized by the reinsurer's Standard & Poor's rating was as follows:

Rating Category	% of total reinsurance recoverable on paid and unpaid losses
AA or better	14%
A	70
Less than A/Unrated/Other	16
Total	100%

At December 31, 2012, 84% of the Company's reinsurance recoverable on paid and unpaid losses were due from reinsurers with A- or better rating from Standard & Poor's.

Table of Contents**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, 2012 were as follows (in millions of U.S. dollars):

	Total	< 1 year	1-3 years	3-5 years	> 5 years
Contractual obligations:					
Operating leases	128.5	30.0	48.3	42.6	7.6
Other operating agreements	11.4	9.6	1.8		
Other invested assets ⁽¹⁾	152.2	51.4	55.8	28.4	16.6
Unpaid losses and loss expenses ⁽²⁾	10,709.4	3,191.5	3,075.4	1,427.8	3,014.7
Policy benefits for life and annuity contracts ⁽³⁾	2,844.1	388.0	286.9	227.4	1,941.8
Deposit liabilities ⁽³⁾	336.5	22.7	42.3	40.9	230.6
Employment agreements ⁽⁴⁾	7.2	4.3	2.7	0.2	
Other long-term liabilities:					
Senior Notes-principal ⁽⁵⁾	750				750
Senior Notes-interest	n/a	44.7	89.4	89.4	44.7 per annum
Capital Efficient Notes principal ⁽⁶⁾	63.4				63.4
Capital Efficient Notes interest	n/a	4.1	8.2	8.2	4.1 per annum
Series C cumulative preferred shares					
principal ⁽⁷⁾	290				290
Series C cumulative preferred shares dividends	n/a	19.6	39.2	39.2	19.6 per annum
Series D cumulative preferred shares					
principal ⁽⁷⁾	230				230
Series D cumulative preferred shares dividends	n/a	15.0	29.9	29.9	15.0 per annum
Series E cumulative preferred shares					
principal ⁽⁷⁾	374				374
Series E cumulative preferred shares dividends	n/a	27.1	54.2	54.2	27.1 per annum

n/a: Not applicable

- (1) The amounts above for other invested assets represent the Company's expected timing of funding capital commitments related to its strategic investments.
- (2) 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 at December 31, 2012, 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.
- (3) Policy benefits for life and annuity contracts and deposit liabilities recorded in the Company's Consolidated Balance Sheet at December 31, 2012 of \$1,813 million and \$252 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.
- (4) In 2010, as part of the Company's integration of Paris Re, the Company announced a voluntary termination plan (voluntary plan) available to certain eligible employees in France. Following their departure from the Company, employees participating in the voluntary plan will continue to receive pre-determined payments related to employment benefits, which were accrued for by the Company under the terms of the voluntary plan during the year ended December 31, 2010. The amounts in the table above reflect the Company's remaining obligations to the eligible employees under the voluntary plan that will be paid through 2018.

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- (5) *PartnerRe Finance A LLC and PartnerRe Finance B LLC, the issuers of the Senior Notes, do not meet consolidation requirements under U.S. GAAP. Accordingly, the Company shows the related intercompany debt of \$750 million in its Consolidated Balance Sheets at December 31, 2012 and 2011.*
- (6) *PartnerRe Finance II Inc., the issuer of the CENts, does not meet consolidation requirements under U.S. GAAP. Accordingly, the Company shows the related intercompany debt of \$71 million in its Consolidated Balance Sheets at December 31, 2012 and 2011.*
- (7) *The Company's Series C, Series D, and Series E preferred shares are cumulative, perpetual and have no mandatory redemption requirement, but may be redeemed at our option under certain circumstances. On February 14, 2013, the Company announced that it expects to redeem the Series C preferred shares for the aggregate redemption value of \$290 million plus accrued dividends on March 18, 2013. See Shareholders' Equity and Capital Resources Management - Shareholders' Equity below and Note 11 to Consolidated Financial Statements in Item 8 of Part II of this report for further information.*

The Contractual Obligations and Commitments table above does not include an estimate of the period of cash settlement of its tax liabilities with the respective taxing authorities given the Company cannot make a reasonably reliable estimate of the timing of cash settlements.

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.

During 2012, the Company committed to a \$100 million participation in a 10 year structured letter of credit facility issued by a high credit quality international bank, which has a final maturity of December 29, 2020. At December 31, 2012, the letter of credit facility has not been drawn down and it can only be drawn down in the event of certain specific scenarios, which the Company considers remote. Unless cancelled by the bank, the credit facility automatically extends for one year, each year until maturity.

On February 14, 2013, the Company issued 10,000,000 of 5.875% Series F non-cumulative redeemable preferred shares (Series F preferred shares) for a total consideration of \$242.3 million after underwriting discounts, commissions and other related expenses. The Company will have a non-cumulative dividend commitment of \$14.7 million per annum and an aggregate redemption value of \$250 million. See Shareholders' Equity and Capital Resources Management - Shareholders' Equity below for more details related to the Series F preferred shares.

Shareholders' Equity and Capital Resources Management

Shareholders' equity was \$6.9 billion at December 31, 2012, a 7% increase compared to \$6.5 billion at December 31, 2011. The major factors contributing to the increase in shareholders' equity during the year ended December 31, 2012 were:

comprehensive income of \$1,158 million, of which net income contributed \$1,135 million; partially offset by

a net decrease of \$474 million, due to the repurchase of common shares of \$533 million under the Company's share repurchase program, partially offset by the issuance of common shares under the Company's employee equity plans of \$59 million; and

dividend payments of \$218 million related to both the Company's common and preferred shares.

See Results of Operations and Review of Net Income (Loss) above for a discussion of the Company's net income for the year ended December 31, 2012.

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

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the volume of attractive business opportunities available. Conversely, the Company will seek to reduce its capital, through the payment of dividends on its common shares or stock repurchases, when available business opportunities are insufficient or unattractive to fully utilize the Company's capital at adequate returns. The Company may also seek to reduce or restructure its capital through the repayment or purchase of debt obligations, or increase or restructure its capital through the issuance of debt, when opportunities arise.

Management uses compound annual growth rate in Diluted Book Value per Share as a 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 share price. Diluted Book Value per Share is impacted by the Company's net income or loss, capital resources management and external factors such as foreign exchange, interest rates, credit spreads and equity markets, which can drive changes in realized and unrealized gains or losses on the Company's investment portfolio. Diluted book value per common share and common share equivalents outstanding is calculated using common shareholders' equity (shareholders' equity less the aggregate liquidation value of preferred shares) divided by the number of fully diluted common shares and common share equivalents outstanding (assuming exercise of all stock-based awards and other dilutive securities). The Company's Diluted Book Value per Share increased by 19% to \$100.84 at December 31, 2012 from \$84.82 at December 31, 2011, due to the same factors describing the increase in shareholders' equity above and the accretive impact of the share repurchases. The 5-year and 10-year compound annual growth rates in Diluted Book Value per Share were in excess of 8% and 11%, respectively, and are further discussed in Key Financial Measures.

The table below sets forth the capital structure of the Company at December 31, 2012 and 2011 (in millions of U.S. dollars):

	2012		2011	
Capital Structure:				
Senior notes ⁽¹⁾	\$ 750	10%	\$ 750	10%
Capital efficient notes ⁽²⁾	63	1	63	1
Preferred shares, aggregate liquidation value	894	11	894	12
Common shareholders' equity	6,040	78	5,574	77
Total Capital	\$ 7,747	100%	\$ 7,281	100%

(1) *PartnerRe Finance A LLC and PartnerRe Finance B LLC, the issuers of the Senior Notes, do not meet consolidation requirements under U.S. GAAP. Accordingly, the Company shows the related intercompany debt of \$750 million in its Consolidated Balance Sheets at December 31, 2012 and 2011.*

(2) *PartnerRe Finance II Inc., the issuer of the CENts, does not meet consolidation requirements under U.S. GAAP. Accordingly, the Company shows the related intercompany debt of \$71 million in its Consolidated Balance Sheets at December 31, 2012 and 2011.*

The increase in total capital during the year ended December 31, 2012 was related to the same factors describing the increase in shareholders' equity above.

See below for discussion related to the issuance of the Series F preferred shares in February 2013 and the redemption of the Series C preferred shares, which is expected to occur in March 2013.

Indebtedness*Senior Notes*

In March 2010, PartnerRe Finance B LLC (PartnerRe Finance B), an indirect 100% owned subsidiary of the parent company, issued \$500 million aggregate principal amount of 5.500% Senior Notes (2010 Senior Notes, or collectively with the 2008 Senior Notes defined below referred to as Senior Notes). The 2010 Senior Notes will mature on June 1, 2020 and may be redeemed at the option of the issuer, in whole or in part, at any time. Interest

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on the 2010 Senior Notes is payable semi-annually and commenced on June 1, 2010 at an annual fixed rate of 5.500%, and cannot be deferred.

The 2010 Senior Notes are ranked as senior unsecured obligations of PartnerRe Finance B. The parent company has fully and unconditionally guaranteed all obligations of PartnerRe Finance B under the 2010 Senior Notes. The parent company's obligations under this guarantee are senior and unsecured and rank equally with all other senior unsecured indebtedness of the parent company.

Contemporaneously, PartnerRe U.S. Holdings, a wholly-owned subsidiary of the parent company, issued a 5.500% promissory note, with a principal amount of \$500 million to PartnerRe Finance B. Under the terms of the promissory note, PartnerRe U.S. Holdings promises to pay to PartnerRe Finance B the principal amount on June 1, 2020, unless previously paid. Interest on the promissory note commenced on June 1, 2010 and is payable semi-annually at an annual fixed rate of 5.500%, and cannot be deferred.

For the years ended December 31, 2012, 2011 and 2010, the Company incurred interest expense of \$27.5 million, \$27.5 million and \$21.8 million, respectively, and paid interest of \$27.5 million, \$27.5 million and \$19.6 million, respectively, in relation to the 2010 Senior Notes issued by PartnerRe Finance B.

In May 2008, PartnerRe Finance A LLC (PartnerRe Finance A), an indirect 100% owned subsidiary of the parent company, issued \$250 million aggregate principal amount of 6.875% Senior Notes (2008 Senior Notes, or collectively with 2010 Senior Notes referred to as Senior Notes). The 2008 Senior Notes will mature on June 1, 2018 and may be redeemed at the option of the issuer, in whole or in part, at any time. Interest on the 2008 Senior Notes is payable semi-annually and commenced on December 1, 2008 at an annual fixed rate of 6.875%, and cannot be deferred.

The 2008 Senior Notes are ranked as senior unsecured obligations of PartnerRe Finance A. The parent company has fully and unconditionally guaranteed all obligations of PartnerRe Finance A under the 2008 Senior Notes. The parent company's obligations under this guarantee are senior and unsecured and rank equally with all other senior unsecured indebtedness of the parent company.

Contemporaneously, PartnerRe U.S. Holdings issued a 6.875% promissory note, with a principal amount of \$250 million to PartnerRe Finance A. Under the terms of the promissory note, PartnerRe U.S. Holdings promises to pay to PartnerRe Finance A the principal amount on June 1, 2018, unless previously paid. Interest on the promissory note is payable semi-annually and commenced on December 1, 2008 at an annual fixed rate of 6.875%, and cannot be deferred.

For each of the years ended December 31, 2012, 2011 and 2010, the Company incurred interest expense of \$17.2 million, and paid interest of \$17.2 million, in relation to the 2008 Senior Notes issued by PartnerRe Finance A.

Capital Efficient Notes (CENts)

In November 2006, PartnerRe Finance II Inc. (PartnerRe Finance II), an indirect 100% owned subsidiary of the parent company, issued \$250 million aggregate principal amount of 6.440% Fixed-to-Floating Rate Junior Subordinated CENts. The CENts will mature on December 1, 2066 and may be redeemed at the option of the issuer, in whole or in part, after December 1, 2016 or earlier upon occurrence of specific rating agency or tax events. Interest on the CENts is payable semi-annually and commenced on June 1, 2007 through to December 1, 2016 at an annual fixed rate of 6.440% and will be payable quarterly thereafter until maturity at an annual rate of 3-month LIBOR plus a margin equal to 2.325%.

PartnerRe Finance II may elect to defer one or more interest payments for up to ten years, although interest will continue to accrue and compound at the rate of interest applicable to the CENts. The CENts are ranked as

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junior subordinated unsecured obligations of PartnerRe Finance II. The parent company has fully and unconditionally guaranteed on a subordinated basis all obligations of PartnerRe Finance II under the CENts. The parent company's obligations under this guarantee are unsecured and rank junior in priority of payments to the parent company's Senior Notes.

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

On March 13, 2009, PartnerRe Finance II, under the terms of a tender offer, paid holders \$500 per \$1,000 principal amount of CENts tendered, and purchased approximately 75% of the issue, or \$186.6 million, for \$93.3 million. Contemporaneously, under the terms of a cross receipt agreement, PartnerRe U.S. Holdings paid PartnerRe Finance II consideration of \$93.3 million for the extinguishment of \$186.6 million of the principal amount of PartnerRe U.S. Holdings' 6.440% Fixed-to-Floating Rate promissory note due December 1, 2066. All other terms and conditions of the remaining CENts and promissory note remain unchanged. A pre-tax gain of \$88.4 million, net of deferred issuance costs and fees, was realized on the foregoing transactions during the year ended December 31, 2009. At December 31, 2012 and 2011, the aggregate principal amount of the CENts and promissory note outstanding was \$63.4 million and \$71.0 million, respectively.

For each of the years ended December 31, 2012, 2011 and 2010, the Company incurred interest expense of \$4.6 million, and paid interest of \$4.6 million.

The Company did not enter into any short-term borrowing arrangements during the years ended December 31, 2012 and 2011.

Shareholders' Equity

Share Repurchases

During 2012, the Company repurchased, under its authorized share repurchase program, 7.1 million of its common shares at a total cost of \$532.9 million, representing an average cost of \$75.00 per share. At December 31, 2012, the Company had approximately 3.2 million common shares remaining under its current share repurchase authorization and approximately 26.6 million common shares were held in treasury and are available for reissuance.

Subsequently, during the period from January 1, 2013 to February 22, 2013, the Company repurchased 0.8 million common shares at a total cost of \$70 million, representing an average cost of \$85.50 per share. Following these repurchases, the Company had approximately 2.3 million common shares remaining under its current share repurchase authorization and approximately 27.4 million common shares are held in treasury and are available for reissuance.

During 2011, the Company repurchased, under its authorized share repurchase program, 5.4 million of its common shares at a total cost of \$396.2 million, representing an average cost of \$73.41 per share.

During 2010, the Company repurchased, under its authorized share repurchase program, 14.0 million of its common shares at a total cost of \$1,082.6 million, representing an average cost of \$77.10 per share.

Table of Contents*Cumulative Redeemable Preferred Shares*

At December 31, 2012, the Company has issued and outstanding Series C, Series D and Series E cumulative redeemable preferred shares (Series C, D and E preferred shares) as follows (in millions of U.S. dollars or shares except percentage amounts):

	Series C	Series D	Series E
Date of issuance	May 2003	November 2004	June 2011
Number of preferred shares issued	11.6	9.2	15.0
Annual dividend rate	6.75%	6.5%	7.25%
Total consideration	\$ 280.9	\$ 222.3	\$ 361.7
Underwriting discounts and commissions	\$ 9.1	\$ 7.7	\$ 12.1
Aggregate liquidation value	\$ 290.0	\$ 230.0	\$ 373.8

The Company may redeem each of the Series C, D and E preferred shares at \$25.00 per share plus accrued and unpaid dividends without interest as follows: (i) each of the Series C and D preferred shares can be redeemed at our option at any time or in part from time to time, and (ii) the Series E preferred shares can be redeemed at our option on or after June 1, 2016 or at any time upon certain changes in tax law. Dividends on each of the Series C, D and E preferred shares are cumulative from the date of issuance and are payable quarterly in arrears.

In the event of liquidation of the Company, each series of outstanding preferred shares ranks on parity with each other series of preference shares and would rank senior to the common shares, and holders thereof would receive a distribution of \$25.00 per share, or the aggregate liquidation value for each of the Series C, D and E preferred shares, respectively, plus accrued and unpaid dividends, if any.

On February 14, 2013, the Company announced that it expects to redeem the Series C preferred shares for the aggregate redemption value of \$290 million plus accrued dividends on March 18, 2013.

Non-cumulative Redeemable Preferred Shares

On February 14, 2013, the Company issued Series F non-cumulative redeemable preferred shares (Series F preferred shares) as follows (in millions of U.S. dollars or shares, except percentage amounts):

	Series F
Date of issuance	February 2013
Number of preferred shares issued	10.0
Annual dividend rate	5.875%
Total consideration	\$ 242.3
Underwriting discounts and commissions	\$ 7.7
Aggregate liquidation value	\$ 250.0

On or after March 1, 2018, the Company may redeem the Series F preferred shares in whole at any time, or in part from time to time, at \$25.00 per share, plus an amount equal to the portion of the quarterly dividend attributable to the then-current dividend period to, but excluding, the redemption date. The Company may also redeem the Series F preferred shares at any time upon the occurrence of a certain capital disqualification event or certain changes in tax law. Dividends on the Series F preferred shares will be non-cumulative and will be payable quarterly.

In the event of liquidation of the Company, the Series F preferred shares rank on parity with each of the Series C, D and E preferred shares and would rank senior to the common shares, and holders thereof would receive a distribution of \$25.00 per share, or the aggregate liquidation value of \$250 million, plus declared but unpaid dividends, if any.

Table of Contents***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. At December 31, 2012 and 2011, cash and cash equivalents were \$1.1 billion and \$1.3 billion, respectively. The decrease in cash and cash equivalents was primarily due to the Company's share repurchases and significant loss payments related to the 2011 catastrophic losses, which were partially offset by cash flows from operations.

Cash flows from operations in 2012 increased to \$693 million from \$574 million in 2011, primarily due to higher underwriting cash flows. The higher underwriting cash flows were primarily due to a lower, although still significant, level of losses paid in 2012 compared to 2011. Underwriting cash flows in 2011 reflected cash received of approximately \$358 million related to the release of assets from the Funds Held Directly Managed account to Partner Reinsurance Europe SE pursuant to an endorsement to a quota share reinsurance agreement with Colisée Re, which was partially offset by significant loss payments related to the 2011 catastrophic events.

Net cash used in investing activities was \$219 million in 2012 compared to \$1,080 million during 2011. The net cash used in investing activities in 2012 reflects the investment of the cash provided by operations that was not used to fund the Company's share repurchases.

Net cash used in financing activities was \$688 million in 2012 compared to \$242 million in 2011. Net cash used in financing activities in 2012 was primarily related to share repurchases and dividend payments on common and preferred shares. Net cash used in financing activities in 2011 was also related to the Company's share repurchases and dividend payments on common and preferred shares, but was partially offset by the net proceeds of \$362 million related to the issuance of the Series E preferred shares.

The parent company is a holding company with no operations or significant assets other than the capital stock of its subsidiaries and other intercompany balances. The parent company has cash outflows in the form of operating expenses, interest payments related to its debt, dividends to both common and preferred shareholders and, from time to time, cash outflows for principal repayments related to its debt, and the repurchase of its common shares under its share repurchase program. For the year ended December 31, 2012, the parent company incurred other operating expenses of \$82 million, common dividends paid were \$156 million, preferred dividends paid were \$62 million and share repurchases were \$533 million. In February 2013, the Company announced that it was increasing its quarterly dividend to \$0.64 per common share or approximately \$151 million in total for 2013, assuming a constant number of common shares outstanding and a constant dividend rate, and it will pay approximately \$59 million in dividends to preferred shareholders in 2013.

The Company relies primarily on cash dividends and payments from its reinsurance 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 reinsurance subsidiaries to be the principal source of its funds to pay such expenses and dividends. The payment of dividends by the reinsurance subsidiaries to PartnerRe Ltd. is limited under Bermuda and Irish laws and certain statutes of various U.S. states in which PartnerRe U.S. is licensed to transact business. The restrictions are generally based on net income and/or certain levels of policyholders' earned surplus as determined in accordance with the relevant statutory accounting practices. At December 31, 2012, there were no significant restrictions on the Company's reinsurance subsidiaries that would limit the Company's ability to pay common and preferred shareholders' dividends (see Note 13 to Consolidated Financial Statements in Item 8 of Part II of this report).

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

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case of PartnerRe U.S. Holdings, interest payments on the Senior Notes and the CENts. At December 31, 2012, PartnerRe U.S. Holdings and its subsidiaries have \$750 million in Senior Notes and \$63 million of CENts outstanding and will pay approximately \$49 million in aggregate interest payments in 2013 related to this debt.

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 and credit spreads on the investment income as well as seasonality in coupon payment dates for fixed income securities, cash flows from operating activities may vary significantly between periods. The Company believes that annual positive cash flows from operating activities will be sufficient to cover claims payments, absent a series of additional large catastrophic loss activity. In the 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 high quality and liquid investment portfolio or borrow under the Company's revolving line of credit (see Credit Facilities below). As discussed in Investments above, the Company's investments and cash totaled \$17.1 billion at December 31, 2012, the main components of which were investment grade fixed maturities, short-term investments and cash and cash equivalents totaling \$14.6 billion.

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.

The Company's current financial strength ratings are:

Standard & Poor's	A+	
Moody's	A1	
A.M. Best	A+	(negative outlook)
Fitch	AA-	

Credit Agreements

In the normal course of its operations, the Company enters into agreements with financial institutions to obtain unsecured and secured credit facilities. At December 31, 2012, the total amount of such credit facilities available to the Company was \$1,467 million, with each of the significant facilities described below. These facilities are used primarily for the issuance of letters of credit, although a portion of these facilities may also be used for liquidity purposes. Under the terms of certain reinsurance agreements, irrevocable letters of credit were issued on an unsecured and secured basis in the amount of \$189 million and \$515 million, respectively, at December 31, 2012, in respect of reported loss and unearned premium reserves.

Included in the total credit facilities available to the Company at December 31, 2012 is a \$500 million three-year syndicated unsecured credit facility with the following terms: (i) a maturity date of July 16, 2013, (ii) a \$250 million accordion feature, which enables the Company to potentially increase its available credit from \$500 million to \$750 million, and (iii) a minimum consolidated tangible net worth requirement. The Company's ability to increase its available credit to \$750 million is subject to the agreement of the credit facility participants. 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 this facility. The Company was in compliance with all of the covenants at December 31, 2012. This facility is

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predominantly used for the issuance of letters of credit, although the Company and its subsidiaries have access to a revolving line of credit of up to \$375 million as part of this facility. During the year ended December 31, 2012, there were no borrowings under this revolving line of credit.

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 with some price protection.

On November 14, 2011, the Company entered into an agreement to modify an existing credit facility. Under the terms of the agreement, this credit facility was increased from a \$250 million to a \$300 million combined credit facility, with the first \$100 million being unsecured and any utilization above the \$100 million being secured. This credit facility was renewed on November 14, 2012 and matures on November 14, 2013.

In addition to the unsecured credit facilities available, the Company maintains committed secured letter of credit facilities. These facilities are used for the issuance of letters of credit, which must be fully secured with cash and/or government bonds and/or investment grade bonds. The agreements include default covenants, which could require the Company to fully secure the outstanding letters of credit to the extent that the facility is not already fully secured, and disallow the issuance of any new letters of credit. Included in the Company's secured credit facilities at December 31, 2012 is a \$250 million credit facility which matures on December 4, 2015 and a \$200 million credit facility which matures on December 31, 2014. At December 31, 2012, no conditions of default existed under these facilities.

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 its Irish, French and Canadian subsidiaries and branches, whose functional currencies are the euro and the Canadian dollar, 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, where the Company's most significant foreign currency exposure is to the euro.

At December 31, 2012, the value of the U.S. dollar weakened against most major currencies compared to December 31, 2011, which resulted in an increase in the U.S. dollar value of the assets and liabilities denominated in non-U.S. dollar currencies. See Results of Operations and Review of Net Income (Loss) above for a discussion of the impact of foreign exchange and net foreign exchange gains and losses during the years ended December 31, 2012, 2011 and 2010.

The foreign exchange gain or loss resulting from the translation of the Company's subsidiaries' and branches' financial statements (expressed in 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 or loss in shareholders' equity. The currency translation adjustment account increased by \$29 million during the year ended December 31, 2012 compared to a decrease of \$12 million and \$67 million during the years ended December 31, 2011 and 2010, respectively, due to the translation of the Company's subsidiaries and branches, whose functional currencies are the Canadian dollar and the euro.

The following table provides a reconciliation of the currency translation adjustment for the years ended December 31, 2012, 2011 and 2010 (in millions of U.S. dollars):

	2012	2011	2010
Currency translation adjustment at beginning of year	\$ 4	\$ 16	\$ 83
Change in currency translation adjustment included in accumulated other comprehensive income (loss)	29	(12)	(66)
Net realized loss on designated net investment hedges included in accumulated other comprehensive income (loss)			(1)
Currency translation adjustment at end of year	\$ 33	\$ 4	\$ 16

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From time to time, the Company enters into net investment hedges. At December 31, 2012, there were no outstanding foreign exchange contracts hedging the Company's net investment exposure.

See Quantitative and Qualitative Disclosures About Market Risk - Foreign Currency Risk in Item 7A of Part II below for a discussion of the Company's risk related to changes in foreign currency movements.

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

See Note 2(u) to the Consolidated Financial Statements included in Item 8 of Part II of this report.

ITEM 7A. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

Overview

Management believes that the Company is principally exposed to five types of market related risk: interest rate risk, credit spread risk, foreign currency risk, counterparty 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 above in this report, the Company's investment philosophy distinguishes between assets that are generally matched against the estimated net reinsurance liabilities (liability funds) and those assets that represent shareholder capital (capital funds). Liability funds are invested in a way that generally matches them to the corresponding liabilities in both duration and currency composition to provide a natural hedge against changes in interest rates and foreign exchange rates.

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.

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.

As described above in this report, the Company's investment strategy allows the use of derivative investments, subject to strict limitations. The Company also imposes a high standard for the credit quality of counterparties in all derivative transactions and aims to diversify its counterparty credit risk exposure. See Note 6 to the Consolidated Financial Statements in Item 8 of Part II of this report for additional information related to derivatives.

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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 maturity portfolio and the fixed maturity securities in the investment portfolio underlying the funds held directly managed account are 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 unpaid 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.

While this matching of duration insulates the Company from the economic impact of interest rate changes, changes in interest rates do impact the Company's shareholders' equity. The Company's liabilities are carried at their nominal value, and are not adjusted for changes in interest rates, with the exception of certain policy benefits for life and annuity contracts and deposit liabilities that are interest rate sensitive. However, substantially all of the Company's invested assets (including the investments underlying the funds held directly managed account) are carried at fair 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 (including the investments underlying the funds held directly managed account) 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, 2012, the Company held approximately \$3,989 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, 2012, the Company estimates that the hypothetical case of an immediate 100 basis points or 200 basis points parallel shift in global bond curves would result in a change in the fair value of investments exposed to interest rate risk, the fair value of funds held directly managed account exposed to interest rate risk, total invested assets, and shareholders' equity as follows (in millions of U.S. dollars):

	-200 Basis Points	% Change	-100 Basis Points	% Change	December 31, 2012	+100 Basis Points	% Change	+200 Basis Points	% Change
Fair value of investments exposed to interest rate risk ^{(1) (2)}	\$ 16,471	5 %	\$ 16,049	3 %	\$ 15,627	\$ 15,205	(3)%	\$ 14,783	(5)%
Fair value of funds held directly managed account exposed to interest rate risk ⁽²⁾	921	6	895	3	869	843	(3)	817	(6)
Total invested assets ⁽³⁾	19,072	5	18,624	2	18,176	17,728	(2)	17,280	(5)
Shareholders' equity	7,829	13	7,381	6	6,933	6,485	(6)	6,037	(13)

(1) Includes certain other invested assets, certain cash and cash equivalents and funds holding fixed income securities.

(2) Excludes accrued interest.

(3) Includes total investments, cash and cash equivalents, the investment portfolio underlying the funds held directly managed account and accrued interest.

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The changes do not take into account any potential mitigating impact from the equity market, taxes or the corresponding change in the economic value of the Company's reinsurance liabilities, which, as noted above, would substantially offset the economic impact on invested assets, although the offset would not be reflected in the 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 maturity portfolio at the time of the interest rate changes. See Foreign Currency Risk below.

The impact of an immediate change in interest rates on the fair value of investments and funds held directly managed exposed to interest rate risk, the Company's total invested assets and shareholders' equity, in both absolute terms and as a percentage of total invested assets and shareholders' equity, has not changed significantly at December 31, 2012 compared to December 31, 2011.

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 maturity investments, and this can result in a liability whose economic value is different from the carrying value reported in the Consolidated Balance Sheets. The Company believes that the economic fair value of its outstanding Senior Notes, CENts and preferred shares at December 31, 2012 was as follows (in millions of U.S. dollars):

	Carrying Value	Fair Value
Debt related to Senior Notes ⁽¹⁾	\$ 750	\$ 859
Debt related to Capital Efficient Notes ⁽²⁾	63	67
Series C cumulative preferred shares	290	292
Series D cumulative preferred shares	230	232
Series E cumulative preferred shares	374	404

(1) *PartnerRe Finance A LLC and PartnerRe Finance B LLC, the issuers of the Senior Notes, do not meet consolidation requirements under U.S. GAAP. Accordingly, the Company shows the related intercompany debt of \$750 million in its Consolidated Balance Sheets at December 31, 2012 and 2011.*

(2) *PartnerRe Finance II Inc., the issuer of the CENts, does not meet consolidation requirements under U.S. GAAP. Accordingly, the Company shows the related intercompany debt of \$71 million in its Consolidated Balance Sheets at December 31, 2012 and 2011.*

The fair value of the debt related to Senior Notes issued by PartnerRe Finance B LLC, PartnerRe Finance A LLC and the CENts was calculated based on discounted cash flow models using observable market yields and contractual cash flows based on the aggregate principal amount outstanding of \$500 million from PartnerRe Finance B LLC, \$250 million from PartnerRe Finance A and \$63 million from PartnerRe Finance II, respectively. For the Company's Series C, Series D and Series E cumulative preferred shares, fair value is based on quoted market prices, while carrying value is based on the aggregate liquidation value of the shares.

The fair value of the Company's outstanding debt obligations increased at December 31, 2012, compared to December 31, 2011 primarily as a result of lower risk free rates. The fair value of the Company's preferred securities has not changed significantly at December 31, 2012, compared to December 31, 2011.

See Shareholders' Equity and Capital Resources Management Shareholders' Equity above for a discussion of the issuance of Series F non-cumulative preferred shares and the announcement of the redemption of the Series C preferred shares in February 2013. The redemption is expected to occur in March 2013.

Table of Contents**Credit Spread Risk**

The Company's fixed maturity portfolio and the fixed maturity securities in the investment portfolio underlying the funds held directly managed account are exposed to credit spread risk. Fluctuations in market credit spreads have a direct impact on the market valuation of these securities. The Company manages credit spread risk by the selection of securities within its fixed maturity portfolio. Changes in credit spreads directly affect the market value of certain fixed maturity securities, but do not necessarily result in a change in the future expected cash flows associated with holding individual securities. Other factors, including liquidity, supply and demand, and changing risk preferences of investors, may affect market credit spreads without any change in the underlying credit quality of the security.

As with interest rates, changes in credit spreads impact the shareholders' equity of the Company as invested assets are carried at fair value, which includes changes in credit spreads. As a result, an increase in credit spreads will result in a decrease in the fair value of the Company's investments (including the investment portfolio underlying the funds held directly managed account) and a corresponding decrease, net of applicable taxes, in the Company's shareholders' equity. A decrease in credit spreads would have the opposite effect.

At December 31, 2012, the Company estimates that the hypothetical case of an immediate 100 basis points or 200 basis points parallel shift in global credit spreads would result in a change in the fair value of investments and the fair value of funds held directly managed account exposed to credit spread risk, total invested assets and shareholders' equity as follows (in millions of U.S. dollars):

	-200 Basis Points	% Change	-100 Basis Points	% Change	December 31, 2012	+100 Basis Points	% Change	+200 Basis Points	% Change
Fair value of investments exposed to credit spread risk ⁽¹⁾ ⁽²⁾	\$ 16,487	6 %	\$ 16,057	3 %	\$ 15,627	\$ 15,197	(3)%	\$ 14,767	(6)%
Fair value of funds held directly managed account exposed to credit spread risk ⁽²⁾	895	3	882	1	869	856	(1)	843	(3)
Total invested assets ⁽³⁾	19,062	5	18,619	2	18,176	17,733	(2)	17,290	(5)
Shareholders' equity	7,819	13	7,376	6	6,933	6,490	(6)	6,047	(13)

(1) Includes certain other invested assets, certain cash and cash equivalents and funds holding fixed income securities.

(2) Excludes accrued interest.

(3) Includes total investments, cash and cash equivalents, the investment portfolio underlying the funds held directly managed account and accrued interest.

The changes above also do not take into account any potential mitigating impact from the equity market, taxes, and the change in the economic value of the Company's reinsurance liabilities, which may offset the economic impact on invested assets.

The impact of an immediate change in credit spreads on the fair value of investments and funds held directly managed exposed to credit spread risk, the Company's total invested assets and shareholders' equity, in both absolute terms and as a percentage of total invested assets and shareholders' equity, has not changed significantly at December 31, 2012 compared to December 31, 2011.

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, Canadian dollar, British pound, New Zealand dollar, Australian 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.

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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 reduce exposure and more appropriately match the liability funds 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, except for those related to the Company's capital funds.

For the Company's capital funds, including its net investment in foreign subsidiaries and branches, the Company does not typically employ hedging strategies. However, from time to time the Company does enter into net investment hedges to offset foreign exchange volatility (see Currency in Item 7 of Part II of this report).

The table below summarizes the Company's gross and net exposure in its Consolidated Balance Sheet at December 31, 2012 to foreign currency as well as the associated foreign currency derivatives the Company has entered into to manage this exposure (in millions of U.S. dollars):

	euro	CAD	GBP	NZD	AUD	CHF	JPY	Other	Total ⁽¹⁾
Total assets	\$ 4,222	\$ 1,255	\$ 1,372	\$ 137	\$ 75	\$ 47	\$ 12	\$ 580	\$ 7,700
Total liabilities	(4,226)	(709)	(839)	(353)	(259)	(304)	(183)	(948)	(7,821)
Total gross foreign currency exposure	(4)	546	533	(216)	(184)	(257)	(171)	(368)	(121)
Total derivative amount	61	(25)	(500)	241	196	239	129	441	782
Net foreign currency exposure	57	521	33	25	12	(18)	(42)	73	661

(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 exposure in this table and the total assets and total liabilities in the Company's Consolidated Balance Sheet at December 31, 2012.

The above numbers include the Company's investment in PartnerRe Holdings Europe Limited, whose functional currency is the euro, and certain of its subsidiaries and branches, whose functional currencies are the euro or Canadian dollar.

At December 31, 2012, the Company's net foreign currency exposure in its Consolidated Balance Sheet, after the effect of derivatives, was \$661 million. The Company's most significant net foreign currency exposure at December 31, 2012 was to the Canadian dollar which reflects the unhedged net investment in its Canadian branches. The increase of \$236 million in the Company's net foreign currency exposure to \$661 million at December 31, 2012 compared to \$425 million at December 31, 2011 is primarily related to an increase in the Company's net foreign currency exposure to the Australian dollar, Japanese yen and New Zealand dollar.

Assuming all other variables remain constant and disregarding any tax effects, a change in the U.S. dollar of 10% or 20% relative to the other currencies held by the Company would result in a change in the Company's net assets of \$66 million and \$132 million, respectively, inclusive of the effect of foreign exchange forward contracts and other derivative financial instruments.

Counterparty Credit Risk

The Company has exposure to credit risk primarily as a holder of fixed maturity securities. The Company controls this exposure by emphasizing investment grade credit quality in the fixed maturity securities it purchases. At December 31, 2012, approximately 55% of the Company's fixed maturity portfolio (including the

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funds held directly managed account and funds holding fixed income securities) was rated AA (or equivalent rating) or better. The decline in the percentage of the Company's fixed maturity portfolio rated AA or better from 62% at December 31, 2011 largely reflects Standard & Poor's decision in January 2012 to downgrade certain European sovereign government securities, as discussed in Financial Condition, Liquidity and Capital Resources Investments above.

At December 31, 2012, approximately 76% the Company's fixed maturity and short-term investments (including funds holding fixed income securities and excluding the funds held directly managed account) was rated A- or better and 9% was rated below investment grade or not rated. The Company believes this high quality concentration reduces its exposure to credit risk on fixed maturity investments to an acceptable level. At December 31, 2012, the Company is not exposed to any significant credit concentration risk on its investments, excluding securities issued by the U.S. government which are rated AA+. In addition, the single largest corporate issuer and the top 10 corporate issuers accounted for less than 2% and less than 16% of the Company's total corporate fixed maturity securities (excluding the funds held directly managed account), respectively, at December 31, 2012. Within the segregated investment portfolio underlying the funds held directly managed account, the single largest corporate issuer and the top 10 corporate issuers accounted for less than 4% and less than 27% of total corporate fixed maturity securities underlying the funds held directly managed account at December 31, 2012, respectively.

The Company keeps cash and cash equivalents in several banks and ensures that there are no significant concentrations 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, aims to diversify its counterparty credit risk 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, 2012, the Company's absolute notional value of foreign exchange forward contracts and foreign currency option contracts was \$2,304 million, while the net fair value of those contracts was an unrealized loss of \$9 million.

The Company is also exposed to credit risk in its underwriting operations, most notably in the credit/surety line and for 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. As with all of the Company's business, these risks are subject to rigorous underwriting and pricing standards. In addition, the Company strives to mitigate the risks associated with these credit-sensitive lines of business through the use of risk management techniques such as risk diversification, careful monitoring of risk aggregations and accumulations and, at times, through the use of retrocessional reinsurance protection and the purchase of credit default swaps and total return and interest rate swaps. At December 31, 2012, the Company purchased protection related to its investment portfolio and credit/surety line primarily in the form of credit default swaps with a notional value of \$55 million and an insignificant fair value.

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 in some jurisdictions is mitigated by a mandatory right of offset of amounts payable by the Company to a cedant against amounts due to the Company. In certain other jurisdictions the Company is able to mitigate this risk, depending on the nature of the funds held arrangements, to the extent that the Company 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

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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 funds held directly managed account due to the Company is related to one cedant, Colisée Re (see Investments underlying the Funds Held Directly Managed Account in Item 1 of Part I of this report). The Company is subject to the credit risk of this cedant in the event of insolvency or Colisée Re'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 right 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. See also Risk Factors in Item 1A of Part I of this report for additional discussion of the Company's exposure if Colisée Re, or its affiliates, breach or do not satisfy their obligations. In addition to exposure to Colisée Re, the Company is also subject to the credit risk of AXA or its affiliates in the event of their insolvency or their failure to honor their obligations under the acquisition agreements.

The Company has exposure to credit risk as it relates to its business written through brokers if any of the Company's brokers is unable to fulfill their contractual obligations with respect to payments to the Company. In addition, in some jurisdictions, if the broker fails to make payments to the insured under the Company's policy, the Company might remain liable to the insured for the deficiency. The Company's exposure to such credit risk is somewhat mitigated in certain jurisdictions by contractual terms. See Risk Factors in Item 1A of Part I of this report for information related to two brokers that accounted for approximately 46% of the Company's gross premiums written for the year ended December 31, 2012.

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, 2012 were \$1,992 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 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 premiums receivable was \$9 million at December 31, 2012.

The Company purchases retrocessional reinsurance and requires 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. At December 31, 2012, the balance of reinsurance recoverable on paid and unpaid losses was \$312 million, which is net of the allowance provided for uncollectible reinsurance recoverables of \$13 million. At December 31, 2012, 84% of the Company's reinsurance recoverable on paid and unpaid losses were either due from reinsurers with an A- or better rating from Standard & Poor's. See Financial Condition, Liquidity and Capital Resources Reinsurance Recoverable on Paid and Unpaid Losses above for details of the Company's reinsurance recoverable on paid and unpaid losses categorized by the reinsurer's Standard & Poor's rating.

Other than the items discussed above, the concentrations of the Company's counterparty credit risk exposures have not changed materially at December 31, 2012, compared to December 31, 2011.

Table of Contents**Equity Price Risk**

The Company invests a portion of its capital funds in marketable equity securities (fair market value of \$816 million, excluding funds holding fixed income securities of \$278 million) at December 31, 2012. 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 invested assets 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 0.93 on average. 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% and 20% movement in the S&P 500 Index would result in a change in the fair value of the Company's equity portfolio, total invested assets and shareholders' equity at December 31, 2012 as follows (in millions of U.S. dollars):

	20% Decrease	% Change	10% Decrease	% Change	December 31, 2012	10% Increase	% Change	20% Increase	% Change
Equities ⁽¹⁾	\$ 664	(19)%	\$ 740	(9)%	\$ 816	\$ 892	9%	\$ 968	19%
Total invested assets ⁽²⁾	18,024	(1)	18,100		18,176	18,252		18,328	1
Shareholders' equity	6,781	(2)	6,857	(1)	6,933	7,009	1	7,085	2

(1) Excludes funds holding fixed income securities of \$278 million.

(2) Includes total investments, cash and cash equivalents, the investment portfolio underlying the funds held directly managed account and accrued interest.

This change does not take into account any potential mitigating impact from the fixed maturity securities or taxes.

There was no material change in the absolute or percentage impact of an immediate change of 10% in the S&P 500 Index on the Company's equity portfolio, total invested assets and shareholders' equity at December 31, 2012 compared to December 31, 2011.

Table of Contents**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, 2012	December 31, 2011
Assets		
Investments:		
Fixed maturities, trading securities, at fair value (amortized cost: 2012, \$13,653,615; 2011, \$13,394,404)	\$ 14,395,315	\$ 13,941,829
Short-term investments, trading securities, at fair value (amortized cost: 2012, \$150,634; 2011, \$42,563)	150,552	42,571
Equities, trading securities, at fair value (cost: 2012, \$1,000,326; 2011, \$917,613)	1,094,002	944,691
Other invested assets	333,361	358,154
Total investments	15,973,230	15,287,245
Funds held directly managed (cost: 2012, \$895,261; 2011, \$1,241,222)	930,741	1,268,010
Cash and cash equivalents, at fair value, which approximates amortized cost	1,121,705	1,342,257
Accrued investment income	184,315	189,074
Reinsurance balances receivable	1,991,991	2,059,976
Reinsurance recoverable on paid and unpaid losses	348,086	397,788
Funds held by reinsured companies	805,489	796,290
Deferred acquisition costs	568,391	547,202
Deposit assets	257,208	241,513
Net tax assets	25,098	66,574
Goodwill	456,380	455,533
Intangible assets	214,270	133,867
Other assets	103,528	70,044
Total assets	\$ 22,980,432	\$ 22,855,373
Liabilities		
Unpaid losses and loss expenses	\$ 10,709,371	\$ 11,273,091
Policy benefits for life and annuity contracts	1,813,244	1,645,662
Unearned premiums	1,534,625	1,448,841
Other reinsurance balances payable	238,578	443,873
Deposit liabilities	252,217	249,382
Net tax liabilities	387,647	297,153
Accounts payable, accrued expenses and other	290,265	208,840
Debt related to senior notes	750,000	750,000
Debt related to capital efficient notes	70,989	70,989
Total liabilities	16,046,936	16,387,831
Shareholders Equity		
Common shares (par value \$1.00; issued: 2012, 85,459,905 shares; 2011, 84,766,693 shares)	85,460	84,767
Preferred shares (par value \$1.00; issued and outstanding: 2012 and 2011, 35,750,000 shares; aggregate liquidation value: 2012 and 2011, \$893,750)	35,750	35,750
Additional paid-in capital	3,861,844	3,803,796
Accumulated other comprehensive income (loss)	10,597	(12,644)
Retained earnings	4,952,002	4,035,103
Common shares held in treasury, at cost (2012, 26,550,530 shares; 2011, 19,444,365 shares)	(2,012,157)	(1,479,230)

Total shareholders equity	6,933,496	6,467,542
Total liabilities and shareholders equity	\$ 22,980,432	\$ 22,855,373

See accompanying Notes to Consolidated Financial Statements.

Table of Contents**PartnerRe Ltd.****Consolidated Statements of Operations and Comprehensive Income (Loss)**

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

	For the year ended December 31, 2012	For the year ended December 31, 2011	For the year ended December 31, 2010
Revenues			
Gross premiums written	\$ 4,718,235	\$ 4,633,054	\$ 4,885,266
Net premiums written	\$ 4,572,860	\$ 4,486,329	\$ 4,705,116
(Increase) decrease in unearned premiums	(86,921)	161,425	71,355
Net premiums earned	4,485,939	4,647,754	4,776,471
Net investment income	571,338	629,148	672,782
Net realized and unrealized investment gains	493,409	66,692	401,482
Other income	11,920	7,915	10,470
Total revenues	5,562,606	5,351,509	5,861,205
Expenses			
Losses and loss expenses and life policy benefits	2,804,610	4,372,570	3,283,618
Acquisition costs	936,909	938,361	972,537
Other operating expenses	411,374	434,846	539,751
Interest expense	48,895	48,949	44,413
Amortization of intangible assets	31,799	36,405	31,461
Net foreign exchange losses (gains)	175	(34,675)	20,686
Total expenses	4,233,762	5,796,456	4,892,466
Income (loss) before taxes and interest in earnings (losses) of equity investments	1,328,844	(444,947)	968,739
Income tax expense	204,284	68,972	128,784
Interest in earnings (losses) of equity investments	9,954	(6,372)	12,597
Net income (loss)	1,134,514	(520,291)	852,552
Preferred dividends	61,622	47,020	34,525
Net income (loss) available to common shareholders	\$ 1,072,892	\$ (567,311)	\$ 818,027
Comprehensive income (loss)			
Net income (loss)	\$ 1,134,514	\$ (520,291)	\$ 852,552
Change in currency translation adjustment	28,488	(11,834)	(66,742)
Change in unfunded pension obligation, net of tax	(4,294)	(3,917)	(9,221)
Change in net unrealized losses on investments	(953)	(949)	(4,908)
Total other comprehensive income (loss), net of tax	23,241	(16,700)	(80,871)
Comprehensive income (loss)	\$ 1,157,755	\$ (536,991)	\$ 771,681

Per share data

Net income (loss) per common share:

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Basic net income (loss)	\$	17.05	\$	(8.40)	\$	10.65
Diluted net income (loss)	\$	16.87	\$	(8.40)	\$	10.46
Weighted average number of common shares outstanding		62,915,992		67,558,732		76,839,519
Weighted average number of common shares and common share equivalents outstanding		63,615,748		67,558,732		78,234,312
Dividends declared per common share	\$	2.48	\$	2.35	\$	2.05

See accompanying Notes to Consolidated Financial Statements.

Table of Contents**PartnerRe Ltd.****Consolidated Statements of Shareholders' Equity**

(Expressed in thousands of U.S. dollars)

	For the year ended December 31, 2012	For the year ended December 31, 2011	For the year ended December 31, 2010
Common shares			
Balance at beginning of year	\$ 84,767	\$ 84,033	\$ 82,586
Issuance of common shares	693	734	1,447
Balance at end of year	85,460	84,767	84,033
Preferred shares			
Balance at beginning of year	35,750	20,800	20,800
Issuance of preferred shares		14,950	
Balance at end of year	35,750	35,750	20,800
Additional paid-in capital			
Balance at beginning of year	3,803,796	3,419,864	3,357,004
Issuance of common shares	58,048	37,160	62,860
Issuance of preferred shares		346,772	
Balance at end of year	3,861,844	3,803,796	3,419,864
Accumulated other comprehensive income (loss)			
Balance at beginning of year	(12,644)	4,056	84,927
Currency translation adjustment			
Balance at beginning of year	4,267	16,101	82,843
Change in currency translation adjustment	28,488	(11,834)	(66,742)
Balance at end of year	32,755	4,267	16,101
Unfunded pension obligation			
Balance at beginning of year	(23,076)	(19,159)	(9,938)
Change in unfunded pension obligation	(4,294)	(3,917)	(9,221)
Balance at end of year (net of tax: 2012, \$7,731; 2011, \$6,590; 2010, \$4,872)	(27,370)	(23,076)	(19,159)
Unrealized losses on investments			
Balance at beginning of year	6,165	7,114	12,022
Change in unrealized losses on investments	(953)	(949)	(4,908)
Balance at end of year (net of tax: 2012, 2011 and 2010: \$nil)	5,212	6,165	7,114
Balance at end of year	10,597	(12,644)	4,056
Retained earnings			
Balance at beginning of year	4,035,103	4,761,178	4,100,782
Net income (loss)	1,134,514	(520,291)	852,552
Dividends on common shares	(155,993)	(158,764)	(157,631)
Dividends on preferred shares	(61,622)	(47,020)	(34,525)

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Balance at end of year	4,952,002	4,035,103	4,761,178
Common shares held in treasury			
Balance at beginning of year	(1,479,230)	(1,083,012)	(372)
Repurchase of common shares	(532,927)	(396,218)	(1,082,640)
Balance at end of year	(2,012,157)	(1,479,230)	(1,083,012)
Total shareholders equity	\$ 6,933,496	\$ 6,467,542	\$ 7,206,919

See accompanying Notes to Consolidated Financial Statements.

Table of Contents**PartnerRe Ltd.****Consolidated Statements of Cash Flows**

(Expressed in thousands of U.S. dollars)

	For the year ended December 31, 2012	For the year ended December 31, 2011	For the year ended December 31, 2010
Cash flows from operating activities			
Net income (loss)	\$ 1,134,514	\$ (520,291)	\$ 852,552
Adjustments to reconcile net income (loss) to net cash provided by operating activities:			
Amortization of net premium on investments	137,313	91,339	78,620
Amortization of intangible assets	31,799	36,405	31,461
Net realized and unrealized investment gains	(493,409)	(66,692)	(401,482)
Changes in:			
Reinsurance balances, net	(102,009)	(21,036)	217,066
Reinsurance recoverable on paid and unpaid losses, net of ceded premiums payable	31,730	625	(30,033)
Funds held by reinsured companies and funds held directly managed	381,733	606,266	296,174
Deferred acquisition costs	(13,437)	52,069	35,317
Net tax assets and liabilities	80,628	(58,970)	(56,599)
Unpaid losses and loss expenses including life policy benefits	(634,736)	606,698	227,240
Unearned premiums	86,921	(161,425)	(71,355)
Other net changes in operating assets and liabilities	52,246	8,647	47,959
Net cash provided by operating activities	693,293	573,635	1,226,920
Cash flows from investing activities			
Sales of fixed maturities	6,969,074	8,328,352	8,621,227
Redemptions of fixed maturities	1,000,181	1,211,016	1,272,885
Purchases of fixed maturities	(8,067,087)	(10,549,343)	(8,572,471)
Sales and redemptions of short-term investments	110,360	336,456	270,087
Purchases of short-term investments	(215,473)	(331,432)	(141,157)
Sales of equities	821,977	730,929	607,459
Purchases of equities	(830,323)	(619,533)	(769,557)
Consideration paid, related to the acquisition of Presidio, net of cash acquired	(9,242)		
Other, net	995	(186,823)	(185,965)
Net cash (used in) provided by investing activities	(219,538)	(1,080,378)	1,102,508
Cash flows from financing activities			
Cash dividends paid to shareholders	(217,615)	(205,784)	(192,156)
Repurchase of common shares	(504,991)	(413,737)	(1,065,121)
Issuance of common shares	34,323	16,041	37,682
Net proceeds from issuance of preferred shares		361,722	
Proceeds from issuance of senior notes			500,000
Contract fees on forward sale agreement			(2,638)
Repayment of debt			(200,000)
Net cash used in financing activities	(688,283)	(241,758)	(922,233)
Effect of foreign exchange rate changes on cash	(6,024)	(20,326)	(34,420)
(Decrease) increase in cash and cash equivalents	(220,552)	(768,827)	1,372,775

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Cash and cash equivalents	beginning of year	1,342,257	2,111,084	738,309
Cash and cash equivalents	end of year	\$ 1,121,705	\$ 1,342,257	\$ 2,111,084
Supplemental cash flow information:				
Taxes paid		\$ 186,970	\$ 197,610	\$ 199,838
Interest paid		\$ 49,259	\$ 49,259	\$ 42,995

See accompanying Notes to Consolidated Financial Statements.

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PartnerRe Ltd.

Notes to Consolidated Financial Statements

1. Organization

PartnerRe Ltd. (the Company) predominantly provides reinsurance on a worldwide basis, and certain specialty insurance lines, through its principal wholly-owned subsidiaries, including Partner Reinsurance Company Ltd. (PartnerRe Bermuda), Partner Reinsurance Europe SE (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, mortality, longevity 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.

The Company completed the acquisition of SAFR (subsequently renamed PartnerRe SA) in 1997, the acquisition of the reinsurance operations of Winterthur Group (Winterthur Re) in 1998 and the acquisition of PARIS RE Holdings Limited (Paris Re) in 2009.

Effective December 31, 2012, the Company completed the acquisition of Presidio Reinsurance Group, Inc. (Presidio), a California-based U.S. specialty accident and health reinsurance and insurance writer. Given the effective date, the Consolidated Statements of Operations and Cash Flows for the year ended December 31, 2012 do not include Presidio's results.

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

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

Unpaid losses and loss expenses;

Policy benefits for life and annuity contracts;

Gross and net premiums written and net premiums earned;

Recoverability of deferred acquisition costs;

Recoverability of deferred tax assets;

Valuation of goodwill and intangible assets; and

Valuation of certain assets and derivative financial instruments that are measured using significant unobservable inputs.

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The following are the Company's significant accounting policies:

(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. The determination of premium estimates requires a review of the Company's experience with cedants, familiarity with each market, an understanding of the characteristics of each line of business and Management's assessment of the impact of various other factors on the volume of business written and ceded to the Company. Premium estimates are updated as new information is received from cedants and 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. Reinstatement premiums are recognized as written and earned at the time a loss event occurs, where coverage limits for the remaining life of the contract are reinstated under pre-defined contract terms. The accrual of reinstatement premiums is based on Management's estimate of losses and loss expenses associated with the loss event. Unearned premiums represent the portion of premiums written which is applicable to the unexpired risks under contracts in force.

Premiums related to individual life and annuity business are recorded over the premium-paying period on the underlying policies. Premiums on annuity and universal life contracts for which there is no significant mortality or critical illness risk are accounted for in a manner consistent with accounting for interest-bearing financial instruments and are not reported as revenues, but rather as direct deposits to the contract. Amounts assessed against annuity and universal life policyholders are recognized as revenue in the period assessed.

(b) Losses and Loss Expenses and Life Policy Benefits

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

The liabilities for policy benefits for ordinary life and accident and health policies have been established based upon information reported by ceding companies, supplemented by the Company's actuarial estimates of mortality, critical illness, persistency and future investment income, with appropriate provision to reflect uncertainty. Future policy benefit reserves for annuity and universal life contracts are carried at their accumulated values. Reserves for policy claims and benefits include both mortality and critical illness claims in the process of settlement, and claims that have been incurred but not yet reported.

The Company purchases retrocessional contracts to reduce its exposure to risk of losses on reinsurance assumed. Reinsurance recoverable on paid and unpaid losses involves actuarial estimates consistent with those used to establish the associated liabilities for unpaid losses and loss expenses and life policy benefits.

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(c) Deferred Acquisition Costs

Acquisition costs, comprising only of incremental brokerage fees, commissions and excise taxes, which vary directly with, and are related to, the acquisition of reinsurance contracts, are capitalized and charged to expense as the related premium is earned. All other acquisition related costs, including all indirect costs, are expensed as incurred.

Acquisition costs related to individual life and annuity contracts are deferred and amortized over the premium-paying periods in proportion to anticipated premium income, allowing for lapses, terminations and anticipated investment income. Acquisition costs related to universal life and single premium annuity contracts for which there is no significant mortality or critical illness risk are deferred and amortized over the lives of the contracts as a percentage of the estimated gross profits expected to be realized on the contracts.

Actual and anticipated losses and loss expenses, other costs and investment income related to underlying premiums are considered in determining the recoverability of Non-life deferred acquisition costs. Actual and anticipated loss experience, together with the present value of future gross premiums, the present value of future benefits, settlement and maintenance costs are considered in determining the recoverability of life deferred acquisition costs.

(d) Funds Held by Reinsured Companies (Cedants)

The Company writes certain business on a funds held basis. Under such contractual arrangements, the cedant retains the premiums that would have otherwise been paid to the Company and the Company earns interest on these funds. With the exception of those arrangements discussed below, the Company generally earns investment income on the funds held balances based upon a predetermined interest rate, either fixed contractually at the inception of the contract or based upon a recognized index (e.g., LIBOR).

In certain circumstances, the Company may receive an investment return based upon either the result of a pool of assets held by the cedant, generally used to collateralize the funds held balance, or the investment return earned by the cedant on its entire investment portfolio. This is most common in the Company's life reinsurance business. In these arrangements, gross investment returns are typically reflected in net investment income with a corresponding increase or decrease (net of a spread) being recorded as life policy benefits in the Company's Consolidated Statements of Operations. In these arrangements, the Company is exposed, to a limited extent, to the underlying credit risk of the pool of assets inasmuch as the underlying life policies may have guaranteed minimum returns. In such cases, an embedded derivative exists and its fair value is recorded by the Company as an increase or decrease to the funds held balance.

(e) Deposit Assets and Liabilities

In the normal course of its operations, the Company writes certain contracts that do not meet the risk transfer provisions of U.S. GAAP. While these contracts do not meet risk transfer provisions for accounting purposes, there is a remote possibility that the Company will suffer a loss. The Company accounts for these contracts using the deposit accounting method, originally recording 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 net investment income in the Consolidated Statements of Operations.

Table of Contents***(f) Investments***

The Company elects the fair value option for all of its fixed maturities, short-term investments, equities and certain other invested assets (excluding those that are accounted for using the cost or equity methods of accounting or investment company accounting). All changes in the fair value of investments are recorded in net realized and unrealized investment gains and losses in the Consolidated Statements of Operations. The Company defines fair value as the price received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. The Company measures the fair value of financial instruments according to a fair value hierarchy that prioritizes the information used to measure fair value into three broad levels. The Company's policy is to recognize transfers between the hierarchy levels at the beginning of the period. See Note 3 for additional information on fair value.

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

Other invested assets consist primarily of investments in non-publicly traded companies, private placement equity and fixed maturity investments, derivative financial instruments and other specialty asset classes. Entities in which the Company has an ownership of more than 20% and less than 50% of the voting shares, and limited partnerships in which the Company has more than a minor interest, are accounted for using the equity method. Other invested assets are recorded based on valuation techniques depending on the nature of the individual assets. The valuation techniques used by the Company are generally commensurate with standard valuation techniques for each asset class.

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

(g) Funds Held Directly Managed

The Company elects the fair value option for substantially all of the fixed maturities, short-term investments and certain other invested assets in the segregated investment portfolio underlying the funds held directly managed account. Accordingly, all changes in the fair value of the segregated investment portfolio underlying the funds held directly managed account are recorded in net realized and unrealized investment gains and losses in the Consolidated Statements of Operations.

(h) Cash and Cash Equivalents

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

(i) Business Combinations

The Company accounts for transactions in which it obtains control over one or more businesses using the acquisition method. The purchase price is allocated to identifiable assets and liabilities, including any intangible assets, based on their estimated fair value at the acquisition date. The estimates of fair values for assets and liabilities acquired are determined based on various market and income analyses and appraisals. Any excess of the purchase price over the fair value of net assets acquired is recorded as goodwill in the Company's Consolidated Balance Sheets. All costs associated with an acquisition are expensed as incurred.

Table of Contents***(j) Goodwill***

Goodwill represents the excess of the purchase price over the fair value of the net assets acquired of PartnerRe SA, Winterthur Re, Paris Re and Presidio. The Company assesses the appropriateness of its valuation of goodwill on at least an annual basis. If, as a result of the assessment, the Company determines that the value of its goodwill is impaired, goodwill will be written down in the period in which the determination is made.

(k) Intangible Assets

Intangible assets represent the fair value adjustments related to unpaid losses and loss expenses and the fair values of renewal rights, customer relationships, U.S. licenses and fronting arrangements arising from the acquisitions of Paris Re and Presidio. Definite-lived intangible assets are amortized over their useful lives, generally ranging from one to thirteen years. The Company recognizes the amortization of all intangible assets in the Consolidated Statement of Operations. Indefinite-lived intangible assets are not subject to amortization. The carrying values of intangible assets are reviewed for indicators of impairment on at least an annual basis. Impairment is recognized if the carrying values of the intangible assets are not recoverable from their undiscounted cash flows and are measured as the difference between the carrying value and the fair value.

(l) 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 to be recognized in the financial statements under U.S. GAAP. Any changes in amounts recognized are recorded in the period in which they are determined.

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

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

Table of Contents***(n) Derivatives******Derivatives Used in Hedging Activities***

The Company utilizes derivative financial instruments as part of its overall currency risk management strategy. The Company recognizes all derivative financial instruments, including embedded derivative instruments, as either assets or liabilities in the Consolidated Balance Sheets and measures those instruments at fair value. On the date the Company enters into a derivative contract, Management designates whether the derivative is to be used as a hedge of an identified underlying exposure (a designated hedge). The accounting for gains and losses associated with changes in the fair value of a derivative and the effect on the Consolidated Financial Statements depends on its hedge designation and whether the hedge is highly effective in achieving offsetting changes in the fair value of the asset or liability being hedged.

The derivatives employed by the Company to hedge currency exposure related to fixed income securities and derivatives employed by the Company to hedge currency exposure related to other reinsurance assets and liabilities, except for any hedges of the Company's net investment in non-U.S. dollar functional currency subsidiaries and branches, are not designated as hedges. The changes in fair value of these non-designated hedges are recognized in net foreign exchange gains and losses in the Consolidated Statements of Operations.

As part of its overall strategy to manage its level of currency exposure, from time to time the Company uses forward foreign exchange derivatives to hedge or partially hedge the net investment in certain non-U.S. dollar functional currency subsidiaries and branches. These derivatives are designated as net investment hedges, and accordingly, the changes in fair value of the derivative and the hedged item related to foreign currency are recognized in currency translation adjustment in the Consolidated Balance Sheets. The Company also uses, from time to time, interest rate derivatives to mitigate exposure to interest rate volatility.

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

The Company will discontinue hedge accounting prospectively if it is determined that the derivative is no longer effective in offsetting changes in the fair value of a hedged item. To the extent that the Company discontinues hedge accounting related to its net investment in non-U.S. dollar functional currency of subsidiaries and branches, because, based on Management's assessment, the derivative no longer qualifies as an effective hedge, the derivative will continue to be carried in the Consolidated Balance Sheets at its fair value, with changes in its fair value recognized in net foreign exchange gains and losses.

Other 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 foreign exchange forward contracts, foreign currency option contracts, futures contracts, to-be-announced mortgage-backed securities (TBAs) and credit default swaps, for the purpose of managing overall currency risk, market exposures and portfolio duration and hedging certain investments, or enhancing investment performance that would be allowed under the Company's investment policy if implemented in other ways. These instruments are recorded at fair value as assets and liabilities in the Consolidated Balance Sheets. Changes in fair value are included in net realized and unrealized investment gains and losses in the Consolidated Statements of Operations, except changes in the fair value of

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foreign currency option contracts and foreign exchange forward contracts which are included in net foreign exchange gains and losses in the Consolidated Statements of Operations. 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.

The Company enters from time to time into weather and longevity related transactions that are structured as derivatives, which are recorded at fair value with the changes in fair value reported in net realized and unrealized investment gains and losses in the Consolidated Statements of Operations.

The Company enters from time to time into total return and interest rate swaps. Margins related to these swaps are included in other income or loss in the Consolidated Statements of Operations and any changes in the fair value of the swaps are included in net realized and unrealized investment gains and losses in the Consolidated Statements of Operations.

(o) Treasury Shares

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

(p) Net Income per Common Share

Diluted net income per common share is defined as net income available to common shareholders divided by the weighted average number of common shares 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 six types of share-based compensation: share options, restricted shares (RS), restricted share units (RSUs), performance-based RSUs (PSUs), share-settled share appreciation rights (SSARs) and shares issued under the Company's employee share purchase plans.

The majority of the Company's share-based compensation awards qualify for equity classification. The fair value of the compensation cost is measured at the grant date and is expensed over the period for which the employee is required to provide services in exchange for the award. Awards of PSUs provide performance-based equity awards based on pre-established targets relating to certain performance measures achieved by the Company. The compensation expense for PSUs is initially based on the target performance measure at the time of award and is subject to an annual review and adjustment taking into account actual performance of the Company. Forfeiture benefits on all awards are estimated at the time of grant and incorporated in the determination of share-based compensation costs. Awards granted to employees who are eligible for retirement and do not have to provide additional services are expensed at the date of grant.

Those share-based compensation awards that do not meet the equity classification criteria, are classified as liability awards. Liability-classified awards are recorded at fair value in the Accounts payable, accrued expenses and other in the Consolidated Balance Sheets with changes in fair value relating to the vested portion of the award recorded in the Consolidated Statements of Operations.

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(r) Pensions

The Company recognizes an asset or a liability in the Consolidated Balance Sheets for the funded status of its defined benefit plans that are overfunded or underfunded, respectively, measured as the difference between the fair value of plan assets and the pension obligation and recognizes changes in the funded status of defined benefit plans in the year in which the changes occur as a component of accumulated other comprehensive income or loss, net of tax.

(s) Variable Interest Entities

The Company is involved in the normal course of business with variable interest entities (VIEs) as a passive investor in certain limited partnerships, fixed maturity investments and asset-backed securities, that are issued by third party VIEs. The Company performs a qualitative assessment at the date when it becomes initially involved in the VIE followed by ongoing reassessments related to its involvement in VIEs. The Company's maximum exposure to loss with respect to these investments is limited to the carrying amount of each investment that is reported within fixed maturities and other invested assets in the Company's Consolidated Balance Sheets and any unfunded commitments.

The Company also has three indirect 100% owned subsidiaries, PartnerRe Finance A LLC, PartnerRe Finance B LLC and PartnerRe Finance II Inc., that are considered to be VIEs, which were utilized to issue the Company's Senior Notes and Capital Efficient Notes (CENTs). The Company determined that it was not the primary beneficiary of any of these VIEs at December 31, 2012. As a result, the Company has not consolidated PartnerRe Finance A LLC, PartnerRe Finance B LLC and PartnerRe Finance II Inc., and has reflected the debt issued by the Company related to the Senior Notes and CENTs as liabilities in the Consolidated Balance Sheets (see Note 10). The interest on the debt related to the Senior Notes and CENTs is reported as interest expense in the Consolidated Statements of Operations.

(t) Segment Reporting

The Company monitors the performance of its operations in three segments, Non-life, Life and Corporate and Other. The Non-life segment is further divided into four sub-segments: North America, 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 or approach to risk management.

(u) Recent Accounting Pronouncements

In December 2011 (with a clarification amendment issued in January 2013), the Financial Accounting Standards Board (FASB) issued new guidance aimed at enhancing disclosures about derivatives, repurchase agreements and reverse repurchase agreements, securities borrowing and securities lending transactions to the extent they are subject to master netting arrangements or similar agreements. The guidance is effective for interim and annual periods beginning on or after January 1, 2013. The adoption of this guidance had no impact on the Company's consolidated shareholders' equity or net income. The Company is currently evaluating the impact of the adoption of this guidance on its disclosures.

In February 2013, the FASB issued new guidance aimed at enhancing disclosures for items reclassified out of accumulated other comprehensive income. The guidance does not amend any existing requirements for reporting net income or other comprehensive income in the financial statements. The guidance is effective for interim and annual periods beginning on or after December 15, 2012. The adoption of this guidance had no impact on the Company's consolidated shareholders' equity or net income. The Company is currently evaluating the impact of the adoption of this guidance on its disclosures.

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3. Fair Value***(a) Fair Value of Financial Instrument Assets***

The fair value hierarchy prioritizes the inputs to valuation techniques used to measure fair value by maximizing the use of observable inputs and minimizing the use of unobservable inputs by requiring that the most observable inputs be used when available. Observable inputs are inputs that market participants would use in pricing an asset or liability based on market data obtained from sources independent of the Company. Unobservable inputs are inputs that reflect the Company's assumptions about what market participants would use in pricing the asset or liability based on the best information available in the circumstances. The level in the hierarchy within which a given fair value measurement falls is determined based on the lowest level input that is significant to the measurement.

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

Level 1 inputs Unadjusted, quoted prices in active markets for identical assets or liabilities that the Company has the ability to access. The Company's financial instruments that it measures at fair value using Level 1 inputs generally include: equities and real estate investment trusts listed on a major exchange, exchange traded funds and exchange traded derivatives, including futures and that are actively traded.

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

The Company's financial instruments that it measures at fair value using Level 2 inputs generally include: U.S. government issued bonds; U.S. government sponsored enterprises bonds; U.S. state, territory and municipal entities bonds; Non-U.S. sovereign government, supranational and government related bonds consisting primarily of bonds issued by non-U.S. national governments and their agencies, non-U.S. regional governments and supranational organizations; investment grade and high yield corporate bonds; catastrophe bonds; mortality bonds; asset-backed securities; mortgage-backed securities; certain equities traded on foreign exchanges; certain fixed income mutual funds; foreign exchange forward contracts; over-the-counter derivatives such as foreign currency option contracts, non-exchange traded futures, credit default swaps, total return swaps, interest rate swaps and TBAs.

Level 3 inputs Unobservable inputs.

The Company's financial instruments that it measures at fair value using Level 3 inputs generally include: inactively traded fixed maturities including U.S. state, territory and municipal bonds; privately issued corporate securities; special purpose financing asset-backed bonds; unlisted equities; real estate and certain other mutual fund investments; inactively traded weather derivatives; notes and loan receivables, notes securitizations, annuities and residuals, private equity funds and longevity and other total return swaps.

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The Company's financial instruments measured at fair value include investments classified as trading securities, certain other invested assets and the segregated investment portfolio underlying the funds held directly managed account (see Notes 4 and 5). At December 31, 2012 and 2011, the Company's financial instruments measured at fair value were classified between Levels 1, 2 and 3 as follows (in thousands of U.S. dollars):

	Quoted prices in active markets for identical assets (Level 1)	Significant other observable inputs (Level 2)	Significant unobservable inputs (Level 3)	Total
December 31, 2012				
Fixed maturities				
U.S. government and government sponsored enterprises	\$	\$ 1,130,924	\$	\$ 1,130,924
U.S. states, territories and municipalities		10,151	233,235	243,386
Non-U.S. sovereign government, supranational and government related		2,375,673		2,375,673
Corporate		6,554,934	100,904	6,655,838
Asset-backed securities		400,336	323,134	723,470
Residential mortgage-backed securities		3,199,924		3,199,924
Other mortgage-backed securities		66,100		66,100
Fixed maturities	\$	\$ 13,738,042	\$ 657,273	\$ 14,395,315
Short-term investments	\$	\$ 150,552	\$	\$ 150,552
Equities				
Consumer noncyclical	\$ 130,526	\$	\$	\$ 130,526
Energy	118,213			118,213
Finance	79,456	7,472	13,477	100,405
Technology	71,927		6,987	78,914
Real estate investment trusts	66,846			66,846
Communications	65,722			65,722
Consumer cyclical	62,526			62,526
Industrials	59,242			59,242
Insurance	39,132			39,132
Other	60,913			60,913
Mutual funds and exchange traded funds	34,053	270,246	7,264	311,563
Equities	\$ 788,556	\$ 277,718	\$ 27,728	\$ 1,094,002
Other invested assets				
Derivative assets				
Foreign exchange forward contracts	\$	\$ 7,889	\$	\$ 7,889
Foreign currency option contracts		1,410		1,410
Futures contracts	1,956			1,956
Credit default swaps (protection purchased)		6		6
Credit default swaps (assumed risks)		512		512
Total return swaps			6,630	6,630
TBAAs		115		115
Other				
Notes and loan receivables and notes securitization			34,902	34,902
Annuities and residuals			46,882	46,882
Private equity fund			1,404	1,404
Derivative liabilities				
Foreign exchange forward contracts		(17,395)		(17,395)
Foreign currency option contracts		(186)		(186)
Futures contracts	(1,352)			(1,352)
Credit default swaps (protection purchased)		(807)		(807)
Insurance-linked securities			(2,173)	(2,173)
Total return swaps			(546)	(546)
Interest rate swaps		(7,880)		(7,880)
TBAAs		(163)		(163)
Other invested assets	\$ 604	\$ (16,499)	\$ 87,099	\$ 71,204
Funds held directly managed				
U.S. government and government sponsored enterprises	\$	\$ 218,696	\$	\$ 218,696
U.S. states, territories and municipalities			345	345

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Non-U.S. sovereign government, supranational and government related		233,987		233,987
Corporate		362,243		362,243
Other invested assets			17,976	17,976
Funds held	directly managed	\$	\$ 814,926	\$ 18,321
				\$ 833,247
Total		\$ 789,160	\$ 14,964,739	\$ 790,421
				\$ 16,544,320

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December 31, 2011	Quoted prices in active markets for identical assets (Level 1)	Significant other observable inputs (Level 2)	Significant unobservable inputs (Level 3)	Total
Fixed maturities				
U.S. government and government sponsored enterprises	\$	\$ 1,115,777	\$	\$ 1,115,777
U.S. states, territories and municipalities		12,269	111,415	123,684
Non-U.S. sovereign government, supranational and government related		2,964,091		2,964,091
Corporate		5,635,297	111,700	5,746,997
Asset-backed securities		376,384	257,415	633,799
Residential mortgage-backed securities		3,282,901		3,282,901
Other mortgage-backed securities		74,580		74,580
Fixed maturities	\$	\$ 13,461,299	\$ 480,530	\$ 13,941,829
Short-term investments	\$	\$ 42,571	\$	\$ 42,571
Equities				
Consumer noncyclical	\$ 124,697	\$ 154	\$	\$ 124,851
Energy	83,403	858		84,261
Finance	69,722	191	9,670	79,583
Technology	74,729			74,729
Communications	64,036	44		64,080
Industrials	58,254			58,254
Insurance	58,017			58,017
Consumer cyclical	52,305	108		52,413
Other	69,457	239		69,696
Mutual funds and exchange traded funds	35,285	237,027	6,495	278,807
Equities	\$ 689,905	\$ 238,621	\$ 16,165	\$ 944,691
Other invested assets				
Derivative assets				
Foreign exchange forward contracts	\$	\$ 7,865	\$	\$ 7,865
Foreign currency option contracts		1,074		1,074
Futures contracts	13,524	48		13,572
Credit default swaps (protection purchased)		92		92
Credit default swaps (assumed risks)		246		246
Total return swaps		443	7,230	7,673
TBAs		747		747
Other				
Notes and loan receivables and notes securitization			63,565	63,565
Annuities and residuals			27,840	27,840
Derivative liabilities				
Foreign exchange forward contracts		(5,816)		(5,816)
Foreign currency option contracts		(321)		(321)
Futures contracts	(12,905)	(1,268)		(14,173)
Credit default swaps (protection purchased)		(1,285)		(1,285)
Credit default swaps (assumed risks)		(772)		(772)
Insurance-linked securities			(968)	(968)
Total return swaps			(640)	(640)
Interest rate swaps		(7,992)		(7,992)
TBAs		(58)		(58)
Other liabilities		(137)		(137)
Other invested assets	\$ 619	\$ (7,134)	\$ 97,027	\$ 90,512
Funds held directly managed				
U.S. government and government sponsored enterprises	\$	\$ 268,539	\$	\$ 268,539
U.S. states, territories and municipalities			334	334

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Non-U.S. sovereign government, supranational and government related		274,665		274,665
Corporate		480,485		480,485
Short-term investments		18,097		18,097
Other invested assets			15,433	15,433
Funds held directly managed	\$	\$ 1,041,786	\$ 15,767	\$ 1,057,553
Total	\$	\$ 690,524	\$ 14,777,143	\$ 609,489
				\$ 16,077,156

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At December 31, 2012 and 2011, the aggregate carrying amounts of items included in Other invested assets that the Company did not measure at fair value were \$262.2 million and \$267.6 million, respectively, which related to the Company's investments that are accounted for using the cost method of accounting, equity method of accounting or investment company accounting.

In addition to the investments underlying the funds held directly managed account held at fair value of \$833.2 million and \$1,057.6 million at December 31, 2012 and 2011, respectively, the funds held directly managed account also included cash and cash equivalents, carried at fair value, of \$53.7 million and \$176.3 million, respectively, and accrued investment income of \$10.2 million and \$13.7 million, respectively. At December 31, 2012 and 2011, the aggregate carrying amounts of items included in the funds held directly managed account that the Company did not measure at fair value were \$33.6 million and \$20.4 million, respectively, which primarily related to other assets and liabilities held by Colisée Re related to the underlying business, which are carried at cost (see Note 5).

At December 31, 2012 and 2011, substantially all of the accrued investment income in the Consolidated Balance Sheets related to the Company's investments and the investments underlying the funds held directly managed account for which the fair value option was elected.

During the year ended December 31, 2012, certain equities traded on foreign exchanges with a fair value of \$1.1 million were transferred from Level 2 to Level 1 given they were trading in an active market at December 31, 2012. During the year ended December 31, 2011, there were no significant transfers between Level 1 and Level 2.

Disclosures about the fair value of financial instruments that the Company does not measure at fair value exclude insurance contracts and certain other financial instruments. At December 31, 2012 and 2011, the fair values of financial instrument assets recorded in the Consolidated Balance Sheets not described above, approximate their carrying values.

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The following tables are reconciliations of the beginning and ending balances for all financial instruments measured at fair value using Level 3 inputs for the years ended December 31, 2012 and 2011 (in thousands of U.S. dollars):

For the year ended	Balance at beginning of year	Realized and unrealized investment gains (losses) included in net income	Purchases and issuances (1)	Settlements and sales (2)	Net transfers out of Level 3	Balance at end of year	Change in unrealized investment gains (losses) relating to assets held at end of year
December 31, 2012							
Fixed maturities							
U.S. states, territories and municipalities	\$ 111,415	\$ 4,854	\$ 117,650	\$ (684)	\$	\$ 233,235	\$ 4,854
Corporate	111,700	(948)	120	(9,968)		100,904	(1,066)
Asset-backed securities	257,415	12,241	235,402	(181,924)		323,134	8,334
	\$ 480,530	\$ 16,147	\$ 353,172	\$ (192,576)	\$	\$ 657,273	\$ 12,122
Equities							
Finance	\$ 9,670	\$ 3,816	\$ 6,800	\$ (9)	\$ (6,800)	\$ 13,477	\$ 3,809
Technology		(205)	7,192			6,987	(205)
Mutual funds and exchange traded funds	6,495	769				7,264	769
	\$ 16,165	\$ 4,380	\$ 13,992	\$ (9)	\$ (6,800)	\$ 27,728	\$ 4,373
Other invested assets							
Derivatives, net	\$ 5,622	\$ 3,832	\$ (5,543)	\$	\$	\$ 3,911	\$ 2,306
Notes and loan receivables and notes securitization	63,565	6,773	63,894	(99,330)		34,902	(984)
Annuities and residuals	27,840	11,621	30,683	(23,262)		46,882	5,944
Private equity fund		(46)	1,450			1,404	(46)
	\$ 97,027	\$ 22,180	\$ 90,484	\$ (122,592)	\$	\$ 87,099	\$ 7,220
Funds held directly managed							
U.S. states, territories and municipalities	\$ 334	\$ 11	\$	\$	\$	\$ 345	\$ 11
Other invested assets	15,433	2,543				17,976	2,543
	\$ 15,767	\$ 2,554	\$	\$	\$	\$ 18,321	\$ 2,554
Total	\$ 609,489	\$ 45,261	\$ 457,648	\$ (315,177)	\$ (6,800)	\$ 790,421	\$ 26,269

(1) Purchases and issuances of derivatives includes issuances of \$5.8 million.

(2) Settlements and sales of notes and loan receivables and notes securitization include sales of \$4.7 million.

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For the year ended December 31, 2011	Balance at beginning of year	Realized and unrealized investment gains (losses) included in net loss	Purchases and issuances (1)	Settlements and sales (2)	Net transfers into Level 3	Balance at end of year	Change in unrealized investment gains (losses) relating to assets held at end of year
Fixed maturities							
U.S. states, territories and municipalities	\$ 55,124	\$ 5,288	\$ 51,163	\$ (160)	\$	\$ 111,415	\$ 5,288
Corporate	76,982	(36,617)	41,246	(10,091)	40,180	111,700	2,430
Asset-backed securities	213,139	15,161	182,090	(152,975)		257,415	14,938
Residential mortgage-backed securities		1,385	4,212	(5,597)			
Other mortgage-backed securities	290	(225)	408	(473)			
Fixed maturities	\$ 345,535	\$ (15,008)	\$ 279,119	\$ (169,296)	\$ 40,180	\$ 480,530	\$ 22,656
Short-term investments	\$	\$ (1,069)	\$ 3,992	\$ (2,923)	\$	\$	\$
Equities							
Finance	\$ 2,486	\$ 223	\$ 9,523	\$ (2,562)	\$	\$ 9,670	\$ (4)
Mutual funds and exchange traded funds	40,927	1,195		(35,627)		6,495	(429)
Equities	\$ 43,413	\$ 1,418	\$ 9,523	\$ (38,189)	\$	\$ 16,165	\$ (433)
Other invested assets							
Derivatives, net	\$ (7,954)	\$ (3,546)	\$ (4,103)	\$ 21,225	\$	\$ 5,622	\$ 2,548
Notes and loan receivables and notes securitization	53,600	(22,257)	49,688	(17,466)		63,565	(22,257)
Annuities and residuals	32,678	(1,441)	11,886	(15,283)		27,840	(2,242)
Other invested assets	\$ 78,324	\$ (27,244)	\$ 57,471	\$ (11,524)	\$	\$ 97,027	\$ (21,951)
Funds held directly managed							
U.S. states, territories and municipalities	\$ 368	\$ (34)	\$	\$	\$	\$ 334	\$ (34)
Mortgage/asset-backed securities	12,118	(150)		(11,968)			
Other invested assets	20,528	(3,855)		(1,240)		15,433	(3,519)
Funds held directly managed	\$ 33,014	\$ (4,039)	\$	\$ (13,208)	\$	\$ 15,767	\$ (3,553)
Total	\$ 500,286	\$ (45,942)	\$ 350,105	\$ (235,140)	\$ 40,180	\$ 609,489	\$ (3,281)

(1) Purchases and issuances of derivatives includes issuances of \$5.1 million.

(2) Sales and settlements of derivatives includes settlements of \$21.2 million.

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During the year ended December 31, 2012, an equity traded on a foreign exchange with a fair value of \$6.8 million was transferred from Level 3 into Level 2 given it was valued using observable inputs at December 31, 2012.

During the year ended December 31, 2011, a catastrophe bond (included within corporate fixed maturities) with a fair value of \$40.2 million was transferred from Level 2 into Level 3. The transfer into Level 3 was due to the lack of observable market inputs at March 31, 2011, leading the Company to apply inputs that were not directly observable. The catastrophe bond matured during the year ended December 31, 2011.

The following table shows the significant unobservable inputs used in the valuation of financial instruments measured at fair value using Level 3 inputs at December 31, 2012 (in thousands of U.S. dollars):

December 31, 2012	Fair Value	Valuation Techniques	Unobservable Inputs	Range (Weighted average)
Fixed maturities				
U.S. states, territories and municipalities	\$ 233,235	Discounted cash flow	Credit spreads	2.8% 4.5% (3.7%)
Asset-backed securities interest only	12,625	Discounted cash flow	Credit spreads	6.8% 11.7% (9.1%)
			Prepayment speed	20.0% (20.0%)
Asset-backed securities other	310,509	Discounted cash flow	Credit spreads	4.0% 12.2% (7.6%)
Equities				
Finance	13,477	Weighted market comparables	Comparable return	0.8% (0.8%)
Technology	6,987	Weighted market comparables	Comparable return	-1.5% (-1.5%)
Other invested assets				
Total return swaps	6,084	Discounted cash flow	Credit spreads	2.6% 4.6% (3.2%)
Notes and loan receivables	24,902	Discounted cash flow	Credit spreads	17.5% (17.5%)
			Gross revenue/fair value	1.7 2.1 (1.8)
Notes securitization	10,000	Discounted cash flow	Credit spreads	6.5% (6.5%)
Annuities and residuals	46,882	Discounted cash flow	Credit spreads	4.7% 9.9% (7.2%)
			Prepayment speed	0.0% 15.0% (7.6%)
			Constant default rate	2.3% 35.0% (13.2%)
Private equity fund	1,404	Lag reported market value	Net asset value, as reported	100.0% (100.0%)
			Market adjustments	7.3% (7.3%)
Funds held directly managed				
Other invested assets	17,976	Lag reported market value	Net asset value, as reported	100.0% (100.0%)
			Market adjustments	-38.1% 0.0% (-12.1%)

The table above does not include financial instruments that are measured using unobservable inputs (Level 3) where the unobservable inputs were obtained from external sources and used without adjustment. These financial instruments include mortality bonds (included within corporate fixed maturities), mutual fund investments (included within equities), and certain insurance-linked securities (included within other invested assets).

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The Company has established a Valuation Committee which is responsible for determining the Company's invested asset valuation policy and related procedures, for reviewing significant changes in the fair value measurements of securities classified as Level 3 from period to period, and for reviewing in accordance with the invested asset valuation policy an independent internal peer analysis that is performed on the fair value measurements of all securities that are classified as Level 3. The Valuation Committee is comprised of members of the Company's senior management team and meets on a quarterly basis. The Company's invested asset valuation policy is monitored by the Company's Audit Committee of the Board of Directors (Board) and approved annually by the Company's Risk and Finance Committee of the Board.

Changes in the fair value of the Company's financial instruments subject to the fair value option during the years ended December 31, 2012, 2011 and 2010 were as follows (in thousands of U.S. dollars):

	2012	2011	2010
Fixed maturities and short-term investments	\$ 186,063	\$ 128,224	\$ 142,634
Equities	66,253	(101,860)	64,825
Other invested assets	18,732	(24,839)	(1,176)
Funds held directly managed	7,969	5,853	24,358
Total	\$ 279,017	\$ 7,378	\$ 230,641

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

The following methods and assumptions were used by the Company in estimating the fair value of each class of financial instrument recorded in the Consolidated Balance Sheets. There have been no material changes in the Company's valuation techniques during the periods presented.

Fixed maturities

U.S. government and government sponsored enterprises U.S. government and government sponsored enterprises securities consist primarily of bonds issued by the U.S. Treasury, corporate debt securities issued by the Federal National Mortgage Association, the Federal Home Loan Bank and the Private Export Funding Corporation. These securities are generally priced by independent pricing services. The independent pricing services may use actual transaction prices for securities that have been actively traded. For securities that have not been actively traded, each pricing source has its own proprietary method to determine the fair value, which may incorporate option adjusted spreads (OAS), interest rate data and market news. The Company generally classifies these securities in Level 2.

U.S. states, territories and municipalities U.S. states, territories and municipalities securities consist primarily of bonds issued by U.S. states, territories and municipalities. These securities are generally priced by independent pricing services using the techniques described for U.S. government and government sponsored enterprises above. The Company generally classifies these securities in Level 2. Certain of the bonds that are issued by municipal housing authorities are not actively traded and are priced based on internal models using unobservable inputs. Accordingly, the Company classifies these securities in Level 3. The significant unobservable input used in the fair value measurement of these U.S. states, territories and municipalities securities classified as Level 3 is credit spreads. A significant increase (decrease) in credit spreads in isolation could result in a significantly lower (higher) fair value measurement.

Non-U.S. sovereign government, supranational and government related Non-U.S. sovereign government, supranational and government related securities consist primarily of bonds issued by non-U.S. national governments and their agencies, non-U.S. regional governments and supranational organizations. These securities are generally priced by independent pricing services using the techniques described for U.S. government and government sponsored enterprises above. The Company generally classifies these securities in Level 2.

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Corporate Corporate securities consist primarily of bonds issued by U.S. and foreign corporations covering a variety of industries and issuing countries. These securities are generally priced by independent pricing services and brokers. The pricing provider incorporates information including credit spreads, interest rate data and market news into the valuation of each security. The Company generally classifies these securities in Level 2. When a corporate security is inactively traded or the valuation model uses unobservable inputs, the Company classifies the security in Level 3. The significant unobservable input used in the fair value measurement of corporate securities classified as Level 3 is discount rates. A significant increase (decrease) in discount rates in isolation could result in a significantly lower (higher) fair value measurement.

Asset-backed securities Asset-backed securities primarily consist of bonds issued by U.S. and foreign corporations that are backed by student loans, automobile loans, credit card receivables, equipment leases, and special purpose financing. With the exception of special purpose financing, these asset-backed securities are generally priced by independent pricing services and brokers. The pricing provider applies dealer quotes and other available trade information, prepayment speeds, yield curves and credit spreads to the valuation. The Company generally classifies these securities in Level 2. Special purpose financing securities are generally inactively traded and are priced based on valuation models using unobservable inputs. The Company generally classifies these securities in Level 3. The significant unobservable inputs used in the fair value measurement of these asset-backed securities classified as Level 3 are prepayment speeds and credit spreads. Significant increases (decreases) in these prepayment speeds and credit spreads in isolation could result in a significantly lower (higher) fair value measurement.

Residential mortgage-backed securities Residential mortgage-backed securities primarily consist of bonds issued by the Government National Mortgage Association, the Federal National Mortgage Association, the Federal Home Loan Mortgage Corporation, as well as private, non-agency issuers. With the exception of private, non-agency issuers, these residential mortgage-backed securities are generally priced by independent pricing services and brokers. When current market trades are not available, the pricing provider or the Company will employ proprietary models with observable inputs including other trade information, prepayment speeds, yield curves and credit spreads. The Company generally classifies these securities in Level 2.

Other mortgage-backed securities Other mortgage-backed securities primarily consist of commercial mortgage-backed securities. These securities are generally priced by independent pricing services and brokers. The pricing provider applies dealer quotes and other available trade information, prepayment speeds, yield curves and credit spreads to the valuation. The Company generally classifies these securities in Level 2.

In general, the methods employed by the independent pricing services to determine the fair value of the securities that have not been actively traded involve the use of matrix pricing in which the independent pricing source applies the credit spread for a comparable security that has traded recently to the current yield curve to determine a reasonable fair value. The Company uses a pricing service ranking to consistently select the most appropriate pricing service in instances where it receives multiple quotes on the same security. When fair values are unavailable from these independent pricing sources, quotes are obtained directly from broker-dealers who are active in the corresponding markets. Most of the Company's fixed maturities are priced from the pricing services or dealer quotes. The Company will typically not make adjustments to prices received from pricing services or dealer quotes; however, in instances where the quoted external price for a security uses significant unobservable inputs, the Company will classify that security as Level 3. The methods used to develop and substantiate the unobservable inputs used are based on the Company's valuation policy and are dependent upon the facts and circumstances surrounding the individual investments which are generally transaction specific. The Company's inactively traded fixed maturities are classified as Level 3. For all fixed maturity investments, the bid price is used for estimating fair value.

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

Short term investments

Short term investments are valued in a manner similar to the Company's fixed maturity investments and are generally classified in Level 2.

Equities

Equity securities include U.S. and foreign common and preferred stocks, mutual funds and exchange traded funds. Equities and exchange traded funds are generally classified in Level 1 as the Company uses prices received from independent pricing sources based on quoted prices in active markets. Equities classified as Level 2 are generally mutual funds invested in fixed income securities, where the net asset value of the fund is provided on a daily basis, and common stocks traded in inactive markets. Equities classified as Level 3 are generally mutual funds invested in securities other than the common stock of publicly traded companies, where the net asset value is not provided on a daily basis, and inactively traded common stocks. The significant unobservable input used in the fair value measurement of inactively traded common stocks classified as Level 3 is market return information, weighted using management's judgment, from comparable selected publicly traded companies in the same industry, in a similar region and of a similar size. Significant increases (decreases) in the market return information could result in a significantly higher (lower) fair value measurement.

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

Other invested assets

The Company's exchange traded derivatives, such as futures are generally classified as Level 1 as their fair values are quoted prices in active markets. The Company's foreign exchange forward contracts, foreign currency option contracts, non-exchange traded futures, credit default swaps, total return swaps, interest rate swaps and TBAs are generally classified as Level 2 within the fair value hierarchy and are priced by independent pricing services.

Included in the Company's Level 3 classification, in general, are certain inactively traded weather derivatives; notes and loan receivables, notes securitizations, annuities and residuals, private equity funds and longevity and other total return swaps. For Level 3 instruments, the Company will generally (i) receive a price based on a manager's or trustee's valuation for the asset; (ii) develop an internal discounted cash flow model to measure fair value; or (iii) use market return information, adjusted if necessary and weighted using management's judgment, from comparable selected publicly traded equity funds, in a similar region and of a similar size. Where the Company receives prices from the manager or trustee, these prices are based on the manager's or trustee's estimate of fair value for the assets and are generally audited on an annual basis. Where the Company develops its own discounted cash flow models, the inputs will be specific to the asset in question, based on appropriate historical information, adjusted as necessary, and using appropriate discount rates. The

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significant unobservable inputs used in the fair value measurement of other invested assets classified as Level 3 include credit spreads, prepayment speeds, constant default rates and gross revenue to fair value ratios. Significant increases (decreases) in any of these inputs in isolation could result in a significantly lower (higher) fair value measurement. As part of the Company's modeling to determine the fair value of an investment, the Company considers counterparty credit risk as an input to the model, however, the majority of the Company's counterparties are investment grade rated institutions and the failure of any one counterparty would not have a significant impact on the Company's consolidated financial statements.

To validate prices, the Company will compare them to benchmarks, where appropriate, or to the business results generally within that asset class and specifically to those particular assets.

Funds held directly managed

The segregated investment portfolio underlying the funds held directly managed account is comprised of fixed maturities and other invested assets which are fair valued on a basis consistent with the methods described above. Substantially all fixed maturities and short-term investments within the funds held directly managed account are classified as Level 2 within the fair value hierarchy.

The other invested assets within the segregated investment portfolio underlying the funds held directly managed account, which are classified as Level 3 investments, are primarily real estate mutual fund investments carried at fair value. For the real estate mutual fund investments, the Company receives a price based on the real estate fund manager's valuation for the asset and further adjusts the price, if necessary, based on appropriate current information on the real estate market. Significant increases (decreases) to the adjustment to the real estate fund manager's valuation could result in a significantly lower (higher) fair value measurement.

To validate prices within the segregated investment portfolio underlying the funds held directly managed account, the Company utilizes the methods described above.

(b) Fair Value of Financial Instrument Liabilities

At December 31, 2012 and 2011, the fair values of financial instrument liabilities recorded in the Consolidated Balance Sheets approximate their carrying values, with the exception of the debt related to senior notes (Senior Notes) and the debt related to capital efficient notes (CENts).

The following methods and assumptions were used by the Company in estimating the fair value of each class of financial instrument liability recorded in the Consolidated Balance Sheets for which the Company does not measure that instrument at fair value:

the fair value of the Senior Notes was calculated based on discounted cash flow models using observable market yields and contractual cash flows based on the aggregate principal amount outstanding of \$250 million from PartnerRe Finance A LLC and \$500 million from PartnerRe Finance B LLC at December 31, 2012 and 2011; and

the fair value of the CENts was calculated based on discounted cash flow models using observable market yields and contractual cash flows based on the aggregate principal amount outstanding from PartnerRe Finance II Inc. of \$63 million at December 31, 2012 and 2011.

The carrying values and fair values of the Senior Notes and CENts at December 31, 2012 and 2011 were as follows (in thousands of U.S. dollars):

	December 31, 2012		December 31, 2011	
	Carrying Value	Fair Value	Carrying Value	Fair Value
Debt related to senior notes ⁽¹⁾	\$ 750,000	\$ 859,367	\$ 750,000	\$ 781,449
Debt related to capital efficient notes ⁽²⁾	63,384	66,990	63,384	55,678

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- (1) *PartnerRe Finance A LLC and PartnerRe Finance B LLC, the issuers of the Senior Notes, do not meet consolidation requirements under U.S. GAAP. Accordingly, the Company shows the related intercompany debt of \$750 million in its Consolidated Balance Sheets at December 31, 2012 and 2011.*
- (2) *PartnerRe Finance II Inc., the issuer of the CENts, does not meet consolidation requirements under U.S. GAAP. Accordingly, the Company shows the related intercompany debt of \$71 million in its Consolidated Balance Sheets at December 31, 2012 and 2011.*
- At December 31, 2012, the Company's debt related to the Senior Notes and CENts was classified as Level 2 in the fair value hierarchy.

Disclosures about the fair value of financial instrument liabilities exclude insurance contracts and certain other financial instruments.

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

The cost, gross unrealized gains, gross unrealized losses and fair value of investments classified as trading securities at December 31, 2012 and 2011 were as follows (in thousands of U.S. dollars):

December 31, 2012	Cost ⁽¹⁾	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
Fixed maturities				
U.S. government and government sponsored enterprises	\$ 1,108,513	\$23,173	\$ (762)	\$ 1,130,924
U.S. states, territories and municipalities	232,433	11,057	(104)	243,386
Non-U.S. sovereign government, supranational and government related	2,221,272	155,144	(743)	2,375,673
Corporate	6,197,594	463,221	(4,977)	6,655,838
Asset-backed securities	701,264	23,972	(1,766)	723,470
Residential mortgage-backed securities	3,128,618	118,988	(47,682)	3,199,924
Other mortgage-backed securities	63,921	2,850	(671)	66,100
Total fixed maturities	13,653,615	798,405	(56,705)	14,395,315
Short-term investments	150,634	9	(91)	150,552
Equities	1,000,326	115,351	(21,675)	1,094,002
Total	\$ 14,804,575	\$913,765	\$ (78,471)	\$ 15,639,869

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December 31, 2011	Cost ⁽¹⁾	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
Fixed maturities				
U.S. government and government sponsored enterprises	\$ 1,084,533	\$31,283	\$ (39)	\$ 1,115,777
U.S. states, territories and municipalities	117,528	6,169	(13)	123,684
Non-U.S. sovereign government, supranational and government related	2,807,363	158,900	(2,172)	2,964,091
Corporate	5,461,478	319,090	(33,571)	5,746,997
Asset-backed securities	626,508	11,558	(4,267)	633,799
Residential mortgage-backed securities	3,224,850	94,781	(36,730)	3,282,901
Other mortgage-backed securities	72,144	2,833	(397)	74,580
Total fixed maturities	13,394,404	624,614	(77,189)	13,941,829
Short-term investments	42,563	22	(14)	42,571
Equities	917,613	99,152	(72,074)	944,691
Total	\$ 14,354,580	\$723,788	\$ (149,277)	\$ 14,929,091

(1) Cost is amortized cost for fixed maturities and short-term investments and cost for equity securities.

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

The distribution of fixed maturities and short-term investments at December 31, 2012, by contractual maturity date, is shown below (in thousands of U.S. dollars). Actual maturities may differ from contractual maturities because certain borrowers have the right to call or prepay certain obligations with or without call or prepayment penalties.

	Cost	Fair Value
One year or less	\$ 1,072,406	\$ 1,080,952
More than one year through five years	4,022,402	4,198,061
More than five years through ten years	3,999,711	4,336,243
More than ten years	815,927	941,117
Subtotal	9,910,446	10,556,373
Mortgage/asset-backed securities	3,893,803	3,989,494
Total	\$ 13,804,249	\$ 14,545,867

(c) Net Realized and Unrealized Investment Gains

The components of the net realized and unrealized investment gains for the years ended December 31, 2012, 2011 and 2010 were as follows (in thousands of U.S. dollars):

	2012	2011	2010
Net realized investment gains on fixed maturities and short-term investments	\$ 172,987	\$ 157,207	\$ 173,426
Net realized investment gains on equities	72,155	90,866	44,736
Net realized losses on other invested assets	(16,691)	(176,295)	(68,568)
Change in net unrealized (losses) gains on other invested assets	(9,568)	(46,278)	3,742
Change in net unrealized investment gains on fixed maturities and short-term investments	186,063	128,224	142,634
Change in net unrealized investment gains (losses) on equities	66,253	(101,860)	64,825
Net other realized and unrealized investment gains	5,843	3,617	13,335
Net realized and unrealized investment gains on funds held directly managed	16,367	11,211	27,352

Total net realized and unrealized investment gains	\$ 493,409	\$ 66,692	\$ 401,482
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Table of Contents**(d) Net Investment Income**

The components of net investment income for the years ended December 31, 2012, 2011 and 2010 were as follows (in thousands of U.S. dollars):

	2012	2011	2010
Fixed maturities	\$ 512,833	\$ 561,576	\$ 580,258
Short-term investments, cash and cash equivalents	2,905	3,843	8,541
Equities	26,207	19,815	20,794
Funds held and other	44,109	49,502	52,794
Funds held directly managed	29,031	37,919	51,775
Investment expenses	(43,747)	(43,507)	(41,380)
Net investment income	\$ 571,338	\$ 629,148	\$ 672,782

Other than the funds held directly managed account, the Company generally earns investment income on funds held by reinsured companies based upon a predetermined interest rate, either fixed contractually at the inception of the contract or based upon a recognized index (e.g., LIBOR). Interest rates ranged from 2.0% to 5.0% for the years ended December 31, 2012 and 2011 and from 3.0% to 6.0% for the year ended December 31, 2010. See Note 5 for additional information on the funds held directly managed account.

(e) Pledged Assets

At December 31, 2012 and 2011, approximately \$167.5 million and \$21.3 million, respectively, of cash and cash equivalents and approximately \$2,532.0 million and \$2,314.7 million, respectively, of securities were deposited, pledged or held in escrow accounts in favor of ceding companies and other counterparties or government authorities to comply with reinsurance contract provisions and insurance laws.

(f) Net Payable for Securities Purchased/Sold

Included within Accounts payable, accrued expenses and other in the Consolidated Balance Sheets at December 31, 2012 and 2011 were amounts of gross receivable balances for securities sold and gross payable balances for securities purchased as follows (in thousands of U.S. dollars):

	2012	2011
Receivable for securities sold	\$ 22,133	\$ 71,477
Payable for securities purchased	(32,944)	(86,557)
Net payable for securities purchased/sold	\$ (10,811)	\$ (15,080)

5. Funds Held Directly Managed

Following Paris Re's acquisition of substantially all of the reinsurance operations of Colisée Re (previously known as AXA RE), a subsidiary of AXA SA (AXA), in 2006, Paris Re and its subsidiaries entered into an issuance agreement and a quota share retrocession agreement to assume business written by Colisée Re from January 1, 2006 to September 30, 2007 as well as the in-force business at December 31, 2005. The agreements provided that the premium related to the transferred business was retained by Colisée Re and credited to a funds held account. During the year ended December 31, 2011, the Company and Colisée Re entered into an endorsement to the quota share retrocession agreement, which resulted in a release of assets of approximately \$358 million from the funds held directly managed account to the Company. During the year ended December 31, 2012, pursuant to the terms of the Reserve Agreement with Colisée Re, the Company settled the payable to Colisée Re of approximately \$265 million based on the estimated cumulative balance of net favorable prior year loss development related to the guaranteed reserves. The settlement was funded by the sale of assets underlying the funds held directly managed account (see Note 8 for additional information).

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The assets underlying the funds held directly managed account are maintained by Colisée Re in a segregated investment portfolio and managed by the Company. The segregated investment portfolio underlying the funds held directly managed account is carried at fair value. Realized and unrealized investment gains and losses and net investment income related to the underlying investment portfolio in the funds held directly managed account inure to the benefit of the Company.

(a) Fixed Maturities, Short-Term Investments, Other Invested Assets and Other Assets and Liabilities

The cost, gross unrealized gains, gross unrealized losses and fair value of investments underlying the funds held directly managed account at December 31, 2012 and 2011 were as follows (in thousands of U.S. dollars):

December 31, 2012	Cost ⁽¹⁾	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
Fixed maturities				
U.S. government and government sponsored enterprises	\$ 211,104	\$7,669	\$ (77)	\$ 218,696
U.S. states, territories and municipalities	373		(28)	345
Non-U.S. sovereign government, supranational and government related	217,961	16,039	(13)	233,987
Corporate	341,705	20,555	(17)	362,243
Total fixed maturities	771,143	44,263	(135)	815,271
Other invested assets	26,777	619	(9,297)	18,099
Total	\$ 797,920	\$44,882	\$ (9,432)	\$ 833,370

December 31, 2011	Cost ⁽¹⁾	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
Fixed maturities				
U.S. government and government sponsored enterprises	\$ 255,573	\$12,966	\$	\$ 268,539
U.S. states, territories and municipalities	373		(39)	334
Non-U.S. sovereign government, supranational and government related	260,695	14,024	(54)	274,665
Corporate	470,546	12,889	(2,950)	480,485
Total fixed maturities	987,187	39,879	(3,043)	1,024,023
Short-term investments	18,097			18,097
Other invested assets	25,628		(10,063)	15,565
Total	\$ 1,030,912	\$39,879	\$ (13,106)	\$ 1,057,685

(1) Cost is amortized cost for fixed maturities and short-term investments.

In addition to the investments underlying the funds held directly managed account in the above table at December 31, 2012 and 2011, were cash and cash equivalents of \$53.7 million and \$176.3 million, respectively, other assets and liabilities of \$33.4 million and \$20.3 million, respectively, and accrued investment income of \$10.2 million and \$13.7 million, respectively. The other assets and liabilities represent working capital assets held by Colisée Re related to the underlying business.

Table of Contents**(b) Maturity Distribution of Fixed Maturities**

The distribution of fixed maturities underlying the funds held directly managed account at December 31, 2012, by contractual maturity date, is shown below (in thousands of U.S. dollars). Actual maturities may differ from contractual maturities because certain borrowers have the right to call or prepay certain obligations with or without call or prepayment penalties.

	Cost	Fair Value
One year or less	\$ 131,909	\$ 133,187
More than one year through five years	491,667	515,432
More than five years through ten years	124,560	140,641
More than ten years	23,007	26,011
Total	\$ 771,143	\$ 815,271

(c) Net Realized and Unrealized Investment Gains

The components of the net realized and unrealized investment gains on the funds held directly managed account for the years ended December 31, 2012, 2011 and 2010 were as follows (in thousands of U.S. dollars):

	2012	2011	2010
Net realized investment gains on fixed maturities and short-term investments	\$ 8,405	\$ 5,369	\$ 1,041
Net realized investment (losses) gains on other invested assets		(42)	