

20 YEARS OF PARTNERSHIP

2013 ANNUAL REPORT

PartnerRe



FINANCIAL HIGHLIGHTS

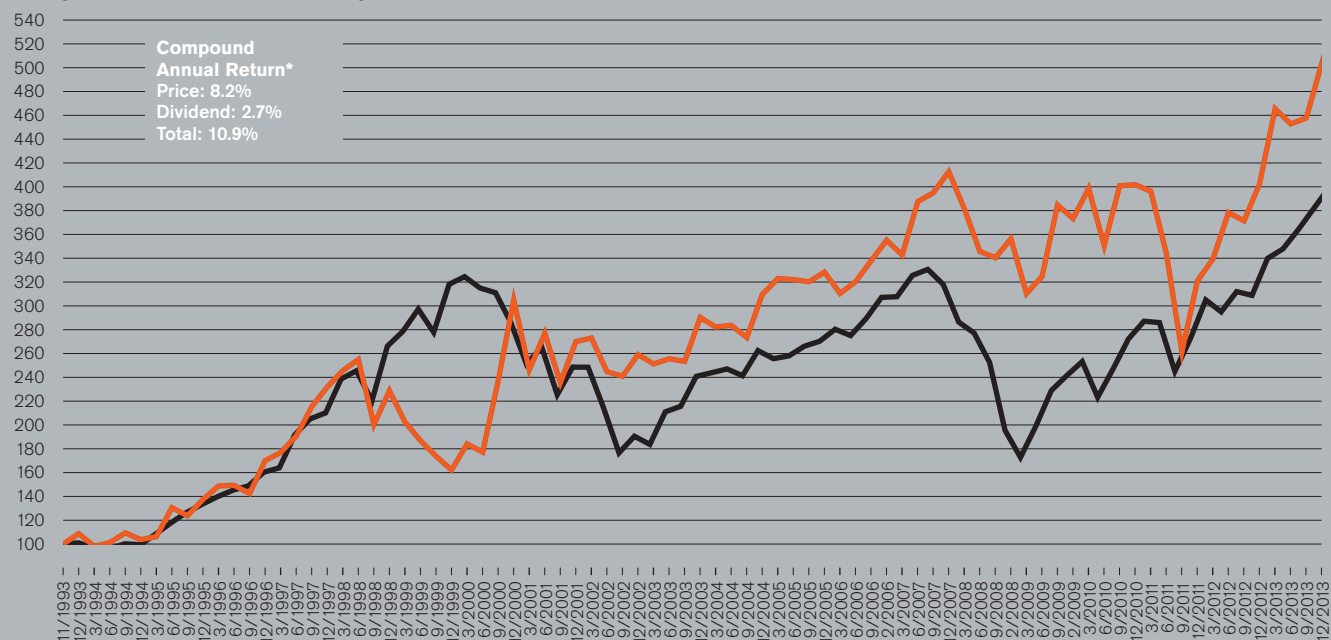
(expressed in millions of U.S. dollars, except per share data)

For the years ended December 31,	2009	2010	2011	2012	2013	
	\$ 3,949	\$ 4,705	\$ 4,486	\$ 4,573	\$ 5,397	Net premiums written
	5,418	5,861	5,352	5,563	5,538	Total revenues
	1,537	853	(520)	1,135	673	Net income (loss)
	931	492	(642)	664	722	Operating earnings (loss) available to common shareholders
	1,099	1,227	574	693	827	Operating cash flow
						Per common share:
	\$ 14.57	\$ 6.29	\$ (9.50)	\$ 10.43	\$ 12.79	Diluted operating earnings (loss) per share
	23.51	10.46	(8.40)	16.87	10.58	Diluted net income (loss) per share
	1.88	2.05	2.35	2.48	2.56	Dividend per share
	22.3%	7.4%	(10.1)%	12.3%	12.7%	Operating return on beginning diluted book value per common share and common share equivalents outstanding
	37.4%	12.4%	(9.0)%	19.9%	10.5%	Return on beginning diluted book value per common share and common share equivalents outstanding calculated with net income (loss) available to common shareholders
						Non-life ratios:
	52.7%	65.9%	96.7%	58.5%	56.7%	Loss ratio
	21.9	21.3	21.3	22.3	22.5	Acquisition ratio
	7.2	7.8	7.4	7.0	6.1	Other operating expense ratio
	81.8%	95.0%	125.4%	87.8%	85.3%	Combined ratio

At December 31,	2009	2010	2011	2012	2013	
	\$ 18,165	\$ 18,181	\$ 17,898	\$ 18,026	\$ 17,431	Total investments and cash and cash equivalents (including funds held – directly managed)
	23,733	23,364	22,855	22,980	23,038	Total assets
	12,427	12,417	12,919	12,523	12,620	Non-life & life reserves
	7,646	7,207	6,468	6,933	6,766	Total shareholders' equity
	84.51	93.77	84.82	100.84	109.26	Diluted book value per common share and common share equivalents
	7,959	8,020	7,281	7,747	7,523	Total capital
	6,165	5,623	4,194	4,742	5,529	Market capitalization

Comparative Performance Graph

— PartnerRe Share Price — S&P 500



* Source: Bloomberg

The Company's Annual Report contains measures such as operating earnings (loss), operating earnings (loss) per share and operating return on equity that are considered non-GAAP measures. In addition, the basis of calculation of these non-GAAP measures was redefined effective January 1, 2011, and the comparatives have been recast to reflect the current presentation. See also Key Financial Measures – Comment on Non-GAAP Measures in Item 7 of Part II of the Company's Annual Report on Form 10-K for the year ended December 31, 2013.

2013 ANNUAL REPORT

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LETTER FROM THE CHAIRMAN

TO OUR SHAREHOLDERS

2013 was a pivotal year for PartnerRe. The Company marked its 20th anniversary year with strong financial results while executing on a number of strategic and operational objectives, solidly positioning us for the challenging environment that we expect to persist. Our achievements in 2013 clearly reflect the fundamental strengths that have defined PartnerRe over the past two decades – resolve, resilience and a determination to succeed. I congratulate Costas and his teams for their hard work, dedication and absolute professionalism in achieving this success.

PartnerRe has enjoyed a long track record of success – financially, operationally and strategically. The Board and executive management team are confident that, notwithstanding the current difficult reinsurance and financial environment, we will continue this track record and continue to be a significant influence in the global reinsurance marketplace.

During the year, we welcomed Debra Perry and Greg Seow to our Board. Both Debra – with her extensive experience in financial services, specifically following insurance – and Greg – with his many years in finance and investments, his knowledge of the insurance sector and his business experience in Asia – are already proving to be valuable additions to the Board as we pave our way forward in this challenging and ever-changing market environment.

As I previously stated, we said farewell to our former Chairman John Rollwagen, who served on our Board from 2001, and Vito Baumgartner, who served from 2003, most recently as Chairman of the Compensation Committee.

I would like to acknowledge the contributions made by Lucio Stanca who will retire from the Board in May. After a distinguished career with IBM, Lucio has served on our Board since 1998, with an interruption from 2005 to 2006 when he served as Minister of Technology for the Italian Government. The Board joins me in thanking Lucio for his valuable contributions during his tenure and wishes him well in his retirement.

Looking ahead, as PartnerRe begins its third decade, and I begin my fifth year as Chairman, I am confident that the Company, with its clear focus, intelligent and thoughtful approach to the business and strong governance structure, will continue to evolve, adapt and succeed in any environment.

Thank you for your continued support.



Jean-Paul Montupet

EXECUTIVE TEAM



FROM LEFT TO RIGHT

Laurie Desmet, Bill Babcock, Costas Miranthis (sitting),
Emmanuel Clarke and Tad Walker

ORGANIZATION AT A GLANCE

COSTAS MIRANTHIS

President and CEO
PartnerRe Ltd.

ACTUARIAL

AUDIT

RISK MANAGEMENT

BUSINESS DEVELOPMENT

LEGAL

HUMAN RESOURCES

COMMUNICATIONS

BILL BABCOCK

EVP and CFO
PartnerRe Ltd.

FINANCE

- Accounting and Reporting
- Capital, Treasury and Currency Management
- Taxation
- Investor Relations

INVESTMENTS

- **Capital Assets**
 - Public Equity
 - Principal Finance
 - Private Equity
- **Fixed Income**
 - U.S. Treasury
 - European Governments
 - U.S. Credit
 - European Credit
 - U.S. Mortgage-backed Securities
 - Asset-backed Securities

LAURIE DESMET

EVP and Chief Operations Officer,
PartnerRe Ltd.

UNDERWRITING SUPPORT SERVICES

- Contract Administration and Reporting
- Life In-force Management
- Contract Wordings Review
- Counterparty Credit Review

REINSURANCE ACCOUNTING

- Accounts Processing
- Collections and Payments

CLAIMS

- Standard Claims Processing
- Complex Claims Analysis and Review

IT

- Applications
- Infrastructure
- Workplace Technology

EMMANUEL CLARKE

CEO, PartnerRe Global

GLOBAL PROPERTY & CASUALTY

- **Mature Markets**
 - Property
 - Casualty
 - Motor
 - Customized Solutions
- **High Growth Markets**
 - Property
 - Casualty
 - Motor
 - Multiline

GLOBAL SPECIALTY

- Agriculture
- Aviation/Space
- Credit/Surety
- Energy Onshore (Treaty)
- Engineering (Treaty)
- Marine/Energy Offshore (Treaty)
- Specialty Casualty
- Special Risks (Treaty)

D&F

- Property
- Energy On and Offshore
- Engineering
- Sports, Leisure, Entertainment

CATASTROPHE

- All Property Catastrophe Treaty Products
- Worldwide

LIFE

- Mortality
- Disability
- Critical Illness
- Long-term Care
- Longevity
- Financing
- Structured Solutions

HEALTH

- Managed Care
- Medical Reinsurance
- International Medical
- Employer Programs
- License Management
- Specialty Medical

WHOLESALE

TAD WALKER

CEO, PartnerRe North America

STANDARD LINES

- Property
- Casualty
- Regional
- Structured Risk

SPECIALTY LINES

- Specialty Casualty
- Space
- Surety and Fidelity
- New Products

MANAGED PROGRAMS

- Program Business
- Agriculture
- RRGs/Captives/Pools
- Terrorism
- U.S. Auto

CANADA

- Auto
- Property
- Casualty
- Multiline (All classes)
- Specialty Casualty

20 YEARS OF PARTNERSHIP

The name of our Company, PartnerRe, was selected 20 years ago to bring a clear message to the reinsurance market: we are committed to being a reliable, consistent partner.

The PartnerRe logo conveys the very essence of partnership: two equal, yet independent, partners with aligned interests.

As the Company has evolved over the past two decades, our commitment to partnership has only strengthened. A reliable and consistent partner today brings together insight, intuitive problem-solving, responsiveness, stability and trust, all in a dynamic equilibrium.

This is the foundation of our promise at PartnerRe.

PartnerRe



LETTER FROM THE CEO

2013 was a year of celebration and progress. We celebrated our 20th anniversary with a strong financial performance, while continuing to evolve our organizational structure and our business. While current financial success is gratifying, I am particularly proud of the progress that we made in a number of areas that we identified as critical to our future success. We have taken steps to improve the efficiency of our support operations, reorganized some of our underwriting teams to improve service to our clients and set up our first vehicle that manages catastrophe risk for third party investors. We continue to improve the diversification of our business, not least by establishing PartnerRe Health.

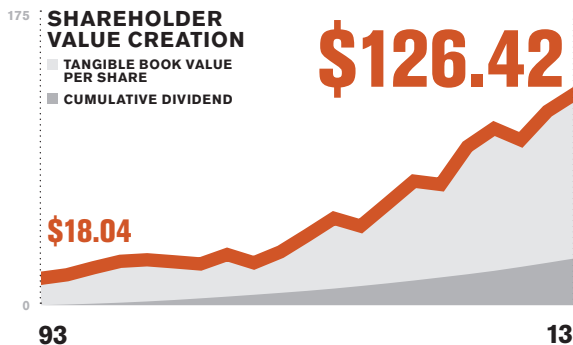
For many of our staff, 2013 was a year of significant change. Change, however well-planned and intentioned, entails risks and can provoke emotional reactions. I was particularly impressed with the way our staff handled changes – with professionalism, commitment, and adherence to our core values of integrity, transparency and respect. As a result, we executed planned changes without any perceptible disruption to our business.

I would like to thank all our staff that made this possible.

FINANCIAL HIGHLIGHTS

Our strong 2013 financial results were due to strong core operating performance enhanced by strong returns in our equity portfolios and strategic investments.

Our operating income of \$721.7 million, or \$12.79 per share, translates to an operating return on beginning equity of 12.7%.



We would be proud of this return in any environment, but we are particularly pleased to be able to achieve this return in the current low interest rate environment. Perhaps appropriately, given our 20th anniversary, this matches closely the average annualized return we have delivered over our 20 year history.

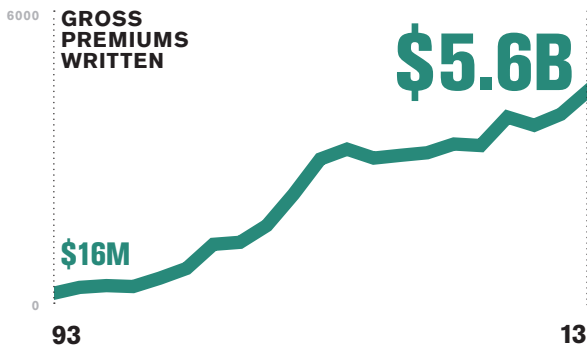
Financial markets were mixed during the year. Equity markets had a spectacular year, and our equity assets benefited accordingly. However, during the course of the year, interest rates and fixed income yields increased – albeit with some volatility. As a result we experienced mark-to-market declines in our fixed income assets, which constitute the majority of our portfolio. The declines were mitigated by the fact that our portfolio was positioned at a shorter duration than our usual neutral position.

Despite the mark-to-market effect, we recorded book value growth of 8.3% and tangible book value growth of 8.4%. After accounting for dividends – which remain a key component of the value we deliver to our shareholders – growth in tangible book value per share plus dividends grew by 11.2%. Over the long term, this is one of the best indicators of value creation. In a year when the total return on risk-free assets matching the duration of our portfolio was 0.5%, we created excess return of approximately 10.7%. We view this return as ample reward for the level of risk we take.

REVIEW OF OPERATIONS

All of our business units performed well during the year. The strong operating performance was only partially due to below average catastrophe losses. True, 2013 was a year that was marked by the absence of major catastrophic events in the U.S.

However, there were plenty of smaller weather related events in international markets.



In aggregate, given the internationally diversified nature of our portfolio, catastrophe losses were somewhat below the long-term average but were not negligible.

We continue to benefit from our consistent and prudent reserving policies, and during the year we saw favorable reserve development in many of our business lines. We do not book the current year aggressively. We prefer booking a prudent estimate for potential future liabilities and monitoring actual loss experience before we adjust our estimates. In the absence of adverse loss trends and with inflation remaining benign, this has resulted in significant favorable development over recent years.

Our premium grew significantly over the year. Much of this growth is the result of the efforts of our underwriting teams over the last two years or so. Our efforts continued during 2013, and several new important treaties were concluded that will produce premium in future years. Gross written premiums in 2013 increased by approximately 18%.

While we do not usually focus on top line growth, preferring to focus on bottom line results instead, I would highlight three important aspects of this growth. Much of the increase was in lines of business that do not contribute to our peak risks. As a result, we improved the capital efficiency of our portfolio since the total economic capital requirements grew at a slower pace than the income contribution from our new business. Second, much of the growth comes from lines that are not highly correlated to the property casualty reinsurance pricing cycles.

We are growing our agriculture portfolio, our health portfolio, our mortgage portfolio and, of course, we continue to grow our life portfolio. Diversifying the portfolio so that our dependence on property casualty premium cycles is reduced, will increase our options over the longer term.

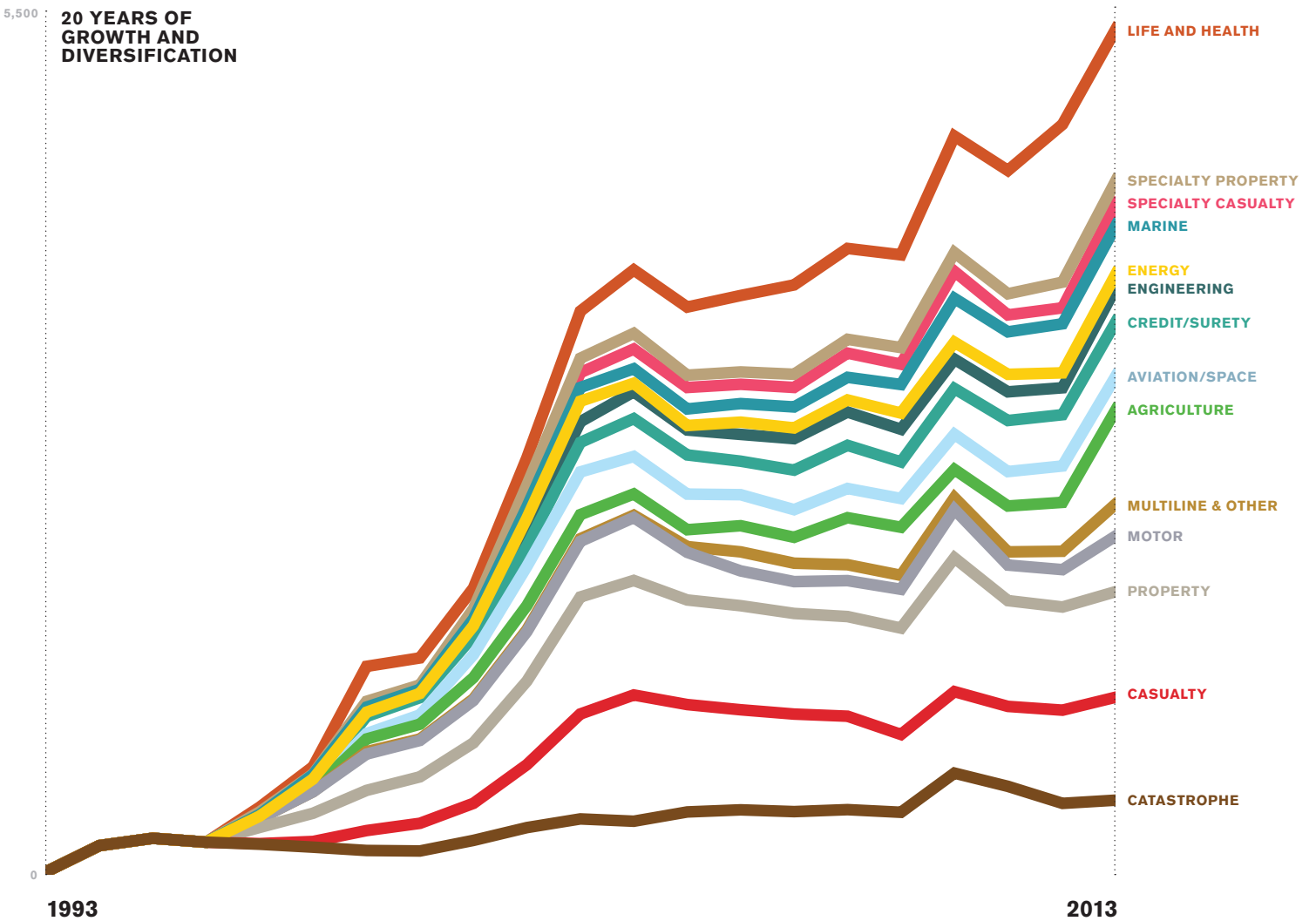
Finally and most importantly, the new business opportunities were priced at attractive returns over the longer term. We did not have to sacrifice long-term profitability in the pursuit of diversification.

While most of our business units enjoyed a good year, there were pockets where loss experience proved challenging, particularly U.S. agriculture. However, we take a long-term view as to the attractiveness of a specific line of business, and we will continue to participate in business that we believe provides attractive returns over the longer term. This is indeed the case with agriculture.

We will not, however, underwrite risk where we do not expect to be rewarded for our risk taking over the medium term. During 2013, we saw competition increase in most of our property casualty lines. We reduced participations or exited programs in several cases where priced returns offered an inadequate reward for risk. During 2013, the impact of these reductions on premium volume was more than offset by premium generated by new business opportunities.

Based on the important January 1, 2014 renewal, I expect that we will continue to experience a competitive reinsurance pricing environment during 2014. Our approach to underwriting will remain the same: we will deploy our capital only where we see attractive returns over the medium to longer term.

**20 YEARS OF
GROWTH AND
DIVERSIFICATION**



EVOLVING FOR THE FUTURE

The reinsurance industry is undergoing a rapid and significant transformation, perhaps the most significant transformation in the course of the last 20 years.

New products from collateralized markets are available and increasingly acceptable as an alternative to the traditional catastrophe reinsurance product.



Our industry is also attracting the attention of competing capital sources ranging from pension funds to hedge funds. While the motivation of these new capital sources differ, this “new capital” has one characteristic in common: it seeks to participate in our industry using nontraditional structures. Sometimes, these structures resemble a bond investment in vehicles where a significant portion of the economics is derived from traditional reinsurance underwriting. Other times, they are equity investments, albeit in entities where only a small part of the economics is derived from traditional insurance underwriting.

And it is not only the capital sources supporting our industry that are changing. The demand patterns are changing too. In traditional markets, our clients are increasingly concentrating their reinsurance buying with fewer, more meaningful long-term partners. And while reinsurance growth for traditional products in developed markets is sluggish, Asia and Latin America show healthy growth. These high growth markets need more reinsurance coverage but present different challenges and require a different approach to client relationships over time. Finally, all this is happening against a background of increasing regulatory scrutiny and higher capital standards for regulated insurance and reinsurance entities.

I believe that in this rapidly changing environment, certain organizational traits will be particularly important. Reinsurers will need to understand their clients and provide a broad range of solutions, they will need to leverage different sources of capital, have diversified sources of revenue and will need to be cost efficient.

During 2013, we have undertaken a number of actions that will put us in a better position to address these challenges.

We have reorganized our support functions along a global shared services model. In addition to significant cost savings — more than \$60 million per annum once the project is completed — the new structure will enable us to better leverage our skill sets across our different locations and to support future growth opportunities.

We have restructured our Global P&C unit into two units: a unit that serves mature markets and one that serves emerging markets. We see different needs as well as different growth opportunities in these markets, and it is appropriate that our structure facilitates the different objectives that we have in these geographies.

We have strengthened our Global Accounts team that focuses on serving the needs of our largest multiline clients. Again, we recognized that due to the multiple connections we have with these clients, they could benefit from closer coordination of our activities across our business units.

We have set up our first thematic catastrophe collateralized vehicle with third party capital participation. As this is our first partnership with third party capital, the size of this vehicle, Lorenz Re, is relatively modest. However, at this stage our primary objective is to establish a presence in catastrophe fund management and build contacts with investors in collateralized funds. Our activity in this area may grow in future years.

As mentioned earlier, we continued to diversify our revenue sources. Late in 2012, we acquired a managing agent, Presidio, a market leader specializing in managed care for the U.S. health insurance and reinsurance sector. During 2013, we converted the agent to a PartnerRe business unit, now rebranded PartnerRe Health. The transition is ahead of plan, and is due to be completed by the end of 2014. We expect that this business will generate approximately \$250 million of health premiums to PartnerRe when fully completed. We continue the growth of our agriculture portfolio, which now stands in excess of \$400 million of premium. We underwrote a small number of material mortgage reinsurance contracts in the U.S. that are expected to generate meaningful premium over the next several years. Finally, we started a new unit, PartnerRe Wholesale, that will write professional liability programs throughout Europe.

We will continue to pursue new opportunities to profitably assume new risks and diversify our portfolio. Absent such opportunities, we will continue to right size our capital base by returning capital to our shareholders with a view to optimizing our long-term value creation.

Throughout our history, the strength of PartnerRe's balance sheet and our conservative financial policies have differentiated us in the eyes of our clients. We will not sacrifice that.

At year end 2013, total capital was \$7.5 billion and our shareholders' equity was \$6.7 billion.

While we will always back our promise to pay policyholder claims, actively and prudently managing our capital is also an important means of generating superior returns over time. During 2013, we repurchased 13% of our shares outstanding at attractive prices, while maintaining the unquestioned financial strength our clients expect.



TRACK RECORD OF RESILIENCE AND ADAPTABILITY

PartnerRe has demonstrated time and again that it has the resolve and the capabilities to anticipate change and move with the times.

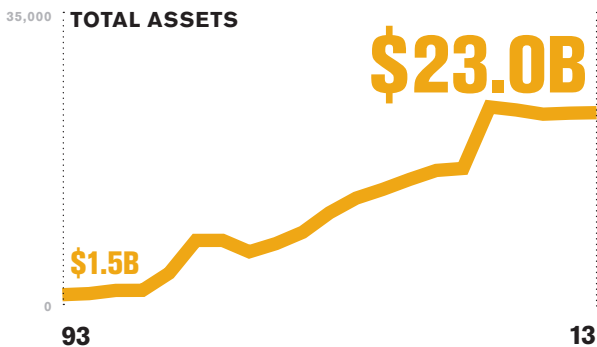
We have come a long way in our 20 year history.

We started in 1993 as a monoline catastrophe company writing \$16 million of catastrophe premium, providing much needed capital relief in the aftermath of Hurricane Andrew. Since then, we have not only grown in size to writing \$5.6 billion of premium, but we have become an important global reinsurer writing 16 lines of business in over 150 countries worldwide. We have grown our skills and expertise and built lasting relationships with clients and employees. To our shareholders, we delivered an impressive record of long-term value creation, compounding our diluted book value per share plus dividends at 10.7% over our 20 year history.

Our resolve has been tested again and again, not only by industry shock losses, but also by broader economic shocks. Not only have we demonstrated resilience over time, but we have emerged from these events a stronger and more dynamic company. We are a company that continues to adapt in an ever-changing environment, and we will continue to do that.

ACKNOWLEDGEMENTS

2013 caps two decades of remarkable growth, evolution and achievement for PartnerRe. This would not have been possible without the hard work, dedication and determination of our people.



I would like to thank everybody who has contributed to the success of PartnerRe.

The widely acknowledged expertise of our staff in their particular fields, their dedication and their value driven behavior is the foundation of the respect that PartnerRe commands in our industry.

In particular, this year I would like to thank a long-standing contributor to our success and member of my executive management team, Marvin Pestcoe, who is retiring in 2014. In addition to overseeing the Investment operations and mentoring our Life and Health teams, Marvin enjoyed great respect from all colleagues. Personally, I particularly benefited from his balanced judgment and acute analytical intellect.

Finally, I would also like to thank our shareholders, clients and brokers – our partners – for your continued support and confidence in PartnerRe over the years. You have been an integral part of our story.

Costas Miranthis
President and CEO

**UNITED STATES
SECURITIES AND EXCHANGE COMMISSION**
Washington, D.C. 20549

FORM 10-K

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

For the fiscal year ended December 31, 2013

OR

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

For the transition period from _____ to _____
Commission file number 1-14536

PartnerRe Ltd.

(Exact name of registrant as specified in its charter)

Bermuda
(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:

<u>Title of each class</u>	<u>Name of each exchange on which registered</u>
Common Shares, \$1.00 par value	New York Stock Exchange, Bermuda 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.

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 the most recently completed second fiscal quarter (June 30, 2013) was \$4,928,998,593 based on the closing sales price of the registrant's common shares of \$90.56 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, 2014 was 51,645,126.

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 14, 2014 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 “2014 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 these terms and other 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.

PART I

ITEM 1. BUSINESS

General

PartnerRe Ltd., incorporated in Bermuda in August 1993, is the ultimate holding company for our international reinsurance and insurance group (collectively, the Company, PartnerRe or we). The Company predominantly provides reinsurance and certain specialty insurance lines on a worldwide basis 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, accident 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.

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 and reinsurance business transferred into PartnerRe Europe), 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. (subsequently renamed and referred herein as PartnerRe Health), a California-based U.S. specialty accident and health reinsurance and insurance writer. The Consolidated Statements of Operations and Cash Flows include PartnerRe Health's results from January 1, 2013.

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 tangible book value per common share and common share equivalents outstanding plus dividends is the prime metric used by Management to measure the Company's performance. Other important measures include operating earnings or loss attributable to PartnerRe Ltd. common shareholders, operating earnings or loss per common share and common share equivalents outstanding (diluted operating earnings or loss per share) and 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.

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 the reinsurance operations. We will not use insurance or reinsurance as a means of raising funds to pursue other goals.

Reinsurance and Insurance Operations

General

The Company provides reinsurance and certain specialty insurance lines for its clients in approximately 150 countries around the world. The Company's principal offices are located in Hamilton (Bermuda), Dublin, Greenwich (Connecticut), Paris and Zurich.

Through its subsidiaries and branches, the Company provides reinsurance or insurance of non-life and life risks to ceding companies (primary insurers, cedants or reinsureds). Reinsurance is offered on either a proportional or non-proportional basis through treaties or facultative reinsurance.

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 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.

In addition, the Company provides certain specialty insurance lines of business, which include certain business written in aviation, energy, engineering, marine, specialty casualty, specialty property, health and other lines.

The Company monitors the performance of its operations in three segments, Non-life, Life and Health 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 and Health 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. See also 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 21 to Consolidated Financial Statements included in Item 8 of Part II of this report.

The Company's gross premiums written by segment for the years ended December 31, 2013, 2012 and 2011 were as follows (in millions of U.S. dollars):

	<u>2013</u>	<u>2012</u>	<u>2011</u>
Non-life segment	\$4,590	\$3,910	\$3,831
Life and Health segment	972	802	790
Corporate and Other segment	8	6	12
Total	\$5,570	\$4,718	\$4,633

The Company's Non-life and Life and Health business is geographically diversified with premiums being written on a worldwide basis. See Note 21 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 Specialty and Catastrophe. The North America sub-segment includes agriculture, casualty, credit/surety, motor, multiline, property 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 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 gross premiums written in each of the Company's Non-life sub-segments for the years ended December 31, 2013, 2012 and 2011 were as follows (in millions of U.S. dollars):

<u>Non-life sub-segment</u>	<u>2013</u>		<u>2012</u>		<u>2011</u>	
North America	\$1,601	35%	\$1,221	31%	\$1,104	29%
Global (Non-U.S.) P&C	818	18	684	18	682	18
Global Specialty	1,676	36	1,505	38	1,446	38
Catastrophe	495	11	500	13	599	15
Total	\$4,590	100%	\$3,910	100%	\$3,831	100%

The gross premiums written in each Non-life sub-segment for the years ended December 31, 2013, 2012 and 2011, 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 gross premiums written by line of business in the Company's Non-life segment for the years ended December 31, 2013, 2012 and 2011 were as follows (in millions of U.S. dollars):

<u>Line of business</u>	<u>2013</u>		<u>2012</u>		<u>2011</u>	
Property and casualty						
Casualty	\$ 660	14%	\$ 594	15%	\$ 510	13%
Motor	365	8	240	6	229	6
Multiline and other	211	4	117	3	71	2
Property	670	15	655	17	676	18
Specialty						
Agriculture	627	14	311	8	292	8
Aviation / Space	231	5	244	6	235	6
Catastrophe	495	11	500	13	599	15
Credit / Surety	354	8	327	8	326	8
Energy	91	2	101	3	115	3
Engineering	225	5	179	5	189	5
Marine	360	8	363	9	334	9
Specialty casualty	140	3	102	3	108	3
Specialty property	161	3	177	4	147	4
Total Non-life segment	\$4,590	100%	\$3,910	100%	\$3,831	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 and insurance protection for airline, general aviation and space business. The reinsurance is provided 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.

Credit/Surety—The Company provides credit reinsurance, written primarily on a proportional basis, to mortgage guaranty insurers and 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 and insurance coverage for the onshore oil and gas industry, mining, power generation and pharmaceutical operations. The reinsurance is provided predominantly on a proportional basis and through facultative arrangements.

Engineering—The Company provides reinsurance and insurance for engineering projects throughout the world. The reinsurance is offered mainly on a proportional basis and through facultative arrangements.

Marine (Marine/Energy Offshore)—The Company provides reinsurance and insurance protection and technical services relating to marine hull, cargo, transit and offshore oil and gas operations. The reinsurance is offered predominantly on a proportional basis and through facultative arrangements.

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 and whole account coverages written on a 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 and insurance protection primarily for non-U.S. casualty business that requires specialized underwriting expertise due to the nature of the underlying risk. The reinsurance protection is offered on a proportional, non-proportional or facultative basis.

Specialty Property—The Company provides specialized reinsurance and insurance protection primarily for non-U.S. property business that requires specialized underwriting expertise due to the nature of the underlying risk. The 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, 2013, 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 25% of total Non-life gross premiums written; and the Aon Group (including the Benfield Group) accounted for approximately 24% of total Non-life gross premiums written.

The combined percentage of gross premiums written through these two brokers by Non-life sub-segment for the year ended December 31, 2013 was as follows:

<u>Non-life sub-segment</u>	<u>2013</u>
North America	60%
Global (Non-U.S.) P&C	29
Global Specialty	41
Catastrophe	74

Competition

The Company competes with other reinsurers and certain insurers, some of which have greater financial, marketing and management resources than the Company, and it also competes with new market entrants, and, specifically in the catastrophe line of business, with alternative capital sources and insurance-linked securities. Competition in the types of reinsurance and insurance that the Company underwrites is based on many factors, including the perceived and relative financial strength, 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 business to be written.

The Company's competitors include independent reinsurance companies, subsidiaries or affiliates of established worldwide insurance companies, reinsurance departments of certain primary insurance companies and, specifically in the catastrophe line of business, alternative capital sources and insurance-linked securities. 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 and XL Group.

Management believes the Company ranks among the world's largest professional reinsurers and is well positioned in terms of client services and highly technical underwriting expertise. Management also believes that the Company's global franchise and diversified platform, which allows the Company to provide broad risk solutions across many lines of business and geographies, 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 and Health Segment

Lines of Business

The Company's Life and Health segment includes the mortality, longevity and health lines of business written primarily in the United Kingdom (U.K.), Ireland and France and, following the acquisition of PartnerRe Health on December 31, 2012, accident and health business written in the U.S. Gross premiums written for the Life and Health segment presented below include premiums written by PartnerRe Health from January 1, 2013.

The gross premiums written by line of business in the Company's Life and Health segment for the years ended December 31, 2013, 2012 and 2011 (in millions of U.S. dollars) were as follows:

<u>Line of business</u>	<u>2013</u>		<u>2012</u>		<u>2011</u>	
Accident and health	\$144	15%	\$ 21	2%	\$ 21	3%
Longevity	249	26	247	31	203	25
Mortality	579	59	534	67	566	72
Total Life and Health segment	\$972	100%	\$802	100%	\$790	100%

The gross premiums written in the Life and Health segment for the years ended December 31, 2013, 2012 and 2011, 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 and Health segment by line of business.

Accident and health—The Company provides reinsurance coverage to primary life insurers with respect to individual and group health risks. PartnerRe Health writes specialty accident and health business, predominantly in the U.S., including Health Maintenance Organizations (HMO) reinsurance, medical reinsurance and provider and employer excess of loss programs.

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.

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.

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 \$210 billion, \$212 billion and \$198 billion at December 31, 2013, 2012 and 2011, respectively. While the business in force at December 31, 2013 is comparable to 2012, 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.

Distribution

The Company's Life and Health business is produced both through brokers and through direct relationships with insurance companies. For the year ended December 31, 2013, one cedant accounted for 11% of the Life and Health segment's total gross premiums written and one broker, the Aon Group (including the Benfield Group), accounted for 11% of the Life and Health segment's total gross premiums written. No other cedant or broker contributed more than 10% of the Life and Health 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 for its mortality and longevity lines of business. The competition specifically related to the PartnerRe Health business generally includes other specialty accident and health insurance and reinsurance providers in the U.S. and departments of worldwide insurance and reinsurance companies.

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, 2013 and 2012, the Company recorded gross Non-life reserves for unpaid losses and loss expenses of \$10,646 million and \$10,709 million, respectively, and net Non-life reserves for unpaid losses and loss expenses of \$10,379 million and \$10,418 million, respectively.

The reconciliation of the net Non-life reserves for unpaid losses and loss expenses for the years ended December 31, 2013, 2012 and 2011 was as follows (in millions of U.S. dollars):

	<u>2013</u>	<u>2012</u>	<u>2011</u>
Net liability at beginning of year	\$10,418	\$10,920	\$10,318
Net incurred losses related to:			
Current year	3,119	2,786	4,252
Prior years	(721)	(628)	(530)
	2,398	2,158	3,722
Change in Paris Re Reserve Agreement	(50)	(86)	(61)
Net paid losses	(2,402)	(2,705)	(2,991)
Effects of foreign exchange rate changes	15	131	(68)
Net liability at end of year	\$10,379	\$10,418	\$10,920

Net Non-life reserves for unpaid losses and loss expenses of \$10,418 million at December 31, 2012 and \$10,379 million at December 31, 2013 were comparable and reflect the payment of losses, which was partially offset by net losses incurred. 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 high level of loss payments during the years ended December 31, 2012 and 2011 included a significant level of payments related to the catastrophic events that occurred in 2011, including 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).

The net incurred losses for the year ended December 31, 2013 relating to the current and prior accident years by Non-life sub-segment were as follows (in millions of U.S. dollars):

	<u>North America</u>	<u>Global (Non-U.S.) P&C</u>	<u>Global Specialty</u>	<u>Catastrophe</u>	<u>Total Non-life segment⁽¹⁾</u>
Net incurred losses related to:					
Current year	\$1,198	\$ 553	\$1,147	\$223	\$3,121
Net prior year favorable loss development	(223)	(180)	(227)	(91)	(721)
Total net incurred losses	\$ 975	\$ 373	\$ 920	\$132	\$2,400

(1) In addition to the current year net incurred losses in the Non-life segment of \$3,121 million were current year net recoveries of \$2 million related to the Corporate and Other segment, resulting in total net incurred losses of \$2,398 million.

The net favorable loss development on prior accident years of \$721 million for the year ended December 31, 2013 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, 2013 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 Catastrophe sub-segment and the aviation and marine lines of business in the Global Specialty 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.

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 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), at December 31, 2013 and 2012 were as follows (in thousands of U.S. dollars):

	<u>2013</u>	<u>2012</u>
Gross reserves	\$10,646,318	\$10,709,371
Less: Guaranteed Reserves	732,386	864,116
Gross reserves, excluding Guaranteed Reserves	9,913,932	9,845,255
Retroceded reserves	267,384	291,330
Less: Guaranteed Reserves	5,549	7,375
Retroceded reserves, excluding Guaranteed Reserves	261,835	283,955
Net reserves	\$10,378,934	\$10,418,041
Net reserves, excluding Guaranteed Reserves	\$ 9,652,097	\$ 9,561,300

The 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, 2013, 2012 and 2011 was as follows (in thousands of U.S. dollars):

	<u>2013</u>	<u>2012</u>	<u>2011</u>
Net paid losses related to prior years	\$2,159,506	\$2,467,279	\$2,060,152
Less: net paid losses on Guaranteed Reserves	82,997	90,407	136,885
Net paid losses related to prior years, excluding Guaranteed Reserves	\$2,076,509	\$2,376,872	\$1,923,267

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.

The development of net reserves for unpaid losses and loss expenses for the Company's Non-life business, excluding Guaranteed Reserves, is shown in the following table. 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.

Development of Loss and Loss Expense Reserves (Excluding Guaranteed Reserves subject to the Reserve Agreement)
(in thousands of U.S. dollars)

	2003	2004	2005	2006	2007	2008	2009 ⁽¹⁾	2010	2011	2012	2013
Gross liability for unpaid losses and loss expenses, excluding Guaranteed Reserves	\$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	\$9,913,932
Retroceded liability for unpaid losses and loss expenses, excluding Guaranteed Reserves	175,685	153,018	185,280	138,585	132,479	125,215	270,938	300,648	325,841	283,955	261,835
Net liability for unpaid losses and loss expenses, excluding Guaranteed Reserves	\$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	\$9,652,097
Net liability re-estimated, excluding Guaranteed Reserves at:											
One year later	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	8,853,321	
Two years later	4,301,161	5,044,922	6,618,112	6,165,297	6,009,194	6,686,926	7,877,438	8,076,932	8,885,350		
Three years later	4,373,992	5,092,289	6,168,445	5,897,044	5,674,509	6,351,663	7,595,556	7,751,543			
Four years later	4,494,182	4,845,644	6,002,031	5,645,132	5,409,460	6,195,352	7,346,493				
Five years later	4,315,702	4,731,856	5,802,799	5,436,353	5,282,511	6,074,551					
Six years later	4,264,865	4,595,232	5,627,952	5,323,062	5,200,087						
Seven years later	4,171,108	4,467,678	5,551,669	5,264,917							
Eight years later	4,091,315	4,426,580	5,507,151								
Nine years later	4,069,743	4,399,890									
Ten years later	4,054,308										
Cumulative net redundancy	\$ 525,066	\$1,213,721	\$1,045,230	\$1,467,283	\$1,898,870	\$1,310,900	\$1,631,098	\$1,326,837	\$ 1,023,100	\$ 707,979	
Cumulative amount of net liability paid through:											
One year later	\$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	\$2,076,509	
Two years later	1,573,312	1,821,773	2,482,695	2,116,025	1,971,376	2,448,950	2,983,833	2,872,951	3,494,429		
Three years later	1,948,203	2,207,692	2,948,837	2,581,022	2,470,068	2,991,497	3,599,683	3,548,021			
Four years later	2,219,506	2,511,446	3,273,808	2,932,356	2,818,018	3,359,297	4,060,903				
Five years later	2,439,361	2,721,266	3,534,003	3,183,573	3,070,717	3,636,744					
Six years later	2,589,798	2,898,779	3,713,402	3,349,279	3,268,994						
Seven years later	2,717,665	3,043,151	3,834,448	3,494,055							
Eight years later	2,820,421	3,128,606	3,940,622								
Nine years later	2,883,674	3,215,722									
Ten years later	2,954,513										

(1) Paris Re's liability for unpaid losses and loss expenses is included at 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.

The reconciliation of the Company's re-estimated gross year-end reserves with the re-estimated net year-end reserves at December 31, 2013 provided above was as follows (in thousands of U.S. dollars):

	2003	2004	2005	2006	2007	2008	2009	2010	2011	2012
Reconciliation of gross reserves:										
Gross liability re-estimated, excluding Guaranteed Reserves	\$4,191,170	\$4,501,893	\$5,675,079	\$5,365,170	\$5,284,625	\$6,181,258	\$7,559,903	\$7,999,446	\$9,175,054	\$9,151,846
Re-estimated retroceded liability, excluding Guaranteed Reserves	136,862	102,003	167,928	100,253	84,538	106,707	213,410	247,903	289,704	298,525
Net liability re-estimated, excluding Guaranteed Reserves	\$4,054,308	\$4,399,890	\$5,507,151	\$5,264,917	\$5,200,087	\$6,074,551	\$7,346,493	\$7,751,543	\$8,885,350	\$8,853,321
Cumulative gross redundancy	\$ 563,889	\$1,264,736	\$1,062,582	\$1,505,615	\$1,946,811	\$1,329,408	\$1,688,626	\$1,379,582	\$1,059,237	\$ 693,409

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 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 redundancy or deficiency in net reserves and in some years can be the principal component. The amount of foreign exchange included in the cumulative net redundancy reported above as well as the net redundancy excluding the impact of foreign exchange movements on net reserves were as follows (in thousands of U.S. dollars):

	2003	2004	2005	2006	2007	2008	2009	2010	2011	2012
Cumulative net redundancy	\$ 525,066	\$1,213,721	\$1,045,230	\$1,467,283	\$1,898,870	\$1,310,900	\$1,631,098	\$1,326,837	\$1,023,100	\$707,979
Less: Cumulative net (deficiency) redundancy due to foreign exchange	(223,456)	99,106	(443,122)	(211,177)	270,484	(122,583)	95,473	(55,111)	(131,168)	(13,520)
Cumulative net redundancy excluding the impact of foreign exchange	\$ 748,522	\$1,114,615	\$1,488,352	\$1,678,460	\$1,628,386	\$1,433,483	\$1,535,625	\$1,381,948	\$1,154,268	\$721,499

Movements in foreign exchange rates between accounting periods have typically resulted in significant variations in the Company's loss reserves as the U.S. dollar, the Company's reporting currency, appreciated/depreciated against multiple currencies. The Company, however, generally holds investments in the same currencies as its net reserves, 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.

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 development of initial net reserves converted at each year's average foreign exchange rate is shown in the following table (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.

	2003	2004	2005	2006	2007	2008	2009	2010	2011	2012
Net liability for unpaid losses and loss expenses, excluding Guaranteed Reserves	\$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	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	8,839,801
Two years later	4,298,493	5,232,707	6,023,025	6,014,782	6,222,150	6,597,688	8,052,350	8,035,622	8,754,182	
Three years later	4,223,937	5,076,765	5,774,643	5,640,480	5,961,748	6,300,375	7,705,719	7,696,432		
Four years later	4,178,131	4,972,632	5,521,034	5,451,479	5,738,024	6,098,886	7,441,966			
Five years later	4,118,436	4,794,445	5,376,045	5,278,886	5,575,292	5,951,968				
Six years later	4,012,792	4,704,184	5,232,117	5,132,300	5,470,571					
Seven years later	3,958,493	4,604,022	5,126,778	5,053,740						
Eight years later	3,901,891	4,541,584	5,064,029							
Nine years later	3,860,518	4,498,996								
Ten years later	3,830,852									
Cumulative net redundancy	\$ 748,522	\$1,114,615	\$1,488,352	\$1,678,460	\$1,628,386	\$1,433,483	\$1,535,625	\$1,381,948	\$1,154,268	\$ 721,499

Other P&C Exposures

The Company's reserve for unpaid losses and loss expenses at December 31, 2013 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 and Health Reserves

At December 31, 2013 and 2012, the Company recorded gross policy benefits for life and annuity contracts of \$1,974 million and \$1,813 million, respectively, and net policy benefits for life and annuity contracts of \$1,967 million and \$1,793 million, respectively.

The reconciliation of the net policy benefits for life and annuity contracts for the years ended December 31, 2013, 2012 and 2011 was as follows (in millions of U.S. dollars):

	<u>2013</u>	<u>2012</u>	<u>2011</u>
Net liability at beginning of year	\$1,793	\$1,636	\$1,736
Net liability acquired related to PartnerRe Health	—	54	—
Net incurred losses related to:			
Current year	800	661	651
Prior years	(39)	(14)	(1)
	761	647	650
Net policy benefits restructured by a cedant	—	—	(131)
Net paid losses	(626)	(594)	(588)
Effects of foreign exchange rate changes	39	50	(31)
Net liability at end of year	\$1,967	\$1,793	\$1,636

The increase in net policy benefits for life and annuity contracts from \$1,793 million at December 31, 2012 to \$1,967 million at December 31, 2013 is primarily due to net incurred losses and the impact of foreign exchange, which were partially offset by paid losses. The net incurred losses for the Company's Life and Health reserves will generally exceed net paid losses in any one given year due to the long-term nature of the liabilities and the growth in the book of business.

For the year ended December 31, 2013, the Company experienced net prior year favorable loss development related to its mortality line of business of \$39 million, which was primarily due to the GMDB business and, to a lesser extent, certain short-term treaties in the mortality line of business. There was no prior year loss development in 2013 related to the Company's longevity line of business.

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, 2013 and 2012 were as follows (in millions of U.S. dollars):

<u>Line of business</u>	<u>2013</u>	<u>2012</u>
Accident and health	\$ 99	\$ 74
Longevity	556	525
Mortality	1,319	1,214
Gross policy benefits for life and annuity contracts	1,974	1,813
Ceded policy benefits for life and annuity contracts	(7)	(20)
Net policy benefits for life and annuity contracts	\$1,967	\$1,793

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.

Investments

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 carrying values of the Company's investments at December 31, 2013 and 2012 were as follows (in millions of U.S. dollars):

	<u>2013</u>		<u>2012</u>	
Fixed maturities				
U.S. government and government sponsored enterprises	\$ 1,624	11%	\$ 1,131	7%
U.S. states, territories and municipalities	124	1	243	1
Non-U.S. sovereign government, supranational and government related	2,354	15	2,376	15
Corporate	6,049	40	6,656	42
Asset-backed securities	1,138	8	723	5
Residential mortgage-backed securities	2,268	15	3,200	20
Other mortgage-backed securities	36	—	66	—
Total fixed maturities	\$13,593	90%	\$14,395	90%
Short-term investments	14	—	151	1
Equities	1,221	8	1,094	7
Other invested assets	321	2	333	2
Total investments	\$15,149	100%	\$15,973	100%

(1) *In addition to the total investments shown in the above table of \$15.1 billion and \$16.0 billion at December 31, 2013 and 2012, respectively, the Company held cash and cash equivalents of \$1.5 billion and \$1.1 billion, respectively.*

The decrease in the fair value of the Company's fixed maturities at December 31, 2013 compared to December 31, 2012, primarily reflects the sale and maturity of fixed maturities to fund the Company's share repurchases and dividend payments and increases in U.S. and European risk-free interest rates. At December 31, 2013, there has been a shift in the distribution of the fixed maturity portfolio compared to December 31, 2012 as the Company decreased its holdings of corporate bonds and residential mortgage-backed securities (primarily due to narrowing credit spreads), and increased its holdings of U.S. government securities and asset-backed securities.

The overall average credit rating of the portfolio at December 31, 2013 was A, and 92% 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 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 and short-term investments that are recorded at fair value, and other invested assets. The carrying values of the investments underlying the funds held – directly managed account at December 31, 2013 and 2012 were as follows (in millions of U.S. dollars):

	2013		2012	
Fixed maturities				
U.S. government and government sponsored enterprises	\$158	28%	\$219	26%
Non-U.S. sovereign government, supranational and government related	137	25	234	28
Corporate	249	44	362	44
Total fixed maturities	\$544	97	\$815	98
Short-term investments	2	—	—	—
Other invested assets	15	3	18	2
Total investments	\$561	100%	\$833	100%

(1) In addition to the investments underlying the funds held – directly managed account shown in the above table of \$561 million and \$833 million at December 31, 2013 and 2012, respectively, the funds held – directly managed account also included cash and cash equivalents of \$85 million and \$54 million, respectively, accrued investment income of \$7 million and \$10 million, respectively, and other assets and liabilities held by Colisée Re related to the underlying business of \$133 million and \$34 million, respectively.

The decrease in the fair value of the investment portfolio underlying the funds held – directly managed account at December 31, 2013 compared to December 31, 2012 was primarily related to the run-off of the underlying loss reserves associated with this account and increases in U.S. and European risk-free interest rates.

The overall average credit rating of the portfolio at December 31, 2013 was AA, and substantially all (more than 99%) of the fixed maturities were rated investment grade (BBB- or higher) by Standard & Poor's.

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 total shareholder value through the intelligent and optimal assumption and management of reinsurance 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 total 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 Support Unit 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 and Support Units. Reporting on risk management activities is integrated within the Company's annual planning process, quarterly operations reports, periodic reports on exposures and large losses, and presentations to the Executive Management and Board. Individual Business Units and Support 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 attributable to PartnerRe Ltd. plus the "time value of money" discount of the Non-life reserves that is not recognized in the consolidated financial statements in accordance with accounting principles generally accepted in the United States (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.

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

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.

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 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 and Support 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 quarterly basis, Management reviews and reports to the Risk and Finance Committee the actual limits deployed against the approved limits.

Individual Business and Support 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 and Support 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 established key risk limits that are approved by the Risk and Finance Committee for the risk sources described below. During 2013, the Company added agriculture risk and mortgage reinsurance risk to its Risk Management framework. The risk limits for agriculture and mortgage reinsurance risks were approved by the Risk and Finance Committee. In addition, during 2013 the Company also refined its methodology to monitor interest rate risk related to the excess fixed income investment portfolio included in the Company's capital funds from previously monitoring interest rate risk related to the total fixed income portfolio. Accordingly, the comparatives at December 31, 2012 have not been provided for the two new risks and the new interest rate risk metric.

The limits approved by the Risk and Finance Committee and the actual limits deployed at December 31, 2013 and 2012 were as follows:

	December 31, 2013		December 31, 2012	
	Limit approved	Actual deployed	Limit approved	Actual deployed
Natural Catastrophe Risk	\$2.3 billion	\$1.5 billion	\$2.3 billion	\$1.6 billion
Long Tail Reinsurance Risk	\$1.2 billion	\$0.8 billion	\$1.2 billion	\$0.7 billion
Market Risk	\$3.4 billion	\$2.6 billion	\$3.4 billion	\$2.5 billion
Equity and equity-like sublimit	\$2.8 billion	\$1.8 billion	\$2.8 billion	\$1.7 billion
Interest Rate Risk (duration)—excess fixed income investment portfolio ⁽¹⁾	6.0 years	1.5 years	—	—
Interest Rate Risk (duration)—total fixed income investment portfolio ⁽²⁾	—	—	5.0 years	2.7 years
Default and Credit Spread Risk	\$9.5 billion	\$6.8 billion	\$9.5 billion	\$7.1 billion
Trade Credit Underwriting Risk	\$0.9 billion	\$0.7 billion	\$0.9 billion	\$0.6 billion
Longevity Risk	\$2.0 billion	\$1.2 billion	\$2.0 billion	\$1.1 billion
Pandemic Risk	\$1.3 billion	\$0.6 billion	\$1.3 billion	\$0.6 billion
Agriculture Risk	\$0.3 billion	\$0.1 billion	—	—
Mortgage Reinsurance Risk	\$0.7 billion	\$0.2 billion	—	—
Any one country sub-limit	\$0.5 billion	\$0.2 billion	—	—

- (1) *The excess fixed income investment portfolio relates to fixed income securities included in the Company's capital funds, which are in excess of those included in the Company's liability funds and which support the net reinsurance liabilities.*
- (2) *During 2013, the Company refined its methodology to monitor interest rate risk related to the excess fixed income investment portfolio included in the Company's capital funds from previously monitoring interest rate risk related to the total fixed income portfolio. Accordingly, the limit approved and the actual deployed at December 31, 2013 are not provided for the total fixed income portfolio.*
- (3) *The limits approved and the actual limits deployed in the table above are shown net of retrocession.*

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. 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, 2013.

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. 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. See Critical Accounting Policies and Estimates—Losses and Loss Expenses and Life Policy Benefits in Item 7 of Part II of this report.

Market Risk

The Company defines this risk as the risk of a substantial decline in the value of its Risk Assets. Risk Assets comprise 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 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.

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. The Company limits and monitors the interest rate exposure on its fixed income assets held in excess of those that are matched against liabilities. The Company both matches assets and liabilities to hedge against changes in interest rates and limits the total amount of interest rate exposure. 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. 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 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.

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. 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.

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 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.

Agriculture Risk

The Company defines this risk as the risk that losses from multi-peril crop insurance materially exceed the net premiums that are received to cover such risks, which may result in operating and economic losses to the Company. Multi-peril crop underwriting losses of the magnitude that have the potential to exceed the Company's risk appetite are associated with the systemic impacts of severe weather events, particularly drought or flooding, over a large geographic area. Localized events such as convective thunderstorms or hail, while potentially devastating, are unlikely to have the large geographic footprint necessary to create material losses exceeding the net premiums collected.

Multi-peril crop risk is managed through geographic diversification both within individual countries and across countries. This is accomplished through the allocation and tracking of capacity across exposure zones (defined as individual countries) and is accompanied by regular extreme event modeling, and a combination of quantitative and qualitative analysis.

The Company utilizes probable maximum loss estimates, net of retrocession, to manage its exposures. The limit approved measure is aggregated by contract within an exposure zone to establish the total exposures. Actual exposures deployed and estimated probable maximum losses in a specific zone will vary from period to period depending on Management's assessment of current market conditions, the results from exposure modeling, and other analysis.

Mortgage Reinsurance Risk

The Company defines this risk as the risk that losses from mortgage insurance materially exceed the net premiums that are received to cover such risks, which may result in operating and economic losses to the Company. Mortgage insurance underwriting losses that have the potential to exceed the Company's risk appetite are associated with the systemic impacts of severe mortgage defaults, driven by large scale economic downturns and high unemployment. Localized or regional economic downturns are unlikely to have a large enough geographic footprint necessary to create material losses exceeding the net premiums collected.

At December 31, 2013, the majority of the Company's exposure to mortgage risk related to risks in the U.S. All of the Company's U.S. mortgage portfolio is considered to consist of prime mortgages, with virtually all of the underlying risks related to policies written post-financial crisis and subject to enhanced post-financial crisis underwriting procedures that differentiate between risks. Mortgage insurance is managed through geographic diversification both within countries and across countries. This is accomplished through the allocation and tracking of capacity across exposure zones (defined as individual countries) and is accompanied by regular extreme event modeling, and a combination of quantitative and qualitative analysis.

The Company utilizes total limits deployed, net of retrocession, to manage its exposures. The limits per individual contract are aggregated within an exposure zone to establish the total exposures. Actual exposures deployed and estimated probable maximum losses in a specific zone will vary from period to period depending on Management's assessment of current market conditions, the results from exposure modeling, and other analysis.

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.

Given 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.

Retrocessional reinsurance

The Company uses retrocessional reinsurance 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 reinsurance agreements cover the property exposures, predominantly those that are catastrophe exposed. The Company also utilizes retrocessions in the Life and Health segment to manage the amount of per-event and per-life risks to which it is exposed. Retrocessionaires are selected based on their financial condition and business practices, with stability, solvency and credit ratings being important criteria.

The Company remains liable to its cedants to the extent 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, trusts, 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.

The PML estimates below include all significant exposure from our Non-life and Life and Health business operations. This includes coverage for property, marine, energy, aviation, engineering, workers' compensation and mortality and exposure to catastrophe from 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 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, 2013 were as follows (in millions of U.S. dollars):

<u>Zone</u>	<u>Peril</u>	<u>Single Occurrence Estimated Net PML Exposure</u>	
		<u>1-in-250 year PML</u>	<u>1-in-500 year PML (Earthquake Perils Only)</u>
U.S. Southeast	Hurricane	\$1,054	—
U.S. Northeast	Hurricane	1,121	—
U.S. Gulf Coast	Hurricane	1,025	—
Caribbean	Hurricane	276	—
Europe	Windstorm	872	—
Japan	Typhoon	124	—
California	Earthquake	575	\$679
British Columbia	Earthquake	305	513
Japan	Earthquake	435	457
Australia	Earthquake	418	552
New Zealand	Earthquake	250	272

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.

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 compound annual growth in diluted tangible book value per share and 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 2013, the Company repurchased 7.7 million of its common shares for a total cost of \$695 million. In addition, the Company increased the quarterly dividends on its common shares by 3% during 2013, from \$0.62 per share to \$0.64 per share, and a further 5% increase for 2014 from \$0.64 per share to \$0.67 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 2014, the Company expects to continue to generate positive operating cash flows, absent a series of unusual catastrophic events.

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 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 1,112 employees at December 31, 2013. 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 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 imposes 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.

In addition to the above, PartnerRe Bermuda maintains an operating branch in Canada and representative offices in Chile, China, Mexico and South Korea. The Canadian branch is subject to regulation in Canada by the Office of the Superintendent of Financial Institutions. For a further discussion of the regulations pertaining to the Canadian branch see below.

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 of 2010 (part of the Dodd-Frank Act), 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 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), PartnerRe 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 all 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., the New York State Department of Financial Services is the domiciliary regulator of PartnerRe U.S. and PRNY, and the Delaware Department of Insurance is the domiciliary regulator of PRAIC.

Dividends and Distributions. Under New York law, the New York State Department of Financial Services must approve any dividend declared or paid by 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. 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 the greater of (i) ten percent of PRAIC's surplus as regards policyholders as of the preceding December 31 or (ii) 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. Although the Federal Insurance Office does not have general supervisory or regulatory authority over the business of insurance or reinsurance, it is charged with monitoring all aspects of the insurance industry, consulting with state insurance regulators, assisting in administration of the Terrorism Risk Insurance Act of 2002 (TRIA) and other duties. The Federal Insurance Office is also responsible for issuing certain reports to Congress such as a December 2013 report which recommended limited federal regulatory involvement in areas such as the development of a uniform agreement on reinsurance collateral requirements, as well as an upcoming report on the role of the global reinsurance market in supporting insurance in the U.S. Furthermore, the director of the Federal Insurance Office may recommend that the multi-agency Financial Stability Oversight Council (FSOC) subject an insurance company or an insurance holding company to heightened prudential standards following an extended designation process, and the FSOC itself may make such designations. The Dodd-Frank Act also made small changes to the regulation of credit for reinsurance and surplus lines 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 United States 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 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 implementing measures are finalized, with implementation scheduled to take effect on January 1, 2016, Solvency II is expected to set out new, strengthened requirements applicable to the entire European Union relating to capital adequacy and risk management for insurers. Other similar measures, such as the International Association of Insurance Supervisors' (IAIS) announced plans to include a risk-based global insurance capital standard within the common supervision framework it is currently developing, also have the potential for significant impact on PartnerRe. Furthermore, the IAIS has developed policy measures for institutions it designates as globally systemically important insurers (G-SIIs), including enhanced supervision standards, measures to facilitate resolution, and capital requirements to increase loss absorption capacity. The IAIS has announced that it will decide in 2014 on potential designation of major reinsurers as G-SIIs. 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 2013. 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 2013. 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 2013. 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 French Parliament approved the 2014 Finance Bill, which increased the statutory rate of tax on corporate profits in France from 36.1% to 38.0%, effective for 2013 and 2014. 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.

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 U.S., 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.

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 tangible 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 price of risk. The level of competition is determined by supply of and demand for 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;
- Trade credit underwriting risk;
- Longevity risk;
- Pandemic risk;
- Agriculture risk; and
- Mortgage reinsurance risk.

Most 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.

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 8% of our net premiums written for the year ended December 31, 2013 and a larger percentage of our capital at risk. Catastrophe losses result from events such as windstorms, hurricanes, tsunamis, earthquakes, floods, hailstorms, tornadoes, severe winter weather, fires, drought, 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):

<u>Calendar year</u>	<u>Pre-tax large catastrophe losses and large losses</u>
2013	\$ 142
2012	318
2011	1,790
2010	559
2009	—

Examples of pre-tax large catastrophic losses and large losses reflected in the illustration above include losses in 2013, 2012, 2011 and 2010 which were incurred, to varying extents, as the result of multiple medium and large catastrophic events. In 2013, these events included the extensive flooding in Alberta, Canada (Alberta Floods) in June 2013, the hailstorm that affected large parts of Germany in July 2013 (German Hailstorm) and the floods that impacted large areas of Central Europe in June 2013 (European Floods). In 2012, these events included Superstorm Sandy and the U.S. drought which impacted the agriculture line of business in the North America sub-segment. 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, the New Zealand earthquake that occurred in September 2010 (2010 New Zealand Earthquake) and large losses related to the explosion and subsequent sinking of the Deepwater Horizon Drilling Platform.

A significant amount of judgment was used to estimate the range of potential losses related to the 2010 and the February and June 2011 New Zealand Earthquakes (collectively, the New Zealand Earthquakes) and the Japan Earthquake, and there remains a considerable degree of uncertainty related to the range of possible ultimate losses related to these events and, in particular, the New Zealand Earthquakes. Loss estimates arising

from earthquakes are inherently more uncertain than those from other catastrophic events and the Company believes the ultimate losses arising from the New Zealand Earthquakes may be materially in excess of, or less than, the amounts provided for in the Consolidated Balance Sheet at December 31, 2013. The remaining significant risks and uncertainties related to the New Zealand Earthquakes 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. In addition, there is additional complexity related to the New Zealand Earthquakes given multiple earthquakes occurred in the same region in a relatively short period of time, resulting in cedants continuing to revise their allocation of losses between the various events and between different treaties, under which the Company may provide different amounts of coverage.

While the Company remains cautious regarding the estimated ultimate losses from the Japan Earthquake, as time has passed the estimates received from the Company's cedants have stabilized, paid losses have increased and the remaining complexities have reduced. However, there can be no assurance that ultimate losses will not exceed our estimates.

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 believe that factors including increases in the value and geographic concentration of insured property, particularly along coastal regions, the increasing risk of extreme weather events reflecting changes in climate and ocean temperatures, and the effects of inflation may continue to increase the severity of claims from catastrophic events in the future.

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, nuclear accidents 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 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 CatFocus® 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.

Our net income may be volatile because certain products sold by our Life business unit expose us to reserve and fair value liability changes that are directly affected by market and other factors and assumptions.

Our pricing, establishment of reserves for future policy benefits and valuation of life insurance and annuity products, including reinsurance programs, are based upon various assumptions, including but not limited to market changes, mortality rates, morbidity rates, and policyholder behavior. The process of establishing reserves

for future policy benefits relies on our ability to accurately estimate insured events that have not yet occurred but that are expected to occur in future periods. Significant deviations in actual experience from assumptions used for pricing and for reserves for future policy benefits could have an adverse effect on the profitability of our products and our business.

Under reinsurance programs covering variable annuity guarantees we assumed the risk of guaranteed minimum death benefits (GMDB). Our net income is directly impacted by changes in the reserves calculated in connection with the reinsurance of GMDB liabilities. Reported liabilities for GMDB reinsurance are determined using internal valuation models. Such valuations require considerable judgment and are subject to significant uncertainty. The valuation of these products is subject to fluctuations arising from, among other factors, changes in interest rates, changes in equity markets, changes in credit markets, changes in the allocation of the investments underlying annuitant's account values, and assumptions regarding future policyholder behavior. Significant changes in behavior as a result of policyholder reactions to market or economic conditions could be material. Adverse changes in market factors and policyholder behavior will have an impact on both life underwriting income and net income. When evaluating these risks, we expect to be compensated for taking both the risk of a cumulative long-term economic net loss, as well as the short-term accounting variations caused by these market movements. Therefore, we evaluate this business in terms of its long-term economic risk and reward. For further information see Life Policy Benefits in Item 7 of Part II of this report.

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. Although we use actuarial and computer models as well as historical reinsurance and insurance industry loss statistics, we also rely heavily on management's experience and judgment to assist in the establishment of appropriate claims and claim expense reserves. Because of the many assumptions and estimates involved in establishing reserves, the reserving process is inherently uncertain. Our estimates and judgments are based on numerous factors, and may be revised as additional experience and other data become available and are reviewed as new or improved methodologies are developed, as loss trends and claims inflation impact future payments, or as current laws or interpretations thereof change.

Estimates of losses are based on, among other things, a review of potentially exposed contracts, information reported by and discussions with counterparties, and our estimate of losses related to those contracts and are subject to change as more information is reported and becomes available. 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. Changes in the level of inflation also result in an increased level of uncertainty in our estimation of loss reserves, particularly for long tail lines of business. 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. These liabilities are especially hard to estimate for many reasons, including the long delays between exposure and manifestation of any bodily injury or property damage, difficulty in identifying the source of the asbestos or environmental contamination, long reporting delays and difficulty in properly allocating liability for the asbestos or environmental damage. Certain of our subsidiaries have received and continue to receive notices of potential reinsurance claims from ceding insurance companies, which have in turn received claims asserting asbestos and environmental losses under primary insurance policies, in part reinsured by us. Such claims notices are often precautionary in nature and are generally unspecific, and the primary insurers often do not attempt to

quantify the amount, timing or nature of the exposure. Given the lack of specificity in some of these notices, and the legal and tort environment that affects the development of claims reserves, the uncertainties inherent in valuing asbestos and environmental claims are not likely to be resolved in the near future. In addition, the reserves that we have established may be inadequate. If ultimate losses and loss expenses exceed the reserves currently established, we will be required to increase loss reserves in the period in which we identify the deficiency to cover any such claims. As a result, even when losses are identified and reserves are established for any line of business, ultimate losses and loss expenses 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, 2013, approximately 71% of our gross premiums written were produced through brokers. In 2013, we had two brokers that accounted for 43% 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. Insured, insurers, ceding insurers and intermediaries use these ratings as one measure by which to assess the financial strength and quality of insurers and reinsurers. 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.

Our financial strength ratings are subject to periodic review as rating agencies evaluate us to confirm that we continue to meet their criteria for ratings assigned to us by them. Such ratings may be revised downward or revoked at the sole discretion of such ratings agencies in response to a variety of factors, including capital adequacy, management strategy, operating earnings and risk profile. In addition, from time to time one or more rating agencies may effect changes in their capital models and rating methodologies that could have a detrimental impact on our ratings. It is also possible that rating agencies may in the future heighten the level of scrutiny they apply when analyzing companies in our industry, may increase the frequency and scope of their reviews, may request additional information from the companies that they rate, and may adjust upward the capital and other

requirements employed in their models for maintenance of certain rating levels. We can offer no assurances that our ratings will remain at their current levels.

Our current financial strength ratings are:

Standard & Poor's	A+
Moody's	A1
A.M. Best	A+
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.

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 regulatory requirements, 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, 2013, we had net investment income of \$484 million, which represented approximately 9% of total revenues. In addition, we recorded realized and unrealized gains on investments during 2013, 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, inflation, 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.

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., Europe and other leading markets continue to experience volatility and certain economies remain in recession. Although conditions may be improving, 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.

The global sovereign debt crisis has resulted in financial market restructuring efforts. The impact of these efforts is unclear, however, they may cause a further deterioration in the value of various currencies 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 certain sovereign debt and a possible concern of the potential default of government issuers has contributed to this uncertainty. The impact of these developments, while potentially severe, remains extremely difficult to predict. However, should 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 assets held in our investment portfolio.

We may be adversely impacted by inflation.

Recent deficit spending by governments in the Company's major markets exposes the Company to heightened risk of inflation. We monitor the risk that the principal markets in which we operate could experience increased inflationary conditions, which would, among other things, cause loss costs to increase, and impact the performance of our investment portfolio. Inflation in relation to medical costs, construction costs and tort issues in particular impact the property and casualty industry. The onset, duration and severity of an inflationary period cannot be estimated with precision. The global sovereign debt crisis and the related financial restructuring efforts have, among other factors, made it more difficult to predict the inflationary environment.

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, derivative instrument counterparties and other financial intermediaries may default on their obligations to us due to bankruptcy, insolvency, lack of liquidity, adverse economic conditions, operational failure, fraud or other reasons. Even if we are entitled to collateral when a counterparty defaults, such collateral may be illiquid or proceeds from such collateral when liquidated may not be sufficient to recover the full amount of the obligation. 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.

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.

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 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. In particular, recent guidance and ongoing projects put in place by standard setters globally have indicated a move away from the current insurance accounting models toward more “fair value” based models which could introduce significant volatility in the earnings of insurance industry participants.

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.

Cybersecurity events could disrupt business operations, result in the loss of critical and confidential information, and adversely impact our reputation and results of operations.

We are dependent upon the effective functioning and availability of our information technology and application systems platforms. These platforms include, but are not limited to, our proprietary software programs such as catastrophe models as well as those licensed from third-party vendors including analytic and modeling systems. We rely on the security of such platforms for the secure processing, storage and transmission of confidential information. Examples of significant cybersecurity events are unauthorized access, computer viruses, malware or other malicious code or cyber-attack, catastrophic events, system failures and disruptions and other events that could have security consequences (each, Cybersecurity Event). A Cybersecurity Event could materially impact our ability to adequately price products and services, establish reserves, provide efficient and secure services to our clients, brokers, vendors, regulators and Board of Directors, value our investments and to timely and accurately report our financial results. Although we have implemented controls and have taken protective measures to reduce the risk of Cybersecurity Events, we cannot reasonably anticipate or prevent rapidly evolving types of cyber attacks and such measures may be insufficient to prevent a Cybersecurity Event. Cybersecurity Events could expose us to a risk of loss or misuse of our information, litigation, reputational damage, violations of applicable privacy and other laws, fines, penalties or losses that are either not insured against or not fully covered by insurance maintained. We may be required to expend significant additional resources to modify our protective measures or to investigate and remediate vulnerabilities.

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.

Currently, the Company is facing a challenging and limited growth environment, which is driven by price decreases in most markets and lines of business, reflecting increased competition and excess capacity in the industry, relatively low loss experience and a prolonged period of low interest rates, which has impacted our investment portfolio. In addition, we may experience increased competition as a result of the consolidation in the (re)insurance industry. These consolidated entities may try to use their enhanced market power to negotiate price reductions for our products and services and/or obtain a larger market share through increased line sizes.

We anticipate that competition and pricing pressure may adversely affect our profitability and results of operations in future periods, and the impact may be material.

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 and insurance operations of certain primary insurance companies, such as ACE, Arch Capital, Axis Capital and XL Group. The lack of strong barriers to entry into the reinsurance business means that we also compete with new companies that continue to be formed to enter the insurance and reinsurance markets. In addition, we may experience increased competition as a result of the consolidation in the (re)insurance industry. These consolidated entities may try to use their enhanced market power to negotiate price reductions for our products and services and/or obtain a larger market share through increased line sizes.

Competition in the types of reinsurance and insurance that we underwrite is based on many factors, including the perceived and relative financial strength, pricing and other terms and conditions, services provided, ratings assigned by independent rating agencies, speed of claims payment, geographic scope of business, client and broker relationships, reputation and experience in the lines of business 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 effect on our growth and profitability.

All of the above factors may adversely affect our profitability and results of operations in future periods, the impact of which may be material, and may adversely affect our ability to successfully execute our strategy as a global diversified reinsurance and specialty insurance company.

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. Our businesses in each jurisdiction are subject to varying degrees of regulation and supervision. The laws and regulations of the jurisdictions in which our insurance and

reinsurance subsidiaries are domiciled require, among other things, maintenance of minimum levels of statutory capital, surplus, and liquidity; various solvency standards; and periodic examinations of subsidiaries' financial condition. In some jurisdictions, laws and regulations also restrict payments of dividends and reductions of capital. Applicable statutes, regulations, and policies may also restrict the ability of these subsidiaries to write insurance and reinsurance policies, to make certain investments, and to distribute funds.

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 (see below Solvency II could adversely impact our financial results and operations) 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, still 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. In addition, in October 2013 the IAIS announced its plan to include a risk-based global insurance capital standard within its common framework by 2016. Furthermore, the IAIS has developed policy measures for institutions it designates as globally systemically important insurers (G-SIIs), including enhanced supervision standards, measures to facilitate resolution, and capital requirements to increase loss absorption capacity. The IAIS has announced that it will decide in 2014 on potential designation of major reinsurers as G-SIIs.

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 other interested parties, including shareholders of reinsurers. We believe it is likely there will continue to 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;
- 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 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. This law established a federal program to help the commercial property and casualty insurance industry cover claims related to future terrorism-related losses and required that coverage for terrorist acts be offered by insurers. We cannot provide assurance that TRIPRA will be extended beyond 2014, and its expiration or a significant change in terms could have an adverse effect on us, our clients or the insurance industry.

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 (OECD) 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 (Dodd-Frank Act). Measures taken in Europe include the European Market Infrastructure Regulation (EMIR), as well as the proposed revisions to the Markets in Financial Instruments Directive (MiFID) and the proposed new Markets in Financial Instruments Regulation (MiFIR). 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 and other U.S. regulatory changes 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. Although the Federal Insurance Office does not have general supervisory or regulatory authority over the business of insurance or reinsurance, it is charged with monitoring all aspects of the insurance industry, consulting with state insurance regulators, assisting in administration of the TRIA, and other duties. The Federal Insurance Office is also responsible for issuing certain reports to Congress such as a December 2013 report which recommended limited federal regulatory involvement in areas such as the development of a uniform agreement on reinsurance collateral requirements, as well as an upcoming report on the role of the global reinsurance market in supporting insurance in the U.S. Furthermore, the director of the Federal Insurance Office may recommend that the multi-agency Financial Stability Oversight Council (FSOC) subject an insurance company or an insurance holding company to heightened prudential

standards following an extended designation process, and FSOC itself may make such designations. Proposed U.S. regulatory changes outside the scope of the Dodd-Frank Act include legislation to repeal the insurance company exemption from certain U.S. federal antitrust laws, which has been introduced in the past. It is not possible to predict whether this or similar legislation may be enacted in the future.

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.

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, 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. 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 and it is not known when a final determination will be made. In addition, European policymakers have recently drafted a set of criteria by which the European Commission will be able to assess unilaterally whether the solvency regime of a third country such as Bermuda is broadly equivalent to Solvency II. If Bermuda is considered broadly equivalent then it could be granted "provisional equivalence" to Solvency II for a period of 10 years with the possibility that such period could be extended. We are monitoring the ongoing legislative and regulatory steps associated with the adoption of Solvency II and the equivalence system, as well as other standards such as the IAIS's planned risk-based global insurance capital standard. The principles, standards and requirements of Solvency II may also, directly or indirectly through its impact on other market participants, including ceding insurers, 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 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.

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. As noted above, because we frequently assume the credit risk of the counterparties with whom we do business throughout our insurance and reinsurance operations, our results of operations could be adversely affected if the credit quality of these counterparties is severely impacted by investigations in the insurance industry or by changes to industry practices.

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.

Our international business is subject to applicable laws and regulations relating to sanctions and foreign corrupt practices, the violation of which could adversely affect our operations.

We must comply with all applicable economic sanctions and anti-bribery laws and regulations of the U.S. and other foreign jurisdictions where we operate, including the U.K. and the European Community. U.S. laws and regulations applicable to us include the economic trade sanctions laws and regulations administered by the United States Department of the Treasury's Office of Foreign Assets Control as well as certain laws administered by the United States Department of State. In addition, we are subject to the Foreign Corrupt Practices Act and other anti-bribery laws such as the U.K. Bribery Act that generally bar corrupt payments or unreasonable gifts to foreign governments or officials. Although we have policies and controls in place that are designed to ensure compliance with these laws and regulations, it is possible that an employee or intermediary could fail to comply with applicable laws and regulations. In such event, we could be exposed to civil penalties, criminal penalties and other sanctions, including fines or other punitive actions. In addition, such violations could damage our business and/or our reputation. Such criminal or civil sanctions, penalties, other sanctions, and damage to our business and/or reputation could have a material adverse effect on our financial condition and results of operations.

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 ability of our subsidiaries to pay dividends or to advance or repay funds to us is subject to general economic, financial, competitive, regulatory and other factors beyond our control. In particular, 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 and include minimum solvency and liquidity thresholds. As of

December 31, 2013, 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

Changes in our effective income tax rate could affect our results of operations.

Our effective income tax rate could be adversely affected in the future by net income being lower than anticipated in jurisdictions where we have a relatively lower statutory tax rate and net income being higher than anticipated in jurisdictions where we have a relatively higher statutory tax rate, or by changes in corporate tax rates and tax regulations in any of the jurisdictions in which we operate. We are subject to regular audit by tax authorities in the various jurisdictions in which we operate. Any adverse outcome of such an audit could have an adverse effect on our net income, effective income tax rate and financial condition.

In addition, the determination of our provisions for income taxes requires significant judgment, and the ultimate tax determination related to certain positions taken is uncertain. Although we believe our provisions are reasonable, the ultimate tax outcome may differ from the amounts recorded in our consolidated financial statements and may materially affect our net income and effective income tax rate in the period such determination is made.

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) or branch profits taxes. Because 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. In addition, legislation regarding the scope of non-U.S. entities and operations subject to U.S. income tax has been proposed in the past, and may be proposed again in the future. 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.

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. In addition, it is possible that other legislative proposals could be introduced in the future that could have an adverse impact on us or our shareholders.

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 omissions, 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, 2013, 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.

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
6.50% 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

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

As of February 14, 2014, the approximate number of common shareholders was 87,675.

The following table provides information about purchases by the Company during the quarter ended December 31, 2013, of equity securities that are registered by the Company pursuant to Section 12 of the Exchange Act.

Issuer Purchases of Equity Securities

<u>Period</u>	<u>Total number of shares purchased</u>	<u>Average price paid per share</u>	<u>Total number of shares purchased as part of a publicly announced program ^{(1) (2)}</u>	<u>Maximum number of shares that may yet be purchased under the program ⁽¹⁾</u>
10/01/2013-10/31/2013	90,000	\$ 91.77	90,000	5,880,000
11/01/2013-11/30/2013	287,200	99.90	287,200	5,592,800
12/01/2013-12/31/2013	638,500	100.26	638,500	4,954,300
Total	1,015,700	\$ 99.41	1,015,700	

- (1) In September 2013, the Company's Board of Directors approved a new share repurchase authorization of up to a total of 6 million common shares, which replaced the prior authorization of 6 million common shares approved in March 2013. 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, 2013, approximately 34.2 million common shares were held in treasury and available for reissuance.

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 were as follows:

<u>Period</u>	<u>2013</u>			<u>2012</u>		
	<u>High</u>	<u>Low</u>	<u>Dividends Declared</u>	<u>High</u>	<u>Low</u>	<u>Dividends Declared</u>
Three months ended March 31	\$ 93.83	\$81.45	\$0.64	\$68.41	\$63.02	\$0.62
Three months ended June 30	96.05	86.86	0.64	75.67	65.87	0.62
Three months ended September 30	93.23	86.64	0.64	76.55	72.44	0.62
Three months ended December 31	105.43	90.50	0.64	82.88	75.32	0.62

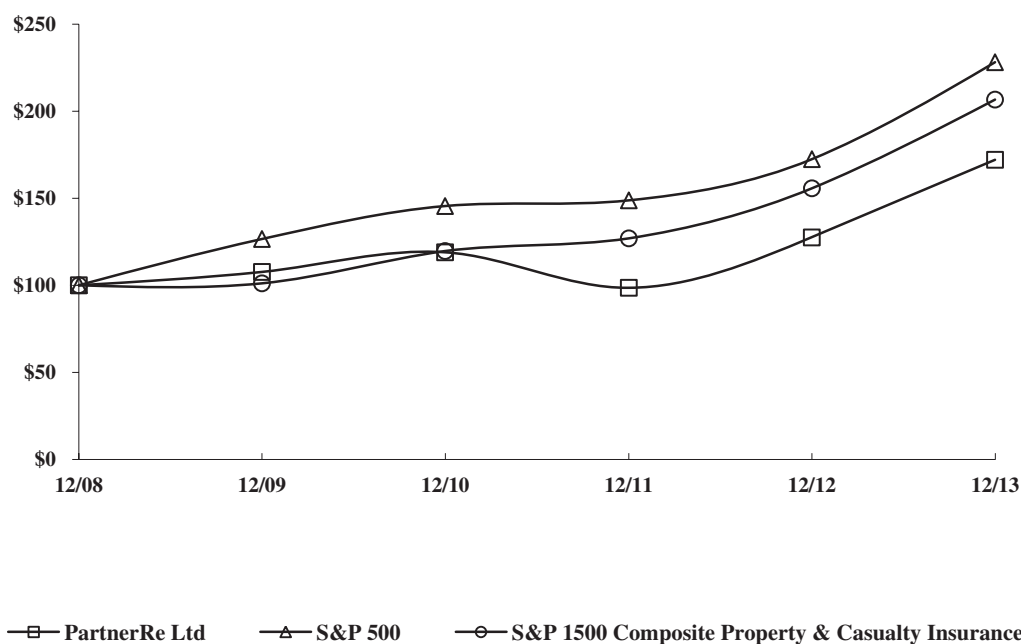
Other information with respect to the Company's common shares, dividends and other related shareholder matters is contained in Notes 11, 12, 14 and 16 to Consolidated Financial Statements in Item 8 of Part II of this report and in the Proxy Statement and is incorporated by reference to this item.

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, 2008 and ending on December 31, 2013, assuming \$100 was invested on December 31, 2008. 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, 2008 through December 31, 2013. As depicted in the graph below, during this period the cumulative total shareholder return on the Company's common shares was 72%, the cumulative total return for the S&P 500 Composite Stock Price Index was 128% and the cumulative total return for the S&P 1500 Composite Property & Casualty Insurance Index was 107%.

COMPARISON OF 5 YEAR CUMULATIVE TOTAL RETURN*

Among PartnerRe Ltd, the S&P 500 Index, and S&P 1500 Composite Property & Casualty Insurance



*\$100 invested on 12/31/08 in stock or index, including reinvestment of dividends.
Fiscal year ending December 31.

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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.

ITEM 6. SELECTED FINANCIAL DATA

Selected Consolidated Financial Data

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 2009, 2010, 2011, 2012 and 2013, including Paris Re's results from October 2, 2009 and PartnerRe Health's results from January 1, 2013. The Balance Sheet Data reflects the consolidated financial position of the Company and its subsidiaries at December 31, 2009, 2010, 2011, 2012 and 2013, including Paris Re from December 31, 2009 and PartnerRe Health 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,				
	2013	2012	2011	2010	2009
Gross premiums written	\$5,570	\$4,718	\$4,633	\$4,885	\$4,001
Net premiums written	5,397	4,573	4,486	4,705	3,949
Net premiums earned	\$5,198	\$4,486	\$4,648	\$4,776	\$4,120
Net investment income	484	571	629	673	596
Net realized and unrealized investment (losses) gains	(161)	494	67	402	591
Net realized gain on purchase of capital efficient notes	—	—	—	—	89
Other income	17	12	8	10	22
Total revenues	\$5,538	5,563	5,352	5,861	5,418
Losses and loss expenses and life policy benefits	3,158	2,805	4,373	3,284	2,296
Total expenses	4,830	4,234	5,797	4,892	3,635
Income (loss) before taxes and interest in earnings (losses) of equity investments	708	1,329	(445)	969	1,783
Income tax expense	49	204	69	129	262
Interest in earnings (losses) of equity investments	14	10	(6)	13	16
Net income (loss)	\$ 673	\$1,135	\$ (520)	\$ 853	\$1,537
Net income (loss) attributable to noncontrolling interests	9	—	—	—	—
Net income (loss) attributable to PartnerRe Ltd.	\$ 664	\$1,135	\$ (520)	\$ 853	\$1,537
Preferred dividends	58	62	47	35	35
Loss on redemption of preferred shares	9	—	—	—	—
Net income (loss) attributable to PartnerRe Ltd. common shareholders	597	1,073	(567)	818	1,502
Basic net income (loss) per common share	\$10.78	\$17.05	\$ (8.40)	\$10.65	\$23.93
Diluted net income (loss) per common share	\$10.58	\$16.87	\$ (8.40)	\$10.46	\$23.51
Dividends declared and paid per common share	\$ 2.56	\$ 2.48	\$ 2.35	\$ 2.05	\$ 1.88
Operating earnings (loss) attributable to PartnerRe Ltd. common shareholders ⁽¹⁾⁽⁴⁾	\$ 722	\$ 664	\$ (642)	\$ 492	\$ 931
Diluted operating earnings (loss) per common share and common share equivalents outstanding ⁽¹⁾	\$12.79	\$10.43	\$ (9.50)	\$ 6.29	\$14.57
Operating return on beginning diluted book value per common share and common share equivalents outstanding ⁽²⁾⁽⁴⁾	12.7%	12.3%	(10.1)%	7.4%	22.4%
Weighted average number of common shares and common share equivalents outstanding	56.4	63.6	67.6	78.2	63.9
Non-life ratios					
Loss ratio	56.7%	58.5%	96.7%	65.9%	52.7%
Acquisition ratio	22.5	22.3	21.3	21.3	21.9
Other operating expense ratio	6.1	7.0	7.4	7.8	7.2
Combined ratio	85.3%	87.8%	125.4%	95.0%	81.8%

<u>Balance Sheet Data</u>	At December 31,				
	2013	2012	2011	2010	2009
Total investments, funds held—directly managed and cash and cash equivalents	\$17,431	\$18,026	\$17,898	\$18,181	\$18,165
Total assets	23,038	22,980	22,855	23,364	23,733
Unpaid losses and loss expenses and policy benefits for life and annuity contracts	12,620	12,523	12,919	12,417	12,427
Debt related to senior notes	750	750	750	750	250
Debt related to capital efficient notes	71	71	71	71	71
Total shareholders' equity attributable to PartnerRe Ltd.	6,710	6,933	6,468	7,207	7,646
Diluted book value per common share and common share equivalents outstanding	\$109.26	\$100.84	\$ 84.82	\$ 93.77	\$ 84.51
Diluted tangible book value per common share and common share equivalents outstanding ⁽³⁾	\$ 98.49	\$ 90.86	\$ 76.47	\$ 85.53	\$ 76.92
Number of common shares outstanding, net of treasury shares	53.6	58.9	65.3	70.0	82.6

- (1) *Operating earnings or loss attributable to PartnerRe Ltd. common shareholders (operating earnings or loss) is calculated as net income or loss available to PartnerRe Ltd. common shareholders excluding net realized and unrealized gains or losses on investments, net of tax (except where the Company has made a strategic investment in an insurance or reinsurance related investee), net foreign exchange gains or losses, net of tax, loss on redemption of preferred shares and the interest in earnings or losses of equity investments, net of tax (except where the Company has made a strategic investment in an insurance or reinsurance related investee and where the Company does not control the investee's activities), and is calculated after preferred dividends. Diluted operating earnings or loss per common share and common share equivalent outstanding (diluted operating earnings or loss per share) are calculated using operating earnings or loss for the period divided by the weighted average number of common shares and common share equivalents outstanding. The presentation of operating earnings or loss or diluted operating earnings or loss per share are non-GAAP financial measures 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 diluted operating earnings or loss per share, as defined above, 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) *Diluted tangible book value per common share and common share equivalents outstanding (Diluted Tangible Book Value per Share) is calculated using common shareholders' equity attributable to PartnerRe Ltd. (total shareholders' equity less noncontrolling interests and the aggregate liquidation value of preferred shares) less goodwill and intangible assets, net of tax, divided by the weighted average number of common shares and common share equivalents outstanding (assuming exercise of all stock-based awards and other dilutive securities). The presentation of Diluted Tangible Book Value per Share 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.*
- (4) *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.*

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, 2013, 2012 and 2011.

Executive Overview

The Company is a leading global reinsurer and insurer, with a broadly diversified and balanced portfolio of traditional reinsurance and insurance 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 create total shareholder value and uses annual diluted tangible book value per share and share equivalents outstanding plus dividends to measure its success. 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 other metrics to monitor its performance in meeting its economic objective, which are discussed further below under Key Financial Measures.

As described in more detail below, the Company is facing a challenging and limited growth environment, which is driven by price decreases in most markets and lines of business, reflecting increased competition and excess capacity in the industry, relatively low loss experience and a prolonged period of low interest rates. However, the Company's strong global franchise and geographical footprint position the Company well for the future as does the acquisition of Paris Re in 2009, which provided enhanced strategic and financial flexibility, and the recent acquisition of PartnerRe Health in 2012, which provided additional diversification into the U.S. accident and health market. While the Company continues to face this challenging business environment, Management has also focused on implementing cost saving initiatives. In 2013, Management announced the restructuring of its business support operations into a single integrated worldwide support platform and changes to the structure of certain of its Non-life operations, both of which are expected to provide greater operational efficiency. Regarding capital management, and as a result of the challenging business environment described above, during 2013 the Company returned approximately \$840 million to its common shareholders through share repurchases and dividends. As the Company looks to 2014 and beyond, despite the challenging environment, Management remains confident in the Company's strong global franchise, geographical footprint and technical underwriting skills and is focused on continuing to maintain its strong relationships with clients and actively managing its capital resources.

The following discussion provides an overview of the Company's business and trends and commentary regarding the outlook for 2014 in each business.

Non-life reinsurance and insurance business, trends and 2014 outlook

The Company generates its Non-life reinsurance and insurance 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 insurance and other risk transfer products. The

reinsurance and insurance 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. In addition, the Company provides certain specialty insurance lines of business. The Company differentiates itself through its risk management strategy, its financial strength and its strong global franchise. 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 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 total shareholder value focuses on broad product, asset and geographic diversification of risks.

The cyclicity 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. From 2011 to 2013, 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 and from the impact of Superstorm Sandy in 2012. During 2013, in lines of business and markets that have not been specifically impacted by any large losses in recent years, the terms and conditions continued to be mainly static and soft in most markets, with price deteriorations observed in some markets as a result of increased competition and excess capacity in the industry.

During the January 1, 2014 renewals the Company experienced an increase of approximately 3% in renewable Non-life treaty business, on a constant foreign exchange basis. The increase in expected premium volume was driven primarily by the Company's diversifying lines, and was mainly attributable to certain contracts negotiated earlier in 2013 and incepting on January 1, 2014. As a result, the North America and Global Specialty sub-segments experienced increases in renewable premium base, while the Catastrophe and Global (Non-U.S.) P&C sub-segments experienced declines driven by declining pricing and pressure on terms and conditions in most markets that were not loss affected. The Company writes a large majority of its business on a treaty basis and renews approximately 65% of its total annual Non-life treaty business on January 1. The remainder of the Non-life treaty business renews at other times during the year.

During the January 1, 2014 renewals, all Non-life sub-segments experienced increased cedant retentions and increased competition, which resulted in further declines in pricing and deterioration in terms and conditions. The excess capacity in the industry, which results in cedants retaining more business and decreasing the available premium in the global industry, combined with the growth in insurance-linked securities and other alternative

capital flows into the industry, continue to provide a challenge to writing business meeting our profitability requirements. Despite these persistent challenging market conditions, the Company believes that its strong global franchise and geographic footprint, long track record and broad yet highly technical capabilities over many lines of business, position the Company well. The Company expects to continue with its initiatives to find new diversifying risks and expand relationships with existing clients.

Life and Health reinsurance business, trends and 2014 outlook

The Company's Life and Health segment derives revenues primarily from renewal premiums from existing reinsurance treaties and new premiums from existing or new reinsurance treaties. Within the Life and Health segment, the Company writes mortality (including disability), longevity and, following the acquisition of PartnerRe Health, U.S. accident and health products. The acquisition of the PartnerRe Health business on December 31, 2012 provides additional specialty risks not previously written by the Company. Management believes the existing life business and PartnerRe Health business provide the Company with diversification benefits and balance to its portfolio as they are generally not correlated to the Company's Non-life business.

For the years ended December 31, 2012 and 2011, the Company did not write any new life business in the U.S., however, following the acquisition of PartnerRe Health, from January 1, 2013 the Company began writing accident and health business in the U.S.

The long-term profitability of the life business (including the mortality and longevity lines of business) 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.

The long-term profitability of the accident and health business mainly depends on the volume and amount of medical claims and expenses. While the volume of medical claims can be predicted to a certain extent, the amount of claims and expenses depends on various factors, primarily health care inflation rates, driven by a shift towards the older population, reliance on expensive medical equipment and technology, and changes in demand for health care services over time.

In 2013, PartnerRe Health principally operated as a Managing General Agent (MGA), 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 ceded a portion of the original business written through quota-share reinsurance agreements to the Company's reinsurance subsidiary, such that PartnerRe Health participated 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 obtained the necessary licenses and approvals and began transitioning the portfolio to PartnerRe carriers. As of January 1, 2014, virtually all of the PartnerRe Health business is originated directly, without the use of third party insurance companies. As such, PartnerRe Health's premiums are expected to grow in 2014 and the MGA fees will be substantially reduced.

The acquisition of the PartnerRe Health business resulted in substantial overall premium growth in the Company's Life and Health segment in 2013 and more modest growth is expected in 2014 as a result of the transition described above. At the January 1, 2014 renewals, opportunities in managed care and specialty lines of the PartnerRe Health business were observed as a result of the implementation of the Patient Protection and Affordable Care Act. In terms of the Company's Life portfolio, the majority of the premium arises from long-term in-force contracts. The active January 1 renewals impact a relatively limited portion of the short-term in-force premium in the mortality line. For those treaties that actively renewed, pricing conditions and terms were

modestly softer from the January 1, 2013 renewals. Management expects moderate continued growth in the Company's existing Life portfolio in 2014, assuming constant foreign exchange rates.

Investment business, trends and 2014 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 investment 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 investment 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 investment 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 investment operations, including public and private market investments, have experienced volatile market conditions since the middle of 2007. The market conditions remained volatile in 2013, primarily due to increases in risk-free interest rates, improvements in equity markets and narrowing credit spreads, while during 2012 the volatility was due to narrowing spreads and improvements in equity markets.

Assuming constant foreign exchange rates, Management expects net investment income to continue to decrease in 2014 compared to 2013 primarily due to lower reinvestment rates with low yields expected to continue throughout 2014. 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 attributable to PartnerRe Ltd. common shareholders by the weighted average number of common shares and common share equivalents outstanding. Net income or loss attributable to PartnerRe Ltd. common shareholders is defined as net income or loss less preferred dividends and loss on redemption of preferred shares. The Company also utilizes certain non-GAAP measures to assess performance (see the discussion of these non-GAAP measures and the reconciliation of those non-GAAP measures to the most directly comparable GAAP measures in Key Financial Measures below).

Overview of Net Income (Loss)

Net income (loss), net income attributable to noncontrolling interests, preferred dividends, loss on redemption of preferred shares, net income (loss) attributable to PartnerRe Ltd. common shareholders and diluted net income (loss) per share for the years ended December 31, 2013, 2012 and 2011 were as follows (in millions of U.S. dollars, except per share data):

	<u>2013</u>	<u>2012</u>	<u>2011</u>
Net income (loss)	\$ 673	\$1,135	\$ (520)
Less: net income attributable to noncontrolling interests	9	—	—
Net income (loss) attributable to PartnerRe Ltd.	\$ 664	\$1,135	\$ (520)
Less: preferred dividends	58	62	47
Less: loss on redemption of preferred shares	9	—	—
Net income (loss) attributable to PartnerRe Ltd. common shareholders	\$ 597	\$1,073	\$ (567)
Diluted net income (loss) per share attributable to PartnerRe Ltd. common shareholders	\$10.58	\$16.87	\$(8.40)

2013 compared to 2012

The decrease in net income of \$462 million, from \$1,135 million in 2012 to \$673 million in 2013 resulted primarily from:

- an increase of \$655 million in pre-tax net realized and unrealized investment losses, mainly as a result of increases in risk-free interest rates during 2013 compared to narrowing spreads and improvements in equity markets in 2012;
- a decrease of \$87 million in net investment income, primarily driven by lower reinvestment rates; and
- an increase of \$68 million in other operating expenses, primarily driven by the restructuring charges described below; partially offset by
- an increase of \$170 million in the Non-life underwriting result, which was mainly driven by a lower level of large catastrophic losses and large losses and an increase in favorable prior year loss development and partially offset by a higher level of mid-sized loss activity;
- a decrease of \$155 million in income tax expense, primarily resulting from a lower pre-tax net income in 2013 compared to 2012; and
- an increase of \$28 million in the Life and Health underwriting result, primarily driven by an increase in favorable prior year loss development.

The decrease in net income attributable to PartnerRe Ltd. common shareholders and diluted net income per share for the year ended December 31, 2013 compared to 2012 was primarily due to the above factors. For diluted net income per share specifically, the decrease was partially offset by the accretive impact of a reduction in the diluted number of common shares and common share equivalents outstanding as a result of share repurchases.

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; 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 PartnerRe Ltd. 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.

Key Factors Affecting Year over Year Comparability

The following key factors affected the year over year comparison of the Company's results and are discussed in more detail in Review of Net Income (Loss) below.

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 2013 and 2012 included a 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, 2013, 2012 and 2011 was as follows (in millions of U.S. dollars):

<u>Year ended December 31,</u>	<u>Total ⁽¹⁾</u>
2013	\$ 142
2012	318
2011	1,790

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

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, 2013, 2012 and 2011 was as follows (in millions of U.S. dollars):

<u>2013</u>	<u>North America</u>	<u>Global (Non-U.S.) P&C</u>	<u>Global Specialty</u>	<u>Catastrophe</u>	<u>Total Non-life segment</u>	<u>Life and Health segment</u>	<u>Corporate and Other</u>	<u>Total</u>
Net losses and loss expenses and								
life policy benefits	\$ 14	\$ 11	\$ 15	\$ 115	\$155	\$—	\$—	\$155
Reinstatement premiums	—	—	—	(13)	(13)	—	—	(13)
Impact on technical result and pre-								
tax net income	\$ 14	\$ 11	\$ 15	\$ 102	\$142	\$—	\$—	\$142
Impact on the loss ratio	0.9%	1.5%	1.0%	25.0%	3.5%			
Impact on the technical ratio	0.9	1.5	1.0	25.0	3.4			
Impact on the combined ratio					3.4%			

<u>2013</u>	<u>Total ⁽¹⁾</u>
German Hailstorm	\$ 58
Alberta Floods	48
European Floods	36
Impact on pre-tax net income	<u>\$142</u>

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

<u>2012</u>	<u>North America</u>	<u>Global (Non-U.S.) P&C</u>	<u>Global Specialty</u>	<u>Catastrophe</u>	<u>Total Non-life segment</u>	<u>Life and Health segment</u>	<u>Corporate and Other</u>	<u>Total</u>
Net losses and loss expenses and life policy benefits	\$ 157	\$ 2	\$ 87	\$ 82	\$328	\$—	\$—	\$328
Reinstatement premiums	<u>—</u>	<u>—</u>	<u>(1)</u>	<u>(11)</u>	<u>(12)</u>	<u>—</u>	<u>—</u>	<u>(12)</u>
Impact on technical result	\$ 157	\$ 2	\$ 86	\$ 71	\$316	\$—	\$—	\$316
Net realized and unrealized investment losses					<u>—</u>	<u>—</u>	<u>2</u>	<u>2</u>
Impact on pre-tax 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%			

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

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

<u>2011</u>	<u>North America</u>	<u>Global (Non-U.S.) P&C</u>	<u>Global Specialty</u>	<u>Catastrophe</u>	<u>Total Non-life segment</u>	<u>Life and Health segment</u>	<u>Corporate and Other</u>	<u>Total</u>
Net losses and loss expenses and life policy benefits	\$ 56	\$ 149	\$ 65	\$1,511	\$1,781	\$ 3	\$ 5	\$1,789
Reinstatement premiums	<u>—</u>	<u>—</u>	<u>—</u>	<u>(33)</u>	<u>(33)</u>	<u>—</u>	<u>—</u>	<u>(33)</u>
Acquisition costs	<u>(6)</u>	<u>—</u>	<u>—</u>	<u>(9)</u>	<u>(15)</u>	<u>—</u>	<u>—</u>	<u>(15)</u>
Impact on technical result	\$ 50	\$ 149	\$ 65	\$1,469	\$1,733	\$ 3	\$ 5	\$1,741
Net realized and unrealized investment losses					<u>—</u>	<u>—</u>	<u>49</u>	<u>49</u>
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%			

<u>2011</u>	<u>Total⁽¹⁾</u>
Japan Earthquake	\$ 919
February and June 2011 New Zealand Earthquakes	455
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	<u>\$1,790</u>

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

(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.

Volatility in capital and credit markets

In 2013, U.S. and European risk-free interest rates increased and equity markets improved and credit spreads narrowed, while the U.S. dollar ending exchange rate at December 31, 2013 weakened against most major currencies compared to December 31, 2012. As a result of these movements, the value of the Company's investment portfolio and cash and cash equivalents at December 31, 2013 decreased compared to December 31, 2012, with the resulting mark-to-market net loss recorded in net income. Offsetting the gross mark-to-market loss was an unrealized gain related to the initial public offering of an investment in a mortgage guaranty insurance company.

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, with the resulting mark-to-market net gain recorded in net income.

Restructuring charges

In April 2013, the Company announced the restructuring of its business support operations into a single integrated worldwide support platform and changes to the structure of its Global Non-life Operations. The restructuring includes involuntary and voluntary employee termination plans in certain jurisdictions (collectively, termination plans) and certain real estate costs. Employees affected by the termination plans have varying leaving dates, largely through to mid-2014.

During the year ended December 31, 2013, the Company recorded a pre-tax charge of approximately \$58 million related to the costs of the restructuring, which was primarily related to the termination plans and certain real estate costs, within other operating expenses. The continuing salary and other employment benefit costs related to the affected employees will be expensed as the employee remains with the Company and provides service.

In connection with the restructuring, and included within the total expected costs of between \$60 million and \$70 million announced by the Company in April 2013, the Company expects to incur further real estate costs totaling between \$5 million and \$10 million in the first half of 2014.

Acquisition of PartnerRe Health

Effective December 31, 2012, the Company completed the acquisition of PartnerRe Health. The Consolidated Statements of Operations and Cash Flows, and the Life and Health segment, include the results of PartnerRe Health from January 1, 2013.

Key Financial Measures

In addition to the Consolidated Balance Sheets and Consolidated Statements of Operations and Comprehensive Income (Loss), Management uses certain other key measures, some of which are non-GAAP financial measures within the meaning of Regulation G (see below), to evaluate its financial performance and the overall growth in value generated for the Company's common shareholders.

The Company's long-term objective is to manage a portfolio of diversified risks that will create total shareholder value. The Company measures its success in achieving its long-term objective by targeting a return, which is variable and can be adjusted by Management, in excess of a referenced risk-free rate over the reinsurance cycle. The return, which is currently targeted to exceed 700 basis points in excess of the referenced risk-free rate, is calculated using compound annual growth in diluted tangible book value per common share and common share equivalents outstanding plus dividends per common share (growth in Diluted Tangible Book Value per Share plus dividends). Management uses growth in Diluted Tangible Book Value per Share plus dividends as its prime measure of long-term financial performance and believes this measure aligns the Company's stated long-term objective with the measure most investors use to evaluate total shareholder value creation given that it focuses on the tangible value of total shareholder returns, excluding the impact of goodwill and intangibles. Given the Company's profitability in any particular quarterly or annual period can be significantly affected by the level of large catastrophic losses, Management assesses this long-term objective over the reinsurance cycle as the Company's performance during any particular quarterly or annual period is not necessarily indicative of its performance over the longer-term reinsurance cycle.

While growth in Diluted Tangible Book Value per Share plus dividends is the Company's prime financial measure, Management also uses other key financial measures to monitor performance. At December 31, 2013 and 2012 and for the years ended December 31, 2013, 2012 and 2011 these were as follows:

	<u>December 31, 2013</u>	<u>December 31, 2012</u>	
Diluted tangible book value per common share and common share equivalents outstanding ⁽¹⁾	\$98.49	\$90.86	
Growth in diluted tangible book value per common share and common share equivalents outstanding plus dividends ⁽²⁾	11.2%		
	<u>2013</u>	<u>2012</u>	<u>2011</u>
Operating earnings (loss) attributable to PartnerRe Ltd. common shareholders (in millions of U.S. dollars) ⁽³⁾	\$ 722	\$ 664	\$ (642)
Diluted operating earnings (loss) per common share and common share equivalents outstanding ⁽³⁾	\$12.79	\$10.43	\$ (9.50)
Operating return on beginning diluted book value per common share and common share equivalents outstanding ⁽⁴⁾	12.7%	12.3%	(10.1)%
Combined ratio ⁽⁵⁾	85.3%	87.8%	125.4%

(1) Diluted tangible book value per common share and common share equivalents outstanding (Diluted Tangible Book Value per Share) is calculated using common shareholders' equity attributable to PartnerRe Ltd. (total shareholders' equity less noncontrolling interests and the aggregate liquidation value of preferred shares) less goodwill and intangible assets, net of tax, divided by the weighted average number of common shares and common share equivalents outstanding (assuming exercise of all stock-based awards

and other dilutive securities). The presentation of Diluted Tangible Book Value per Share 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.

- (2) Growth in diluted tangible book value per common share and common share equivalents outstanding plus dividends (growth in Diluted Tangible Book Value per Share plus dividends) is calculated using Diluted Tangible Book Value per Share plus dividends per common share divided by Diluted Tangible Book Value per Share at the beginning of the year. The presentation of growth in Diluted Tangible Book Value per Share plus dividends 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.
- (3) Operating earnings or loss attributable to PartnerRe Ltd. common shareholders (operating earnings or loss) is calculated as net income or loss available to PartnerRe Ltd. common shareholders excluding net realized and unrealized gains or losses on investments, net of tax (except where the Company has made a strategic investment in an insurance or reinsurance related investee), net foreign exchange gains or losses, net of tax, loss on redemption of preferred shares and the interest in earnings or losses of equity investments, net of tax (except where the Company has made a strategic investment in an insurance or reinsurance related investee and where the Company does not control the investee's activities), and is calculated after preferred dividends. Operating earnings or loss per common share and common share equivalent outstanding (diluted operating earnings or loss per share) are calculated using operating earnings or loss for the period divided by the weighted average number of common shares and common share equivalents outstanding. The presentation of operating earnings or loss and diluted operating earnings or loss per share are non-GAAP financial measures within the meaning of Regulation G (see Comment on Non-GAAP Measures below) and are reconciled to the most directly comparable GAAP financial measure below.
- (4) 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.
- (5) 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).

Diluted Tangible Book Value per Share: Diluted Tangible Book Value per Share focuses on the underlying fundamentals of the Company's financial position and performance without the impact of goodwill or intangible assets. As discussed above, the Company uses this measure as the basis for its prime measure of long-term shareholder value creation, growth in Diluted Tangible Book Value per Share plus dividends. Management believes that Diluted Tangible Book Value per Share aligns the Company's stated long-term objectives with the measure most investors use to evaluate total shareholder value creation and that it focuses on the tangible value of shareholder returns, excluding the impact of goodwill and intangibles. Diluted Tangible 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.

Diluted Tangible Book Value per Share at December 31, 2013 and 2012 and the calculation of the growth in Diluted Tangible Book Value per Share plus dividends for the year ended December 31, 2013 were as follows. As described above, this metric is a long-term performance measure, however, the below table shows the total shareholder value creation for the year ended December 31, 2013 in order for the shareholders to monitor performance.

	<u>December 31, 2013</u>	<u>December 31, 2012</u>
Diluted tangible book value per common share and share equivalents outstanding . . .	\$ 98.49	\$90.86
Dividends per common share for the year ended December 31, 2013	2.56	
Diluted tangible book value per share plus dividends	\$101.05	
Growth in diluted tangible book value per share plus dividends	11.2%	

The Company's Diluted Tangible Book Value per Share increased by 8.4% to \$98.49 at December 31, 2013 from \$90.86 at December 31, 2012 primarily due to net income attributable to PartnerRe Ltd. and the accretive impact of the share repurchases, which were partially offset by dividends on the common and preferred shares. The growth in Diluted Tangible Book Value per Share plus dividends was 11.2% during the year ended December 31, 2013. This growth was driven by net income attributable to PartnerRe Ltd., dividends on the common shares and the accretive impact of share repurchases, which were partially offset by realized and unrealized losses from the Company's investment portfolio that were attributable to increases in risk-free rates.

Over the past five years, since December 31, 2008, and over the past ten years, since December 31, 2003, the Company has generated a compound annual growth in Diluted Tangible Book Value per Share plus dividends in excess of 14%.

The presentation of Diluted Tangible Book Value per Share 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 reconciliation of Diluted Tangible Book Value per Share to the most directly comparable GAAP financial measure, diluted book value per common share and common share equivalents outstanding, at December 31, 2013 and 2012 was as follows (in millions of U.S. dollars):

	<u>December 31, 2013</u>	<u>December 31, 2012</u>
Diluted book value per common share and common share equivalents outstanding ⁽¹⁾	\$109.26	\$100.84
Less: goodwill and other intangible assets, net of tax	10.77	9.98
Diluted tangible book value per share	\$ 98.49	\$ 90.86

(1) *Diluted book value per common share and common share equivalents outstanding (Diluted Book Value per Share) is calculated using common shareholders' equity attributable to PartnerRe Ltd. (total shareholders' equity less noncontrolling interests and the aggregate liquidation value of preferred shares) divided by the weighted average number of common shares and common share equivalents outstanding (assuming exercise of all stock-based awards and other dilutive securities).*

Operating earnings or loss attributable to PartnerRe Ltd. common shareholders (operating earnings or loss) and operating earnings or loss per common share and common share equivalent outstanding (diluted operating earnings or loss per share): Management uses operating earnings or loss and diluted operating earnings or loss per share to measure its financial performance as these measures focus on the underlying fundamentals of the Company's operations by excluding net realized and unrealized gains or losses on investments (except where the Company has made a strategic investment in an investee whose operations are insurance or reinsurance related and where the Company does not control the investee's activities), net foreign exchange gains or losses, loss on redemption of preferred shares and certain interest in earnings or losses of

equity investments (except where the Company has made a strategic investment in an investee whose operations are insurance or reinsurance related and where the Company does not control the investee's activities). 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. 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. Loss on the redemption of preferred shares is not indicative of the performance of, and distorts trends in, the Company's business as it resulted from general economic and financial market conditions, and the timing of the loss on redemption was 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. Management believes that the use of operating earnings or loss and diluted operating earnings or loss per share 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 these measures follow industry practice and, therefore, allow 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 \$58 million, from \$664 million in 2012 to \$722 million in 2013. The increase was primarily due to an improvement in the Non-life and Life and Health underwriting results, driven by a lower level of large catastrophic and large losses and a higher level of favorable prior year loss development, and partially offset by a higher level of mid-sized loss activity. These increases were partially offset by a decline in net investment income driven by lower reinvestment rates and higher operating expenses driven by restructuring charges. Diluted operating earnings per share increased from \$10.43 in 2012 to \$12.79 in 2013, driven by the same factors as operating earnings and the accretive impact of share repurchases.

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. Diluted operating earnings per share increased from a loss of \$9.50 in 2011 to earnings of \$10.43 in 2012, driven by the same factors as operating earnings and the accretive impact of share repurchases.

The other lesser factors contributing to the increases or decreases in operating earnings in 2013 compared to 2012 and in 2012 compared to 2011 are further described in Review of Net Income (Loss) below.

Operating earnings or loss attributable to PartnerRe Ltd. common shareholders and diluted operating earnings or loss per share are non-GAAP financial measures 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 reconciliation of operating earnings or loss and diluted operating earnings or loss per share to the most directly comparable GAAP financial measure for the years ended December 31, 2013, 2012 and 2011 was as follows (in millions of U.S. dollars):

	<u>2013</u>	<u>2012</u>	<u>2011</u>
Net income (loss) attributable to PartnerRe Ltd.	\$ 664	\$1,135	\$ (520)
Less:			
Net realized and unrealized investment (losses) gains, net of tax	(127)	392	15
Net foreign exchange gains, net of tax	2	8	67
Interest in earnings (losses) of equity investments, net of tax	9	9	(7)
Dividends to preferred shareholders	58	62	47
Operating earnings (loss) attributable to PartnerRe Ltd. common shareholders	\$ 722	\$ 664	\$ (642)
Per diluted share:			
Net income (loss) attributable to PartnerRe Ltd. common shareholders	\$10.58	\$16.87	\$(8.40)
Less:			
Net realized and unrealized investment (losses) gains, net of tax	(2.25)	6.17	0.23
Net foreign exchange gains, net of tax	0.04	0.13	0.98
Loss on redemption of preferred shares	(0.16)	—	—
Interests in earnings (losses) of equity investments	0.16	0.14	(0.11)
Operating earnings (loss) attributable to PartnerRe Ltd. common shareholders	\$12.79	\$10.43	\$(9.50)

Operating ROE: Management uses Operating ROE as a measure of profitability that focuses on the return to common shareholders on an annual basis. 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 modestly from 12.3% in 2012 to 12.7% in 2013. The increase in Operating ROE was primarily due to higher operating earnings in 2013 compared to 2012, as described above, and the accretive impact of share repurchases, which were partially offset by a higher beginning diluted book value per share at January 1, 2013 compared to January 1, 2012. The factors contributing to increases or decreases in operating earnings are described further in Review of Net Income (Loss) below.

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.

The average Operating ROE for the last five years and ten years was 8.9% and 11.5%, 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.

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 reconciliation of Operating ROE to the most directly comparable GAAP financial measure for the years ended December 31, 2013, 2012 and 2011 was as follows:

	<u>2013</u>	<u>2012</u>	<u>2011</u>
Return on beginning diluted book value per common share calculated with net income			
(loss) per share attributable to common shareholders	10.5%	19.9%	(9.0)%
Less:			
Net realized and unrealized investment (losses) gains, net of tax, on beginning diluted book value per common share	(2.2)	7.3	0.2
Net foreign exchange gains, net of tax, on beginning diluted book value per common share	—	0.1	1.0
Net interest in earnings (losses) of equity investments, net of tax, on beginning diluted book value per common share	0.2	0.2	(0.1)
Loss on redemption of preferred shares on beginning diluted book value per common share	<u>(0.2)</u>	<u>—</u>	<u>—</u>
Operating return on beginning diluted book value per common share	12.7%	12.3%	(10.1)%

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 nine 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 2.5 points, from 87.8% in 2012 to 85.3% in 2013. The decrease in the combined ratio in 2013 compared to 2012 was primarily due to a lower level of large catastrophic losses and large losses of 5.3 points (from 8.7 points 2012 to 3.4 points in 2013) and a lower other operating expense ratio of 0.9 points (from 7.0 points in 2012 to 6.1 points in 2013) driven by an increased level of net premiums earned, which were partially offset by a higher level of mid-sized loss activity. The impact on the combined ratio of the catastrophic events for each period is analyzed above.

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 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.

Other Key Financial Measures

In addition to using the growth in Diluted Tangible Book Value per Share plus dividends as the Company's prime financial long-term measure, and diluted tangible book value per common share and common share equivalents outstanding (Diluted Tangible Book Value per Share) as the basis for this measure, the Company uses other metrics to monitor its financial performance and to measure total shareholder value. Other such metrics used by Management include, but are not limited to, diluted book value per common share and common share equivalents outstanding (Diluted Book Value per Share) and Diluted Tangible Book Value per Share plus the discount in Non-life loss reserves per common share and common share equivalents outstanding (Diluted Tangible Book Value plus the discount in Non-life reserves). Diluted Book Value per Share is a similar metric to Diluted Tangible Book Value per Share, except that it includes the impact on book value of goodwill and intangible assets. Diluted Tangible Book Value plus the discount in Non-life loss reserves is a shorter-term metric that adjusts the Company's Diluted Tangible Book Value per Share for the impact that changes in interest rates have on the time value of money that is embedded in the Company's Non-life loss reserves.

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 Diluted Tangible Book Value per Share, Diluted Tangible Book Value per Share plus dividends, operating earnings or loss, diluted operating earnings or loss per share 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, diluted book value per share, net income or loss and return on beginning common shareholders' equity calculated with net income or loss attributable 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 IBNR. 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.

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 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 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.

Loss Event Specific Method

The ultimate losses estimated under this method are derived from estimates of specific events based on reported claims, client and broker discussions, review of potential exposures, market loss estimates, modeled analysis and other event specific criteria.

Method Weights

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.

The principal reserving methods used for the major components of each reserving line are as follows:

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

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:

- 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;
- the tail factors used to reflect development of paid and reported losses after several years have elapsed since the inception of the underwriting year;
- the *a priori* loss ratios used as inputs in the B-F methods; and
- the selected loss ratios used as inputs in the Expected Loss Ratio method.

As an example of the sensitivity of the Company's reserves to reserving parameter assumptions 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 based on amounts recorded at December 31, 2013 was as follows:

<u>Reserving lines selected assumptions</u>	<u>Higher <i>a priori</i> loss ratios</u>	<u>Higher loss development factors</u>	<u>Higher tail factors ⁽¹⁾</u>	<u>Lower <i>a priori</i> loss ratios</u>	<u>Lower loss development factors</u>	<u>Lower tail factors ⁽¹⁾</u>
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)

<u>Reserving lines selected sensitivity (in millions of U.S. dollars)</u>	<u>Higher <i>a priori</i> loss ratios</u>	<u>Higher loss development factors</u>	<u>Higher tail factors ⁽¹⁾</u>	<u>Lower <i>a priori</i> loss ratios</u>	<u>Lower loss development factors</u>	<u>Lower tail factors ⁽¹⁾</u>
Agriculture	\$ 35	\$ 15	\$—	\$ (35)	\$ (5)	\$ —
Aviation / Space	15	25	15	(15)	(20)	(10)
Casualty / Specialty Casualty	340	120	245	(340)	(80)	(215)
Catastrophe	5	—	—	(5)	—	—
Credit / Surety	25	35	5	(25)	(15)	(5)
Energy Onshore	5	10	—	(5)	(5)	—
Engineering	35	50	45	(35)	(40)	(30)
Marine / Energy Offshore	30	40	10	(30)	(30)	(5)
Motor—Non-U.S. Non-proportional business	30	20	45	(30)	(25)	(50)
Motor—Non-U.S. Proportional business . .	15	5	5	(15)	—	(5)
Motor—North America business	10	5	15	(10)	(5)	(5)
Multiline	10	15	25	(10)	(10)	(20)
Property / Specialty Property	60	90	—	(60)	(55)	—

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

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. 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.

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:

- the cedant's business practices will proceed as in the past with no material changes either in submission of accounts or cash flows;
- 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;
- case reserve reporting practices, particularly the methodologies used to establish and report case reserves, are unchanged from historical practices;
- the Company's internal claim practices, particularly the level and extent of use of ACRs are unchanged;
- 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;
- 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;
- in cases where benchmarks are used, they are derived from the experience of similar business; and
- 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 2013, 2012 and 2011, 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 net prior year favorable loss development for each sub-segment of the Company's Non-life segment for the years ended December 31, 2013, 2012 and 2011 was as follows (in millions of U.S. dollars):

	<u>2013</u>	<u>2012</u>	<u>2011</u>
Net Non-life prior year favorable loss development:			
North America	\$223	\$218	\$189
Global (Non-U.S.) P&C	180	114	116
Global Specialty	227	251	129
Catastrophe	91	45	96
Total net Non-life prior year favorable loss development	\$721	\$628	\$530

The net Non-life prior year favorable loss development for the years ended December 31, 2013, 2012 and 2011 was driven by the following factors (in millions of U.S. dollars):

	<u>2013</u>	<u>2012</u>	<u>2011</u>
Net Non-life prior year (adverse) favorable loss development:			
Net prior year loss development due to changes in premiums ⁽¹⁾	\$(71)	\$(94)	\$(59)
Net prior year loss development due to all other factors ⁽²⁾	792	722	589
Total net Non-life prior year favorable loss development	\$721	\$628	\$530

(1) Net prior year reserve development due to changes in premiums includes, but it 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.

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 net prior year favorable loss development for the year ended December 31, 2013 by reserving line for the Company's Non-life segment was as follows (in millions of U.S. dollars):

<u>Reserving lines</u>	<u>Net favorable prior year loss development</u>
Agriculture	\$ 7
Aviation / Space	71
Casualty / Specialty Casualty	250
Catastrophe	91
Credit / Surety	9
Energy Onshore	15
Engineering	7
Marine / Energy Offshore	60
Motor—Non-U.S. Non-proportional business	21
Motor—Non-U.S. Proportional business	7
Motor—North America business	10
Multiline	17
Property / Specialty Property	148
Other	<u>8</u>
Total net Non-life prior year favorable loss development	\$721

Actual losses paid and reported compared with the Company's expectations, and the changes of the Company's reserving parameter assumptions in response to the emerging development for each reserving line during the year ended December 31, 2013 were as follows:

Agriculture: Aggregate losses reported in 2013 for North America business related to the 2012 underwriting year were a modest amount above the Company's expectations. In addition, the Company's Global Specialty agriculture business experienced lower than expected reported losses. The Company increased its loss ratios for the North America business and lowered its loss ratios for the Global Specialty business, however, it did not otherwise materially alter its reserving assumptions.

Aviation / Space: Aggregate losses reported in 2013 were significantly lower than the Company's expectations. The Company reflected this experience by selecting lower loss ratios for underwriting years 2008 to 2012.

Casualty / Specialty Casualty: Aggregate losses reported in 2013 for North America business were below the Company's expectations as losses for underwriting years 2009 and prior continue to emerge at levels significantly below expectations. Aggregate losses reported in 2013 for both Global (Non-U.S.) P&C and Global Specialty sub-segments were below the Company's expectations for most prior underwriting years. The Company reflected this experience by reducing the selected loss ratios for these underwriting years.

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. In aggregate, 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, although it did modestly reduce the unallocated IBNR recorded in 2011 specifically for these events during 2013 (see below for more details). In addition, the Company has recorded modest reductions in ultimate loss estimates during 2013 for a number of prior year loss events across several underwriting years to reflect lower loss emergence.

Credit / Surety: Aggregate losses reported in 2013 were modestly higher than expected for North America business, giving rise to a modest level of adverse development. For the Company's Global

Specialty business, loss development during 2013 was better than expected for Credit and Surety business combined, primarily for the underwriting years 2009 to 2012. The Company reduced its loss ratios for these recent underwriting years to reflect the lower than expected loss emergence. This was partially offset by adverse development in the older underwriting years.

Energy Onshore: Aggregate losses reported in 2013 were lower than expected across most underwriting years. The Company reflected the favorable development by reducing its loss ratios for most underwriting years.

Engineering: Aggregate losses reported in 2013 were lower than expected and the Company reflected this experience by selecting lower loss ratios. The lower than expected losses were partially offset by increases in premium adjustments for proportional business reflecting increased exposure on several underwriting years.

Marine / Energy Offshore: Aggregate losses reported in 2013 were significantly lower than expected and impacted most underwriting years driven entirely by the Energy Offshore business. The Company reduced its loss ratios for all underwriting years to reflect the lower than expected loss emergence.

Motor:

- Aggregate losses reported in 2013 for the Global (Non-U.S.) P&C motor non-proportional line were lower than expected resulting in the Company reducing its loss ratios. The Company further increased its weightings to more experience-based indications resulting in further prior year releases on underwriting years 2002 to 2007.
- Aggregate losses reported in 2013 for the Global (Non-U.S.) P&C motor proportional line were modestly lower than expectations in aggregate, allowing the Company to select lower loss ratios on some underwriting years.
- Aggregate losses reported in 2013 for the North America motor line were lower than expected resulting in the Company reducing its loss ratios.

Multiline: Aggregate reported losses in 2013 were lower than expected for North America business for underwriting years 2012 and prior, resulting in modest levels of reserve releases.

Property / Specialty Property: Aggregate reported losses in 2013 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 2013 in the Global (Non-U.S.) P&C and Global Specialty property lines were significantly lower than expected for most underwriting years. The Company reflected this experience by reducing its loss ratios for most underwriting years.

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, 2013 by reserving line for the Company's Non-life operations were as follows (in millions of U.S. dollars):

<u>Reserving lines</u>	<u>Case reserves</u>	<u>ACRs</u>	<u>IBNR reserves</u>	<u>Total gross loss reserves recorded</u>	<u>Ceded loss reserves</u>	<u>Total net loss reserves recorded</u>
Agriculture	\$ 32	\$ 8	\$ 591	\$ 631	\$ —	\$ 631
Aviation / Space	217	4	196	417	(38)	379
Casualty / Specialty Casualty	1,478	126	2,550	4,154	(26)	4,128
Catastrophe	406	191	118	715	(52)	663
Credit / Surety	331	(5)	174	500	—	500
Energy Onshore	134	4	73	211	(4)	207
Engineering	313	6	203	522	(21)	501
Marine / Energy Offshore	315	12	439	766	(117)	649
Motor—Non-U.S. Non-proportional business	455	6	390	851	(6)	845
Motor—Non-U.S. Proportional business . . .	121	1	104	226	(2)	224
Motor—North America business	83	2	86	171	—	171
Multiline	83	15	110	208	—	208
Property / Specialty Property	692	33	504	1,229	(1)	1,228
Other	3	—	42	45	—	45
Total Non-life reserves	\$4,663	\$403	\$5,580	\$10,646	\$(267)	\$10,379

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, 2013. 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.

The point estimates related to net loss reserves recorded by the Company and the range of actuarial estimates at December 31, 2013 and 2012 for each Non-life sub-segment were as follows (in millions of U.S. dollars):

	<u>Recorded Point Estimate</u>	<u>High</u>	<u>Low</u>
2013 Net Non-life sub-segment loss reserves:			
North America	\$3,517	\$3,644	\$2,879
Global (Non-U.S.) P&C	2,427	2,644	2,045
Global Specialty	3,772	3,984	3,250
Catastrophe	663	675	534
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 Specialty	3,670	3,795	3,205
Catastrophe	907	922	744

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 \$10,379 million of net Non-life loss reserves at December 31, 2013, net loss reserves for accident years 2005 and prior of \$727 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 this report.

A significant amount of judgment was used to estimate the range of potential losses related to the New Zealand Earthquakes and the Japan Earthquake, and there remains a considerable degree of uncertainty related to the range of possible ultimate losses associated with the New Zealand Earthquakes. Loss estimates arising from earthquakes are inherently more uncertain than those from other catastrophic events and the Company believes the ultimate losses arising from the New Zealand Earthquakes and the Japan Earthquake may be materially in excess of, or less than, the amounts provided for in the Consolidated Balance Sheet at December 31, 2013.

The remaining significant risks and uncertainties related to the New Zealand Earthquakes 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. In addition, there is additional complexity related to the New Zealand Earthquakes given multiple earthquakes occurred in the same region in a relatively short period of time, resulting in cedants continuing to revise their allocation of losses between the various events and between different treaties, under which the Company may provide different amounts of coverage.

While the Company remains cautious regarding the estimated ultimate losses from the Japan Earthquake, as time has passed the estimates received from the Company's cedants have stabilized, paid losses have increased and the remaining complexities have reduced.

In addition to the sum of the point estimates originally recorded for each of the New Zealand Earthquakes and Japan Earthquake, 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 these 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 and 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 these 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.

During the year ended December 31, 2013, the Company cautiously reduced the additional gross reserves by \$10 million to \$40 million, primarily reflecting the reduced level of uncertainty associated with the Japan Earthquake in the first half of 2013. As a result of further cedant revisions to loss estimates and cedants reallocating their losses between the different New Zealand Earthquakes during the latter half of 2013, the Company determined to maintain the additional gross reserves of \$40 million at December 31, 2013 and have primarily allocated this remaining reserve to the New Zealand Earthquakes to reflect the continuing uncertainty related to these events described above. 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 the remaining exposure related to the New Zealand Earthquakes and Japan Earthquake.

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, 2013 included \$193 million that represents estimates of its net ultimate liability for asbestos and environmental claims. The gross liability for such claims at December 31, 2013 was \$203 million, which primarily relates to Paris Re's gross liability for asbestos and environmental claims for accident years 2005 and prior of \$123 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 the French branch of PartnerRe Europe 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 and Health segment, which predominantly includes:

- reinsurance of longevity, subdivided into standard and non-standard annuities;
- 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 GMDB business primarily written in Continental Europe; and
- effective December 31, 2012, following the acquisition of PartnerRe Health, the Company also writes specialty accident and health business, including Health Maintenance Organizations (HMO) reinsurance, medical reinsurance and provider and employer excess of loss programs.

The Company categorizes life reserves into three types of reserves: case reserves, IBNR 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.

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.

Accident and Health

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 Company's gross and net policy benefits for life and annuity contracts by reserving line at December 31, 2013 were as follows (in millions of U.S. dollars):

	<u>Case reserves</u>	<u>IBNR reserves</u>	<u>Reserves for future policy benefits</u>	<u>Total gross Life and Health reserves recorded</u>	<u>Ceded reserves</u>	<u>Total net Life and Health reserves recorded</u>
Accident and Health	\$ 8	\$ 91	\$—	\$ 99	\$ (3)	\$ 96
Longevity	1	131	424	556	(4)	552
Mortality	208	549	562	1,319	—	1,319
Total policy benefits for life and annuity contracts	\$217	\$771	\$986	\$1,974	\$ (7)	\$1,967

Total gross policy benefits for life and annuity contracts include provisions for adverse deviation of \$127 million and \$104 million at December 31, 2013 and 2012, respectively. The increase in the provision for adverse deviation is primarily driven by a new longevity swap written in 2013.

As an example of the sensitivity of the Company's policy benefits for life and annuity contracts to reserving parameter assumptions by reserving line, the effect of different assumption selections based on the amounts recorded at December 31, 2013 was as follows:

<u>Reserving lines</u>	<u>Factors</u>	<u>Change</u>	<u>Impact on total Life reserves (in millions of U.S. dollars)</u>
Longevity			
Standard and non-standard annuities	Mortality improvements per annum	1%	249
Mortality			
Long-term and TCI	Mortality	10%	145
GMDB	Stock market performance	10% / -10%	(3)/3

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 48%, 43% and 43% of the Company's reported net premiums written for the years ended December 31, 2013, 2012 and 2011, respectively, were based upon estimates.

Under proportional treaties, which represented 76% of the Company's total gross premiums written for the year ended December 31, 2013, the Company shares proportionally in both the premiums and losses of the cedant and pays the cedant a commission to cover the cedant's acquisition costs. Under this type of treaty, the Company's ultimate premiums written and earned and acquisition costs are not known at the inception of the treaty. 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 24% of the Company's total gross premiums written for the year ended December 31, 2013, 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 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, 2013 were as follows (in millions of U.S. dollars):

<u>Non-life sub-segment</u>	<u>Net premiums written</u>	<u>Net premiums earned</u>
North America	\$ 28	\$ 26
Global (Non-U.S.) P&C	29	26
Global Specialty	77	63
Catastrophe	(1)	(1)
Total	\$133	\$114

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.

As an example of the sensitivity of the Company's Non-life net premiums written and acquisition costs to changes in estimates, the effect of different assumption selections on pre-tax net income based on amounts recorded for the year ended December 31, 2013 was as follows (in millions of U.S. dollars):

	<u>Change</u>	<u>Impact on pre-tax net income</u>
Net premiums written—Non-life proportional treaties ⁽¹⁾	+/-5%	\$+/-17
Net premiums written—Non-life non-proportional treaties ⁽²⁾	+/-5%	+/-24
Acquisition costs—all Non-life treaties ⁽³⁾	+/-1%	-/+5

- (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, 2013.*
- (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 and is made by applying the reported acquisition ratio for the year ended December 31, 2013.*
- (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 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 \$21 million at December 31, 2013 (see Notes 2(1) and 15 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, 2013 of \$156 million, after a valuation allowance of \$46 million. The most significant component of the deferred tax asset (after valuation allowance) relates to loss reserve discounting for tax purposes.

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 \$46 million, recorded at December 31, 2013, primarily related to a foreign tax credit carryforward in Ireland of \$25 million and a tax loss carryforward in Singapore of \$21 million.

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.

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 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, 2013 was as follows (in millions of U.S. dollars):

	<u>2013</u>	<u>Change</u>	<u>Impact on net income and net assets</u>
Unrecognized tax benefit related to uncertain tax positions . .	\$ (21)	+10%	\$ (2)
Deferred tax asset	156	-10%	(16)
Net deferred tax liability	(223)	+10%	(22)

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 the fair value of all of the Company's investments and derivatives, carried at fair value, are recorded in net realized and unrealized investment gains and losses, except for certain foreign exchange related derivatives that are recorded in net foreign exchange 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.

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, 2013, 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, 2013
Fixed maturities	\$555
Equities	38
Other invested assets (including certain derivatives)	104
Funds held – directly managed account	<u>15</u>
Total	<u>\$712</u>

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, 2013 would result in a \$71 million pre-tax charge to net income or loss and a corresponding reduction in total assets.

In addition to other invested assets included in the table above for Level 3 and the combined fair value of Level 1 and Level 2 derivative assets of \$31 million, the Company's other invested assets also include various investments which are accounted for using the cost method of accounting or equity method of accounting, totaling \$186 million at December 31, 2013. 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 or equity method of accounting, a 10% decline in the carrying value of these investments at December 31, 2013 would result in a \$19 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. 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 \$10 million net unrealized loss at December 31, 2013), referred to as Level 2 assets, and included foreign exchange forward contracts, interest rate swaps, foreign currency options, credit default swaps and to-be-announced mortgage-backed securities (TBAs). The Company's derivatives that are fair valued using quoted prices in active markets, referred to as Level 1 assets, had fair value of \$41 million at December 31, 2013, and included treasury and equity futures. 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 an insignificant combined fair value at December 31, 2013, based on a combined notional exposure of \$200 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, 2013, 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 \$2 million decrease or 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 primarily references certain bonds issued by U.S. municipalities. At December 31, 2013, the notional value of the total return swap portfolio categorized as Level 3 was \$32 million and the fair value of the assets underlying the total return swap portfolio categorized as Level 3 was \$31 million. The Company estimated that each 1% increase or decrease in the amount of all expected future cash flows related to the reference assets would result in a \$2 million increase or decrease, respectively, in the fair value of its total return swap portfolio at December 31, 2013.

At December 31, 2013, the Company's insurance-linked securities that are classified as Level 3 include longevity swaps and weather derivatives, with an insignificant combined fair value. At December 31, 2013, the notional exposure of the longevity swaps and weather derivatives classified as Level 3 was \$133 million and \$36 million, respectively. At December 31, 2013, 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 \$4 million decrease in the fair value of its longevity swap portfolio. The weather derivatives categorized as Level 3 are exposed to 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, 2013.

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 PartnerRe Health. The Company assesses the appropriateness of its valuation of goodwill on at least an annual basis or more frequently if events or changes in circumstances indicate that the carrying amount may not be recoverable. 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, 2013.

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 and U.S. licenses arising from the acquisitions of Paris Re and PartnerRe Health. Definite-lived intangible assets are amortized over their useful lives, generally ranging from eleven 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 \$187 million at December 31, 2013.

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.

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 euro and Swiss franc, in 2013 compared to 2012 and was stronger against most currencies, except the Japanese yen, in 2012 compared to 2011; and
- the U.S. dollar ending exchange rate weakened against most currencies, except the Japanese yen and Canadian dollar, at December 31, 2013 compared to December 31, 2012.

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, 2013, 2012 and 2011 were as follows (in millions of U.S. dollars):

	<u>2013</u>	<u>% Change</u>	<u>2012</u>	<u>% Change</u>	<u>2011</u>
Underwriting result:					
Non-life	\$ 626	37%	\$ 456	NM%	\$(973)
Life and Health	12	NM	(16)	(39)	(27)
Investment result:					
Net investment income	484	(15)	571	(9)	629
Net realized and unrealized investment (losses) gains	(161)	NM	494	640	67
Interest in earnings (losses) of equity investments ⁽¹⁾	14	37	10	NM	(6)
Corporate and Other:					
Technical result ⁽²⁾	8	98	4	(23)	6
Other income ⁽²⁾	3	(24)	3	15	3
Other operating expenses	(170)	67	(102)	3	(99)
Interest expense	(49)	—	(49)	—	(49)
Amortization of intangible assets ⁽³⁾	(27)	(15)	(32)	(13)	(36)
Net foreign exchange (losses) gains	(18)	NM	—	NM	34
Income tax expense	(49)	(76)	(204)	196	(69)
Net income (loss)	<u>\$ 673</u>	<u>(41)</u>	<u>\$1,135</u>	<u>NM</u>	<u>\$(520)</u>

NM: not meaningful

(1) Interest in earnings or losses of equity investments represents the Company's aggregate share of earnings or losses 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.*
- (3) *Amortization of intangible assets relates to intangible assets acquired in the acquisition of Paris Re in 2009 and PartnerRe Health in 2012. The acquisition of PartnerRe Health 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 and 2011.*

Underwriting result is a measurement that the Company uses to manage and evaluate its Non-life and Life and Health 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, 2013, 2012 and 2011 and the components are discussed further below (in millions of U.S. dollars):

	<u>2013</u>	<u>2012</u>	<u>2011</u>
Current accident year technical result and ratio			
Adjusted for large catastrophic losses and large losses . . .	\$ 303	92.8%	\$ 396 89.1%
Large catastrophic losses and large losses ⁽¹⁾	(142)	3.4	(316) 8.7 (1,733) 45.3
Prior accident years technical result and ratio			
Net favorable prior year loss development	721	(17.0)	628 (17.0) 530 (13.8)
Technical result and ratio, as reported	\$ 882	79.2%	\$ 708 80.8% \$ (694) 118.0%
Other income	3	—	5 — 4 —
Other operating expenses	(259)	6.1	(257) 7.0 (283) 7.4
Underwriting result and combined ratio, as reported	\$ 626	85.3%	\$ 456 87.8% \$ (973) 125.4%

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

2013 compared to 2012

The underwriting result for the Non-life segment increased by \$170 million (corresponding to a decrease of 2.5 points in the combined ratio), from \$456 million (87.8 points on the combined ratio) in 2012 to \$626 million (85.3 points on the combined ratio) in 2013. The increase in the Non-life underwriting result and the corresponding decrease in the combined ratio in 2013 compared to 2012 was primarily attributable to:

- *Large catastrophic losses and large losses*—a decrease of \$174 million (decrease of 5.3 points in the technical ratio) compared to no significant catastrophic losses from \$316 million (8.7 points on the technical ratio) in 2012 related to Superstorm Sandy and the U.S. drought that impacted the agriculture line of the North America sub-segment to \$142 million (3.4 points on the technical ratio) in 2013 related to the German Hailstorm, Alberta Floods and European Floods.
- *Net favorable prior year loss development*—an increase of \$93 million from \$628 million (17.0 points on the technical ratio) in 2012 to \$721 million (17.0 points on the technical ratio) in 2013. The increase in net favorable prior year loss development was primarily driven by increases in the Global (Non-U.S.) P&C and Catastrophe sub-segments, which were partially offset by a decrease in the Global Specialty sub-segment. While net favorable prior year loss development increased in 2013 compared to 2012, this did not decrease the technical ratio as a result of higher net premiums earned in 2013. 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.

These factors driving the increase in the Non-life underwriting result and the corresponding decrease in the combined ratio in 2013 compared to 2012 were partially offset by:

- *The current accident year technical result, adjusted for large catastrophic losses and large losses*—a decrease in the technical result (and a corresponding increase in the technical ratio) primarily driven by higher losses reported by a large cedant in the agriculture line of business of the Company's North America sub-segment and a higher level of mid-sized loss activity in the Global Specialty and Catastrophe sub-segments. These decreases were partially offset by higher upward premium adjustments in the Global (Non-U.S.) P&C sub-segment and a modestly lower level of mid-sized loss activity in the Global (Non-U.S.) P&C and North America sub-segments.

The underwriting result for the Life and Health segment, which does not include allocated investment income, improved by \$28 million, from a loss of \$16 million in 2012 to a gain of \$12 million in 2013. The improvement in the Life and Health underwriting result was primarily due to higher net favorable prior year loss development, driven by the mortality line of business. See Results by Segment below.

Net investment income decreased by \$87 million, from \$571 million in 2012 to \$484 million in 2013. The decrease in net investment income was 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 losses increased by \$655 million, from gains of \$494 million in 2012 to losses of \$161 million in 2013. The net realized and unrealized investment losses of \$161 million in 2013 were primarily due to increases in risk-free interest rates and were partially offset by improvements in worldwide equity markets and narrower credit spreads. See Corporate and Other – Net Realized and Unrealized Investment Gains (Losses) below for more details.

Other operating expenses included in Corporate and Other increased by \$68 million, from \$102 million in 2012 to \$170 million in 2013. The increase was primarily due to restructuring charges described in Overview above.

Interest expense in 2013 was comparable to 2012.

Net foreign exchange losses increased by \$18 million, from breakeven in 2012 to losses of \$18 million in 2013. The net foreign exchange losses in 2013 resulted primarily from currency movements on certain unhedged equity securities. 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 decreased by \$155 million, from \$204 million in 2012 to \$49 million in 2013, reflecting a decrease in pre-tax net income and a higher distribution of pre-tax net income recorded in non-taxable jurisdictions in 2013 compared to 2012. See Corporate and Other – Income Taxes below for more details.

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 in 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 in 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 in 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 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 in 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.

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 in 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 retrocessional programs. These decreases were partially offset by a lower level of mid-sized loss activity in the Global 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.

Results by Segment

The Company monitors the performance of its operations in three segments, Non-life, Life and Health 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 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 21 to Consolidated Financial Statements included in Item 8 of Part II of this report. Effective January 1, 2013, the Life segment is referred to as Life and Health to reflect the inclusion of PartnerRe Health's results and the Global (Non-U.S.) Specialty sub-segment is referred to as Global Specialty.

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, 2013, 2012 and 2011 (in millions of U.S. dollars):

	<u>2013</u>	<u>% Change</u>	<u>2012</u>	<u>% Change</u>	<u>2011</u>
Gross premiums written	\$1,601	31%	\$1,221	11%	\$1,104
Net premiums written	1,587	30	1,219	11	1,104
Net premiums earned	\$1,533	30	\$1,176	4	\$1,135
Losses and loss expenses	(975)	19	(816)	10	(741)
Acquisition costs	(351)	21	(291)	5	(276)
Technical result ⁽¹⁾	\$ 207	200	\$ 69	(41)	\$ 118
Loss ratio ⁽²⁾	63.6%		69.4%		65.3%
Acquisition ratio ⁽³⁾	22.9		24.7		24.3
Technical ratio ⁽⁴⁾	86.5%		94.1%		89.6%

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

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

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

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

Premiums

The North America sub-segment represented 30%, 27% and 24% of total net premiums written in 2013, 2012 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, 2013, 2012 and 2011 (in millions of U.S. dollars):

	2013				2012				2011			
	Net premiums written		Net premiums earned		Net premiums written		Net premiums earned		Net premiums written		Net premiums earned	
Agriculture	\$ 478	30%	\$ 478	31%	\$ 231	19%	\$ 231	20%	\$ 222	20%	\$ 223	20%
Casualty	588	37	564	37	520	43	484	41	440	40	434	38
Credit/Surety	54	3	48	3	54	4	54	5	53	5	60	5
Motor	58	4	49	3	51	4	65	6	95	8	100	9
Multiline	97	6	96	6	89	7	87	7	79	7	77	7
Property	241	15	235	16	238	20	227	19	198	18	218	19
Other	71	5	63	4	36	3	28	2	17	2	23	2
Total	\$1,587	100%	\$1,533	100%	\$1,219	100%	\$1,176	100%	\$1,104	100%	\$1,135	100%

2013 compared to 2012

Gross premiums written increased by 31% and net premiums written and earned increased by 30% in 2013 compared to 2012. The increases in gross and net premiums written and net premiums earned were primarily driven by the increase in the agriculture line of business, and, to a lesser extent, the casualty line of business, which were the result of new business written. Notwithstanding the diverse conditions prevailing in various markets within this sub-segment, the Company was able to write business that met its portfolio objectives.

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.

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, 2013, 2012 and 2011 (in millions of U.S. dollars):

	2013		2012		2011	
Current accident year technical result and ratio						
Adjusted for large catastrophic losses and large losses	\$ (2)	100.1%	\$ 8	99.3%	\$ (21)	101.9%
Large catastrophic losses and large losses ⁽¹⁾	(14)	0.9	(157)	13.4	(50)	4.4
Prior accident years technical result and ratio						
Net favorable prior year loss development	223	(14.5)	218	(18.6)	189	(16.7)
Technical result and ratio, as reported	\$207	86.5%	\$ 69	94.1%	\$118	89.6%

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

2013 compared to 2012

The increase of \$138 million in the technical result (and the corresponding decrease of 7.6 points in the technical ratio) in 2013 compared to 2012 was primarily attributable to:

- *Large catastrophic losses and large losses*—a decrease of \$143 million (decrease of 12.5 points in the technical ratio) from \$157 million (13.4 points on the technical ratio) related to the U.S. drought and Superstorm Sandy in 2012 to \$14 million (0.9 points on the technical ratio) related to the Alberta Floods in 2013.
- *Net favorable prior year loss development*—an increase of \$5 million (increase of 4.1 points in the technical ratio) from \$218 million (18.6 points on the technical ratio) in 2012 to \$223 million (14.5 points on the technical ratio) in 2013. The net favorable loss development for prior accident years in 2013 was driven by most lines of business, with the casualty line being the most pronounced. The net favorable loss development for prior accident years in 2012 is described below. While net favorable prior year loss development increased in 2013 compared to the 2012, this had a reduced impact on the technical ratio as a result of higher net premiums earned in 2013 compared to 2012.

These factors driving the increase in the technical result in 2013 compared to 2012 were partially offset by:

- *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) primarily due to higher losses reported by a large cedant in the agriculture line of business, partially offset by normal fluctuations in profitability between periods.

2012 compared to 2011

The decrease of \$49 million in the technical result (and the corresponding increase of 4.5 points in 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 in 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 in 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 and 2011 was driven by most lines of business, with the casualty line of business being the most pronounced.
- *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.

2014 Outlook

During the January 1, 2014 renewals, the Company observed increasingly competitive markets with cedants retaining more business and terms and conditions deteriorating due to an excess supply of reinsurance capital. Despite these factors, the expected premium volume from the Company's January 1, 2014 renewal increased

compared to the prior year primarily as a result of new business. Management expects a continuation of the observed trends in competition and conditions during the remainder of 2014.

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 85%, 83% and 84% of net premiums written in 2013, 2012 and 2011, 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, 2013, 2012 and 2011 (in millions of U.S. dollars):

	<u>2013</u>	<u>% Change</u>	<u>2012</u>	<u>% Change</u>	<u>2011</u>
Gross premiums written	\$ 818	20%	\$ 684	— %	\$ 682
Net premiums written	811	19	681	—	678
Net premiums earned	\$ 743	10	\$ 678	(11)	\$ 759
Losses and loss expenses	(373)	(10)	(415)	(27)	(567)
Acquisition costs	(196)	18	(167)	(12)	(191)
Technical result	\$ 174	81	\$ 96	NM	\$ 1
Loss ratio	50.2%		61.3%		74.7%
Acquisition ratio	26.4		24.6		25.1
Technical ratio	76.6%		85.9%		99.8%

NM: not meaningful

Premiums

The Global (Non-U.S.) P&C sub-segment represented 15% of total net premiums written in 2013, 2012 and 2011. 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, 2013, 2012 and 2011 (in millions of U.S. dollars):

	<u>2013</u>				<u>2012</u>				<u>2011</u>			
	Net premiums written		Net premiums earned		Net premiums written		Net premiums earned		Net premiums written		Net premiums earned	
Casualty	\$ 74	9%	\$ 75	10%	\$ 75	11%	\$ 74	11%	\$ 70	10%	\$ 82	11%
Motor	304	37	238	32	187	28	164	24	132	20	168	22
Property	433	54	430	58	419	61	440	65	476	70	509	67
Total	\$811	100%	\$743	100%	\$681	100%	\$678	100%	\$678	100%	\$759	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 foreign exchange fluctuations, described in the Results of Operations above, on gross and net premiums written and net premiums earned in 2013 compared to 2012 and in 2012 compared to 2011:

	<u>Gross premiums written</u>	<u>Net premiums written</u>	<u>Net premiums earned</u>
<i>2013 compared to 2012</i>			
Increase in original currency	20%	19%	9%
Foreign exchange effect	<u>—</u>	<u>—</u>	<u>1</u>
Increase as reported in U.S. dollars	20%	19%	10%
<i>2012 compared to 2011</i>			
Increase (decrease) in original currency	4%	4%	(6)%
Foreign exchange effect	<u>(4)</u>	<u>(4)</u>	<u>(5)</u>
Increase (decrease) as reported in U.S. dollars	— %	— %	(11)%

2013 compared to 2012

Gross and net premiums written and net premiums earned increased by 20%, 19% and 9% on a constant foreign exchange basis, respectively, in 2013 compared to 2012. The increases in gross and net premiums written and net premiums earned resulted primarily from new motor business. The increase in net premiums earned was lower than the increases in gross and net premiums written as the new motor business in 2013 was written on a proportional basis and is yet to be fully reflected in net premiums earned. Notwithstanding the continued competitive conditions in most markets, the Company was able to write business that met its portfolio objectives.

2012 compared to 2011

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.

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, 2013, 2012 and 2011 (in millions of U.S. dollars):

	<u>2013</u>		<u>2012</u>		<u>2011</u>	
Current accident year technical result and ratio						
Adjusted for large catastrophic losses	\$ 5	99.3%	\$(16)	102.5%	\$ 34	95.4%
Large catastrophic losses ⁽¹⁾	(11)	1.5	(2)	0.3	(149)	19.7
Prior accident years technical result and ratio						
Net favorable prior year loss development	180	(24.2)	114	(16.9)	116	(15.3)
Technical result and ratio, as reported	\$174	76.6%	\$ 96	85.9%	\$ 1	99.8%

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

2013 compared to 2012

The increase of \$78 million in the technical result (and the corresponding decrease of 9.3 points in the technical ratio) in 2013 compared to 2012 was primarily attributable to:

- *Net favorable prior year loss development*—an increase of \$66 million (decrease of 7.3 points in the technical ratio) from \$114 million (16.9 points on the technical ratio) in 2012 to \$180 million (24.2 points on the technical ratio) in 2013. The net favorable loss development for prior accident years in 2013 was driven by all lines of business, with the property line being the most pronounced, and included favorable loss emergence related to certain catastrophic and large loss events. The net favorable loss development for prior accident years in 2012 is described below.
- *The current accident year technical result, adjusted for large catastrophic losses*—an increase in the technical result (and a corresponding decrease in the technical ratio) due to higher upward premium adjustments reported by cedants in 2013 compared to 2012, modestly lower level of mid-sized loss activity and lower loss picks in certain lines of business, partially offset by a higher acquisition cost ratio.

These factors driving the increase in the technical result in 2013 compared to 2012 were partially offset by:

- *Large catastrophic losses*—an increase of \$9 million (increase of 1.2 points in the technical ratio) from \$2 million (0.3 points on the technical ratio) related to Superstorm Sandy in 2012 to \$11 million (1.5 points on the technical ratio) in 2013 related to the European Floods and German Hailstorm.

2012 compared to 2011

The increase of \$95 million in the technical result (and the corresponding decrease of 13.9 points in 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 in 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 in 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 in 2011 was driven by all lines of business, with the motor line being the most pronounced.

2014 Outlook

During the January 1, 2014 renewals, the Company generally observed challenging market conditions primarily driven by increased competition, increased retentions by cedants and reduced pricing. As a result of these factors, the overall expected premium volume from the Company's January 1, 2014 renewal, at constant

foreign exchange rates, decreased modestly compared to the prior year renewal and was partially offset by new business. Management expects a continuation of the observed trends in competition, retentions and pricing during the remainder of 2014.

Global Specialty

The Global 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, 2013, 2012 and 2011 (in millions of U.S. dollars):

	<u>2013</u>	<u>% Change</u>	<u>2012</u>	<u>% Change</u>	<u>2011</u>
Gross premiums written	\$1,676	11%	\$1,505	4%	\$1,446
Net premiums written	1,579	12	1,415	5	1,344
Net premiums earned	\$1,506	10	\$1,373	—	\$1,376
Losses and loss expenses	(920)	12	(821)	(14)	(950)
Acquisition costs	(362)	13	(321)	(2)	(328)
Technical result	\$ 224	(3)	\$ 231	135	\$ 98
Loss ratio	61.1%		59.8%		69.1%
Acquisition ratio	24.0		23.4		23.8
Technical ratio	85.1%		83.2%		92.9%

Premiums

The Global Specialty sub-segment represented 29%, 31% and 30% of total net premiums written in 2013, 2012 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, 2013, 2012 and 2011 (in millions of U.S. dollars):

	<u>2013</u>				<u>2012</u>				<u>2011</u>			
	<u>Net premiums written</u>		<u>Net premiums earned</u>		<u>Net premiums written</u>		<u>Net premiums earned</u>		<u>Net premiums written</u>		<u>Net premiums earned</u>	
Agriculture	\$ 138	9%	\$ 130	9%	\$ 80	6%	\$ 81	6%	\$ 70	5%	\$ 74	6%
Aviation/Space	204	13	198	13	217	15	215	15	211	16	217	16
Credit/Surety	292	19	285	19	273	19	261	19	272	20	279	20
Energy	86	5	95	6	95	7	100	7	111	8	112	8
Engineering	221	14	212	14	171	12	176	13	183	14	198	14
Marine	306	19	299	20	313	22	298	22	271	20	253	18
Specialty												
casualty	138	9	110	7	101	7	90	7	108	8	112	8
property	147	9	154	10	164	12	150	11	134	10	129	10
Other	47	3	23	2	1	—	2	—	(16)	(1)	2	—
Total	\$1,579	100%	\$1,506	100%	\$1,415	100%	\$1,373	100%	\$1,344	100%	\$1,376	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 foreign exchange fluctuations, described in the Results of Operations above, on gross and net premiums written and net premiums earned in 2013 compared to 2012 and in 2012 compared to 2011:

	<u>Gross premiums written</u>	<u>Net premiums written</u>	<u>Net premiums earned</u>
<i>2013 compared to 2012</i>			
Increase in original currency	11%	11%	9%
Foreign exchange effect	<u>—</u>	<u>1</u>	<u>1</u>
Increase as reported in U.S. dollars	11%	12%	10%
<i>2012 compared to 2011</i>			
Increase in original currency	7%	8%	3%
Foreign exchange effect	<u>(3)</u>	<u>(3)</u>	<u>(3)</u>
Increase (decrease) as reported in U.S. dollars	4%	5%	— %

2013 compared to 2012

Gross and net premiums written increased by 11% and net premiums earned increased by 9% on a constant foreign exchange basis in 2013 compared to 2012. The increases in gross and net premiums written and net premiums earned were primarily driven by new business written in the agriculture, multiline (included in Other in the above table) and specialty casualty lines of business and upward premium adjustments in the engineering line of business. Notwithstanding the diverse conditions prevailing in various markets within this sub-segment, the Company was able to write business that met its portfolio objectives.

2012 compared to 2011

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.

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, 2013, 2012 and 2011 (in millions of U.S. dollars):

	<u>2013</u>		<u>2012</u>		<u>2011</u>	
Current accident year technical result and ratio						
Adjusted for large catastrophic losses	\$ 12	99.2%	\$ 66	95.1%	\$ 34	97.5%
Large catastrophic losses ⁽¹⁾	(15)	1.0	(86)	6.3	(65)	4.8
Prior accident years technical result and ratio						
Net favorable prior year loss development	<u>227</u>	<u>(15.1)</u>	<u>251</u>	<u>(18.2)</u>	<u>129</u>	<u>(9.4)</u>
Technical result and ratio, as reported	\$224	85.1%	\$231	83.2%	\$ 98	92.9%

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

2013 compared to 2012

The decrease of \$7 million in the technical result (and the corresponding increase of 1.9 points in the technical ratio) in 2013 compared to 2012 was primarily attributable to:

- *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 higher level of mid-sized loss activity, a modest increase in the acquisition cost ratio due to higher commissions and normal fluctuations in profitability.
- *Net favorable prior year loss development*—a decrease of \$24 million (increase of 3.1 points in the technical ratio) from \$251 million (18.2 points on the technical ratio) in 2012 to \$227 million (15.1 points on the technical ratio) in 2013. The net favorable loss development for prior accident years in 2013 was driven by all lines of business, predominantly the aviation/space, marine and specialty property lines. The net favorable loss development for prior accident years in 2012 is described below.

These factors driving the decrease in the technical result in 2013 compared to 2012 were partially offset by:

- *Large catastrophic losses*—a decrease of \$71 million (decrease of 5.3 points in the technical ratio) from \$86 million (6.3 points on the technical ratio) related to Superstorm Sandy in 2012 to \$15 million (1.0 points on the technical ratio) related to the Alberta and European Floods in 2013.

2012 compared to 2011

The increase of \$133 million in the technical result (and the corresponding decrease of 9.7 points in 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 in 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. The net favorable loss development for prior accident years in 2011 was driven by most lines of business.
- *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 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 in 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.

2014 Outlook

During the January 1, 2014 renewals, the Company generally observed increased competition across all markets, with pressure on pricing and terms and increased retentions. Overall, and despite these factors, the expected premium volume from the Company's January 1, 2014 renewal, at constant foreign exchange rates, increased compared to the prior year renewal as a result of new growth opportunities in certain specialty lines markets. Management expects a continuation of the observed trends in competition, pricing, terms and retentions during the remainder of 2014.

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 2013, 2012 and 2011, and as a result, profitability in any one year is not necessarily predictive of future profitability. The Catastrophe sub-segment results for 2013 and 2012 included a comparatively low level of large catastrophic losses resulting from the German Hailstorm, European Floods and Alberta Floods in 2013 and Superstorm Sandy in 2012, while 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.

The Catastrophe sub-segment results are presented before the inter-company quota share of a diversified portfolio of catastrophe treaties to the Company's fully collateralized reinsurance vehicle, Lorenz Re Ltd. (see Note 13 to the Consolidated Financial Statements included in Item 8 of Part II of this report).

The following table provides the components of the technical result and the corresponding ratios for this sub-segment for the years ended December 31, 2013, 2012 and 2011 (in millions of U.S. dollars):

	<u>2013</u>	<u>% Change</u>	<u>2012</u>	<u>% Change</u>	<u>2011</u>
Gross premiums written	\$ 495	(1)%	\$ 500	(17)%	\$ 599
Net premiums written	450	(1)	453	(19)	562
Net premiums earned	\$ 453	(1)	\$ 457	(20)	\$ 574
Losses and loss expenses	(132)	28	(103)	(93)	(1,459)
Acquisition costs	(44)	3	(42)	64	(26)
Technical result	\$ 277	(11)	\$ 312	NM	\$ (911)
Loss ratio	29.0%		22.4%		254.2%
Acquisition ratio	9.7		9.3		4.5
Technical ratio	38.7%		31.7%		258.7%

NM: not meaningful

Premiums

The Catastrophe sub-segment represented 8%, 10% and 13% of total net premiums written in 2013, 2012 and 2011, 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 foreign exchange fluctuations, described in the Results of Operations above, on gross and net premiums written and net premiums earned in 2013 compared to 2012 and in 2012 compared to 2011:

	<u>Gross premiums written</u>	<u>Net premiums written</u>	<u>Net premiums earned</u>
<i>2013 compared to 2012</i>			
Increase in original currency	1%	1%	1%
Foreign exchange effect	(2)	(2)	(2)
Decrease as reported in U.S. dollars	(1)%	(1)%	(1)%
<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)%

2013 compared to 2012

Gross and net premiums written and net premiums earned increased modestly by 1% on a constant foreign exchange basis in 2013 compared to 2012. The increases in gross and net premiums written and net premiums earned were primarily due to certain new business written and were partially offset by cancellations and non-renewals.

2012 compared to 2011

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.

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, 2013, 2012 and 2011 (in millions of U.S. dollars):

	2013		2012		2011	
Current accident year technical result and ratio						
Adjusted for large catastrophic losses	\$ 288	33.8%	\$338	23.9%	\$ 462	15.4%
Large catastrophic losses ⁽¹⁾	(102)	25.0	(71)	17.6	(1,469)	260.1
Prior accident years technical result and ratio						
Net favorable prior year loss development	91	(20.1)	45	(9.8)	96	(16.8)
Technical result and ratio, as reported	\$ 277	38.7%	\$312	31.7%	\$ (911)	258.7%

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

2013 compared to 2012

The decrease of \$35 million in the technical result (and the corresponding increase of 7.0 points in the technical ratio) in 2013 compared to 2012 was primarily attributable to:

- *The current accident year technical result, adjusted for large catastrophic losses*—a decrease in the technical result (and corresponding increase in the technical ratio) primarily due to a higher level of mid-sized loss activity and normal fluctuations in profitability between periods.
- *Large catastrophic losses*—an increase of \$31 million (increase of 7.4 points in the technical ratio) from \$71 million (17.6 points on the technical ratio) related to Superstorm Sandy in 2012 to \$102 million (25.0 points on the technical ratio) related to the German Hailstorm, European Floods and Alberta Floods in 2013.

These factors driving the decrease in the technical result in 2013 compared to 2012 were partially offset by:

- *Net favorable prior year loss development*—an increase of \$46 million (decrease of 10.3 points in the technical ratio) from \$45 million (9.8 points on the technical ratio) in 2012 to \$91 million (20.1 points on the technical ratio) in 2013. The net favorable loss development for prior accident years was primarily due to favorable loss emergence during both 2013 and 2012.

2012 compared to 2011

The increase of \$1,223 million in the technical result (and the corresponding decrease of 227.0 points in 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 in 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 in 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 was primarily due to favorable loss emergence during both 2012 and 2011.

2014 Outlook

During the January 1, 2014 renewals, the Company observed a challenging market environment with declining pricing and pressure on terms and conditions in most markets. 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, 2014 renewal, at constant foreign exchange rates, decreased compared to the prior year renewal primarily as a result of the non-renewals of certain treaties due to deterioration in pricing and decreases in participations, which were partially offset by new business. Management expects a continuation of these trends for the remainder of 2014.

Life and Health Segment

Effective January 1, 2013, the Life and Health segment includes the results of PartnerRe Health, following its acquisition on December 31, 2012. The acquisition of PartnerRe Health affects the year over year comparisons of the segment results, primarily in the accident and health line of business, other income and other operating expenses. The following table provides the components of the allocated underwriting result for this segment for the years ended December 31, 2013, 2012 and 2011 (in millions of U.S. dollars):

	<u>2013</u>	<u>% Change</u>	<u>2012</u>	<u>% Change</u>	<u>2011</u>
Gross premiums written	\$ 972	21%	\$ 802	2%	\$ 790
Net premiums written	964	21	799	2	786
Net premiums earned	\$ 957	20	\$ 795	—	\$ 792
Life policy benefits	(760)	18	(647)	(1)	(650)
Acquisition costs	(125)	8	(116)	(1)	(117)
Technical result	\$ 72	127	\$ 32	27	\$ 25
Other income	11	177	4	475	1
Other operating expenses	(71)	36	(52)	(1)	(53)
Net investment income	61	(5)	64	(3)	66
Allocated underwriting result ⁽¹⁾	\$ 73	53	\$ 48	23	\$ 39

(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.*

Premiums

The Life and Health segment represented 18%, 17% and 18% of total net premiums written in 2013, 2012 and 2011, respectively. The following table summarizes the net premiums written and net premiums earned by line of business for this segment for years ended December 31, 2013, 2012 and 2011 (in millions of U.S. dollars):

	2013				2012				2011			
	Net premiums written		Net premiums earned		Net premiums written		Net premiums earned		Net premiums written		Net premiums earned	
Accident and health	\$141	15%	\$140	15%	\$ 21	3%	\$ 20	3%	\$ 21	3%	\$ 21	3%
Longevity	249	26	249	26	247	31	247	31	202	26	202	25
Mortality	574	59	568	59	531	66	528	66	563	71	569	72
Total	\$964	100%	\$957	100%	\$799	100%	\$795	100%	\$786	100%	\$792	100%

Business reported in this 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 foreign exchange fluctuations, described in the Results of Operations above, on gross and net premiums written and net premiums earned in 2013 compared to 2012 and in 2012 compared to 2011:

	Gross premiums written	Net premiums written	Net premiums earned
<i>2013 compared to 2012</i>			
Increase in original currency	21%	20%	20%
Foreign exchange effect	—	1	—
Increase as reported in U.S. dollars	21%	21%	20%
<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%	— %

2013 compared to 2012

Gross premiums written increased by 21% and net premiums written and earned increased by 20% on a constant foreign exchange basis in 2013 compared to 2012. The increases in gross and net premiums written and net premiums earned were primarily due to the inclusion of PartnerRe Health's accident and health business in 2013 and, to a lesser extent, growth in the mortality line of business.

2012 compared to 2011

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 GMDDB business in the mortality line.

Allocated underwriting result

2013 compared to 2012

The allocated underwriting result increased by \$25 million, from \$48 million in 2012 to \$73 million in 2013. The increase was primarily driven by a higher level of net favorable prior year loss development in 2013 compared to 2012, the inclusion of PartnerRe Health's results and an increase in other income. These factors driving the increase in the allocated underwriting result were partially offset by higher operating expenses.

The increase in net favorable prior year loss development of \$25 million reflects net favorable loss development of \$39 million in 2013 compared to \$14 million in 2012. The net favorable prior year loss development of \$39 million in 2013 was primarily related to the GMDB business and, to a lesser extent, certain short-term treaties in the mortality line of business. The favorable development was primarily due to favorable claims experience, data updates received from cedants and improvements in the capital markets related to the GMDB business. The net favorable prior year loss development in 2012 is described below.

Other income increased by \$7 million, from \$4 million in 2012 to \$11 million in 2013 primarily due to the inclusion of the MGA fees earned by PartnerRe Health.

Other operating expenses increased by \$19 million, from \$52 million in 2012 to \$71 million in 2013 primarily due to the inclusion of PartnerRe Health's operating expenses and higher bonus accruals. The overall impact on the allocated underwriting result of including PartnerRe Health's operating expenses was partially offset by the MGA fees earned by PartnerRe Health, which are included in other income.

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 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.

2014 Outlook

The acquisition of PartnerRe Health is expected to continue contributing to overall premium growth in the Life and Health segment in 2014 due to its transition from an MGA to a carrier. At the January 1, 2014 renewals, opportunities in managed care and specialty lines of the PartnerRe Health business were observed as a result of the implementation of the Patient Protection and Affordable Care Act. At the time of acquisition, PartnerRe Health operated as an MGA, 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 ceded a portion of the original business written through quota share agreements to PartnerRe Health's reinsurance subsidiary. During 2013, the Company obtained the necessary licenses and approvals and began transitioning the portfolio to PartnerRe carriers. As of January 1, 2014, virtually all of the PartnerRe Health business is originated directly, without the use of third party insurance companies. As such, PartnerRe Health's premiums are expected to grow in 2014 and the MGA fees will be substantially reduced.

In terms of the Company's Life portfolio, the majority of the premium arises from long-term in-force contracts. The active January 1 renewals impact a relatively limited portion of the short-term in-force premium in the mortality line. For those treaties that actively renewed, pricing conditions and terms were modestly softer from the January 1, 2013 renewals. Management expects moderate continued growth in the Company's Life portfolio in 2014, 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, 2013, 2012 and 2011 was as follows:

	<u>2013</u>	<u>2012</u>	<u>2011</u>
Non-life			
Property and casualty			
Casualty	12%	13%	11%
Motor	7	5	5
Multiline and other	4	3	2
Property	12	14	15
Specialty			
Agriculture	11	7	7
Aviation / Space	4	5	5
Catastrophe	8	10	13
Credit / Surety	6	7	7
Energy	2	2	2
Engineering	4	4	4
Marine	6	7	6
Specialty casualty	3	2	2
Specialty property	3	4	3
Life and Health	<u>18</u>	<u>17</u>	<u>18</u>
Total	<u>100%</u>	<u>100%</u>	<u>100%</u>

The changes in the distribution of net premiums written by line of business between 2013, 2012 and 2011 reflected the Company's response to existing market conditions. 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.

- Property: the decrease in the distribution of net premiums written between 2013 and 2012 was primarily driven by more significant increases in other lines of business relative to the absolute increase in property premiums of 2%. The decrease in the distribution of net premiums written between 2012 and 2011 was driven primarily by the effects of the Company's decisions to reduce certain exposures, which has included reducing the level of catastrophe exposed business and lower pricing.
- Agriculture: the increase in the distribution of net premiums written in 2013 compared to 2012 and 2011 was driven by new business written in the North America sub-segment and, to a lesser extent, in the Global Specialty sub-segment.
- Catastrophe: the decrease in the distribution of net premiums written in 2013 was primarily driven by more significant increases in other lines of business relative to catastrophe premiums which were essentially flat. The decrease in the distribution of net premiums written between 2013 and 2012 compared to 2011 was due to the Company reducing certain exposures by cancelling and decreasing treaty participations.

2014 Outlook

Based on information received from cedants and brokers during the January 1, 2014 renewals, and assuming that similar trends and conditions to those experienced during the January 1, 2014 renewals continue through the year, Management expects the distribution of net premiums written by lines to be broadly comparable to 2013. The exceptions to this are expected to be a further relative decrease in the catastrophe line of business due to a decrease in the January 1, 2014 renewal premium and a relative increase in the Life and Health segment due to all of the PartnerRe Health business being written by the Company directly for 2014.

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, 2013, 2012 and 2011 was as follows:

	<u>2013</u>	<u>2012</u>	<u>2011</u>
Non-life segment			
Proportional	55%	50%	47%
Non-proportional	20	25	27
Facultative	7	8	8
Life and Health segment	<u>18</u>	<u>17</u>	<u>18</u>
Total	<u>100%</u>	<u>100%</u>	<u>100%</u>

(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 2013 and 2012 primarily reflect a shift from non-proportional business to proportional business in the Non-life segment. This shift was driven by all Non-life sub-segments, except for the Catastrophe sub-segment, and specifically included an increase in gross premiums written in the agriculture line of business, which is predominantly written on a proportional basis. In addition, the shift was also driven by a relative decrease as a percentage of total gross premiums written, as discussed in Premium Distribution by Line of business above, in the Catastrophe sub-segment's gross premiums written, which are predominantly written on a non-proportional basis.

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.

2014 Outlook

Based on renewal information from cedants and brokers during the January 1, 2014 renewals, and assuming that similar trends and conditions to those experienced during the January 1, 2014 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 modest shift in the distribution of gross premiums written reflects the expected relative decrease in the Catastrophe sub-segment's gross premiums written, which are primarily written on a non-proportional basis, as discussed above. The Company writes a large majority of its business on a treaty basis and renews approximately 65% of its total annual Non-life treaty business on January 1. The remainder of the Non-life treaty business renews at other times during the year, therefore this outlook is subject to limited information relative to the treaty business primarily renewed during the January 1 renewal period.

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, 2013, 2012 and 2011:

	<u>2013</u>	<u>2012</u>	<u>2011</u>
Asia, Australia and New Zealand	11	11	12
Europe	40	41	41
Latin America, Caribbean and Africa	10	11	11
North America	39	37	36
Total	100%	100%	100%

The increase in the distribution of gross premiums written in North America in 2013 compared to 2012 was primarily due to an increase in gross premiums written in the Company's North America Non-life sub-segment and in the Life and Health segment. The increase in the North America sub-segment was primarily driven by the agriculture line. The increase in the Life and Health segment was driven by the inclusion of PartnerRe Health business from January 1, 2013.

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

2014 Outlook

Based on information received from cedants and brokers during the January 1, 2014 renewals, and assuming that similar trends and conditions to those experienced during the January 1, 2014 renewals continue through the year and based on constant foreign exchange rates, Management expects the distribution of gross premiums written by geographic region in 2014 to shift modestly from most geographic regions to North America as a result of the expected relative increases in gross premiums written in the North America sub-segment and the Life and Health segment as described above in the sub-segment and segment results.

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, 2013, 2012 and 2011 was as follows:

	<u>2013</u>	<u>2012</u>	<u>2011</u>
Broker	71%	69%	72%
Direct	29	31	28
Total	100%	100%	100%

The percentage of gross premiums written through brokers in 2013 compared to 2012 increased slightly due to an increase in the percentage of gross premiums written through brokers in Europe and North America and the inclusion of PartnerRe Health business, which is solely written through brokers.

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

2014 Outlook

Based on information received from cedants and brokers during the January 1, 2014 renewals, and assuming that similar trends and conditions to those experienced during the January 1, 2014 renewals continue through the year, Management expects the production source of gross premiums written in 2014 to be comparable to 2013.

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

Net investment income by asset source for the years ended December 31, 2013, 2012 and 2011 was as follows (in millions of U.S. dollars):

	<u>2013</u>	<u>% Change</u>	<u>2012</u>	<u>% Change</u>	<u>2011</u>
Fixed maturities	\$446	(13)%	\$513	(9)%	\$562
Short-term investments, cash and cash equivalents	2	(35)	3	(24)	4
Equities	33	26	26	32	20
Funds held and other	34	(22)	44	(11)	49
Funds held – directly managed	21	(29)	29	(23)	38
Investment expenses	(52)	18	(44)	1	(44)
Net investment income	<u>\$484</u>	<u>(15)</u>	<u>\$571</u>	<u>(9)</u>	<u>\$629</u>

Because of the interest-sensitive nature of some of the Company's life products within the Life and Health segment, net investment income is considered in Management's assessment of the profitability of the Life and Health segment (see Life and Health segment above). The following discussion includes net investment income from all investment activities, including the net investment income allocated to the Life and Health segment.

2013 compared to 2012

Net investment income decreased in 2013 compared to 2012 due to:

- a decrease in net investment income from fixed maturities primarily as a result of lower reinvestment rates and, to a lesser extent, cash outflows from the fixed maturity portfolio primarily to finance the Company's share repurchase activity;
- a decrease in net investment income from funds held and other primarily due to lower investment income reported by cedants; 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 driven by the release of assets due to the run-off of the underlying liabilities and lower reinvestment rates; partially offset by
- an increase in net investment income from equities primarily as a result of higher dividend income.

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;
- 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, as discussed above; 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.

2014 Outlook

Assuming constant foreign exchange rates, Management expects net investment income to decrease in 2014 compared to 2013 primarily due to lower reinvestment rates with low yields expected to continue throughout 2014. Management expects this decrease to be partially offset by expected positive cash flow from operations (including net investment income).

Net Realized and Unrealized Investment (Losses) Gains

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

The components of net realized and unrealized investment (losses) gains for the years ended December 31, 2013, 2012 and 2011 were as follows (in millions of U.S. dollars):

	<u>2013</u>	<u>2012</u>	<u>2011</u>
Net realized investment gains on fixed maturities and short-term investments	\$ 119	\$173	\$ 157
Net realized investment gains on equities	75	72	91
Net realized investment gains (losses) on other invested assets	20	(16)	(176)
Change in net unrealized investment gains (losses) on other invested assets	57	(9)	(46)
Change in net unrealized investment (losses) gains on fixed maturities and short-term investments	(526)	186	128
Change in net unrealized investment gains (losses) on equities	118	66	(102)
Net other realized and unrealized investment (losses) gains	(2)	6	4
Net realized and unrealized investment (losses) gains on funds held – directly managed	<u>(22)</u>	<u>16</u>	<u>11</u>
Net realized and unrealized investment (losses) gains	<u>\$(161)</u>	<u>\$494</u>	<u>\$ 67</u>

2013 compared to 2012

Net realized and unrealized investment losses increased by \$655 million, from a gain of \$494 million in 2012 to a loss of \$161 million in 2013. The net realized and unrealized investment losses of \$161 million in 2013 were primarily due to increases in U.S. and European risk-free interest rates, which were partially offset by improvements in worldwide equity markets, gains on treasury note futures, narrowing credit spreads and an unrealized gain related to the initial public offering of an investment in a mortgage guaranty insurance company. Net realized and unrealized investment gains were \$494 million in 2012 and are described below.

Net realized and the change in net unrealized investment gains on other invested assets were a combined gain of \$77 million in 2013 and primarily related to treasury note futures. Net realized and the change in net unrealized investment losses on other invested assets were a combined loss of \$25 million in 2012 and are described below.

Net realized and unrealized investment (losses) gains on funds held – directly managed of \$22 million loss and \$16 million gain in 2013 and 2012, respectively, primarily related to the change in net unrealized investment (losses) gains on fixed maturities in the segregated investment portfolio underlying the funds held – directly managed account and were driven by changes in risk-free interest rates.

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. 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 the change in net unrealized investment losses on other invested assets were a combined loss of \$25 million in 2012 primarily due to realized losses on treasury note futures. 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 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 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.

Other Operating Expenses

The Company's total other operating expenses for the years ended December 31, 2013, 2012 and 2011 were as follows (in millions of U.S. dollars):

	<u>2013</u>	<u>% Change</u>	<u>2012</u>	<u>% Change</u>	<u>2011</u>
Other operating expenses	\$500	22%	\$411	(5)%	\$435

Other operating expenses represent 9.6%, 9.2% and 9.4% of net premiums earned (Non-life and Life and Health) for the years ended December 31, 2013, 2012 and 2011, respectively. Other operating expenses included in Corporate and Other were \$170 million, \$102 million and \$99 million, of which \$163 million (including \$58 million of restructuring charges as described above in Overview), \$88 million and \$83 million are related to corporate activities for the years ended December 31, 2013, 2012 and 2011, respectively.

2013 compared to 2012

Other operating expenses increased by 22% in 2013 compared to 2012 primarily due to the restructuring charges and higher bonus accruals.

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.

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.

The Company's income tax expense and effective income tax rate for the years ended December 31, 2013, 2012 and 2011 were as follows (in millions of U.S. dollars):

	<u>2013</u>	<u>2012</u>	<u>2011</u>
Income tax expense	\$ 49	\$ 204	\$ 69
Effective income tax rate	6.7%	15.3%	(15.3)%

2013 compared to 2012

Income tax expense and the effective income tax rate during 2013 were \$49 million and 6.7%, respectively. Income tax expense and the effective income tax rate during 2013 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 significant portion of the Company's pre-tax net income recorded in non-taxable jurisdictions and jurisdictions with comparatively lower tax rates driven by net favorable prior year loss development, 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, which was partially offset by net realized and unrealized investment losses, catastrophe losses and restructuring charges. In addition, the income tax expense recorded in jurisdictions with comparatively higher tax rates included certain true-up to tax return adjustments and certain one-time charges related to changes in the French tax code.

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.

2012 compared to 2011

Income tax expense and the effective income tax rate during 2012 were \$204 million and 15.3%, respectively, as described above.

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.

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 (including funds held – directly managed) at December 31, 2013 and 2012 were split between liability and capital funds as follows (in millions of U.S. dollars):

	<u>2013</u>	<u>% of Total Invested Assets</u>	<u>2012</u>	<u>% of Total Invested Assets</u>
Liability funds	\$10,366	59%	\$10,723	59%
Capital funds	7,118	41	7,453	41
Total invested assets	\$17,484	100%	\$18,176	100%

The decrease of \$692 million in total invested assets at December 31, 2013 compared to December 31, 2012 was primarily related to decreases in fixed maturities and investments underlying the funds held – directly managed account, which were partially offset by increases in cash and equities. The decrease in fixed maturities

was primarily related to the sale and maturity of fixed maturities to fund the Company's share repurchases and dividends and increases in U.S. and European risk-free interest rates. The decrease in the funds held – directly managed account, was primarily driven by the run-off of the related loss reserves and increases in U.S. and European risk-free interest rates. The increase in equities was primarily related to an unrealized gain recorded on the initial public offering of an investment and improvements in worldwide equity markets.

The liability funds were comprised of cash and cash equivalents, accrued investment income and high quality fixed income securities. The decrease in the liability funds at December 31, 2013 compared to December 31, 2012 was primarily driven by an increase in net reinsurance assets related to business written during 2013.

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. The decrease in the capital funds at December 31, 2013 compared to December 31, 2012 was primarily driven by the decrease in total invested assets, as described above. At December 31, 2013, approximately 60% of the capital funds were invested in cash and cash equivalents and investment grade fixed income securities.

The Company's investment strategy allows for the use of derivative instruments, subject to strict limitations. The Company utilizes various derivative instruments such as 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 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 (excluding the funds held – directly managed account) were \$16.6 billion at December 31, 2013 compared to \$17.1 billion at December 31, 2012. The major factors contributing to the decrease during 2013 were:

- a net decrease of \$616 million, due to the repurchase of common shares of \$695 million under the Company's share repurchase program, partially offset by the issuance of common shares under the Company's employee equity plans of \$79 million;
- net realized and unrealized losses related to the investment portfolio of \$139 million primarily resulting from a decrease in the fixed maturity and short-term investment portfolios of \$407 million primarily reflecting increasing U.S. and European risk-free interest rates and reduced by the impact of narrowing credit spreads, which was partially offset by an increase in the equity portfolio of \$193 million and an increase in other invested assets of \$77 million driven by gains on treasury note futures (see discussion related to duration below);
- dividend payments on common and preferred shares totaling \$200 million;
- an increase in net receivable for securities sold of \$101 million;
- a net payment of \$48 million related to the redemption of Series C preferred shares of \$290 million, which was partially offset by proceeds related to the issuance of the Series F preferred shares of \$242 million, after underwriting discounts and commissions (see Note 11 to the Consolidated Financial Statements included in Item 8 of Part II of this report and Contractual Obligations, Commitments and Contingencies and Shareholders' Equity and Capital Resources Management below); and
- various other factors which net to approximately \$173 million, the largest being the amortization of net premium on investments; partially offset by
- net cash provided by operating activities of \$827 million.

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, 2013, approximately 95% 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, 2013 and 2012 were as follows:

	<u>2013</u>	<u>2012</u>
Average credit quality	A	A
Average yield to maturity	2.5%	2.0%
Expected average duration	3.0 years	2.7 years

The increases in the average yield to maturity and the expected average duration on fixed maturities, short-term investments and cash and cash equivalents at December 31, 2013 compared to December 31, 2012, were primarily due to increases in U.S. and European risk-free interest rates during 2013. The average credit quality of A at December 31, 2013 was comparable to December 31, 2012.

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 3.9 years to 3.0 years at December 31, 2013, and reflects the Company's decision to continue to hedge against potential further rises in risk-free interest rates.

The Company's investment portfolio generated a total accounting return (calculated based on the carrying value of all investments in local currency) of 1.8% in 2013 compared to 6.5% in 2012. The total accounting return in 2013 was mainly due to improvements in equity markets and narrowing credit spreads which were partially offset by increases in U.S. and European risk-free interest rates. The total accounting return in 2012 was primarily impacted by narrowing credit spreads, improvements in equity markets and modest declines in U.S. and European risk-free interest rates.

The cost, fair value and credit ratings of the Company's fixed maturities, short-term investments and equities classified as trading at December 31, 2013 and 2012 were as follows (in millions of U.S. dollars):

<u>December 31, 2013</u>	<u>Cost</u> ⁽¹⁾	<u>Fair Value</u>	<u>Credit Rating</u> ⁽²⁾					<u>Below investment grade/Unrated</u>
			<u>AAA</u>	<u>AA</u>	<u>A</u>	<u>BBB</u>		
Fixed maturities								
U.S. government	\$ 1,610	\$ 1,599	\$ —	\$1,599	\$ —	\$ —	\$ —	\$ —
U.S. government sponsored enterprises	25	25	—	25	—	—	—	—
U.S. states, territories and municipalities	122	124	7	6	—	3	108	
Non-U.S. sovereign government, supranational and government related	2,295	2,354	950	1,295	99	10	—	
Corporate	5,867	6,049	226	576	2,640	2,150	457	
Asset-backed securities	1,127	1,138	319	187	140	8	484	
Residential mortgage-backed securities	2,295	2,268	369	1,844	37	3	15	
Other mortgage-backed securities	35	36	27	6	—	1	2	
Fixed maturities	<u>13,376</u>	<u>13,593</u>	<u>1,898</u>	<u>5,538</u>	<u>2,916</u>	<u>2,175</u>	<u>1,066</u>	
Short-term investments	14	14	11	—	1	2	—	
Total fixed maturities and short-term investments	\$13,390	\$13,607	\$1,909	\$5,538	\$2,917	\$2,177	\$1,066	
Equities	1,009	1,221						
Total	\$14,399	\$14,828						
% of Total fixed maturities and short-term investments			14%	41%	21%	16%	8%	

<u>December 31, 2012</u>	<u>Cost</u> ⁽¹⁾	<u>Fair Value</u>	<u>Credit Rating</u> ⁽²⁾					<u>Below investment grade/Unrated</u>
			<u>AAA</u>	<u>AA</u>	<u>A</u>	<u>BBB</u>		
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	
Fixed maturities	<u>13,654</u>	<u>14,395</u>	<u>1,899</u>	<u>5,946</u>	<u>3,325</u>	<u>2,182</u>	<u>1,043</u>	
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%	

- (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 decrease of \$0.8 billion in the fair value of the Company's fixed maturities from \$14.4 billion at December 31, 2012 to \$13.6 billion at December 31, 2013 primarily reflects the sale and maturity of fixed maturities to fund the Company's share repurchases and dividend payments and increases in U.S. and European risk-free interest rates. At December 31, 2013, there has been a shift in the distribution of the fixed maturity portfolio compared to December 31, 2012 as the Company decreased its holdings of corporate bonds and residential mortgage-backed securities (primarily due to narrowing credit spreads), and increased its holdings of U.S. government securities and asset-backed securities.

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, 2013, 91% of this category was rated AA with the remaining 9%, although not specifically rated, generally considered to have a credit quality equivalent to AA+ corporate issues.

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, 2013 were as follows (in millions of U.S. dollars):

December 31, 2013	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	\$ 140	\$—	\$319	\$ 459	\$191	\$ 174	\$ 94	\$—
New Zealand	110	—	—	110	—	110	—	—
Singapore	98	—	—	98	98	—	—	—
All Other	45	—	5	50	14	21	5	10
Total Non-European Union	\$ 393	\$—	\$324	\$ 717	\$303	\$ 305	\$ 99	\$ 10
European Union								
France	\$ 433	\$—	\$ 18	\$ 451	\$—	\$ 451	\$—	\$—
Germany	346	—	—	346	346	—	—	—
Netherlands	242	—	—	242	242	—	—	—
Belgium	234	—	—	234	—	234	—	—
Austria	197	—	—	197	—	197	—	—
All Other	45	122	—	167	59	108	—	—
Total European Union	\$1,497	\$122	\$ 18	\$1,637	\$647	\$ 990	\$—	\$—
Total	\$1,890	\$122	\$342	\$2,354	\$950	\$1,295	\$ 99	\$ 10
% of Total	80%	5%	15%	100%	40%	55%	4%	1%

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

At December 31, 2013, 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, 2013 were as follows (in millions of U.S. dollars):

<u>December 31, 2013</u>	<u>U.S.</u>	<u>Foreign</u>	<u>Total Fair Value</u>	<u>Percentage to Total Fair Value of Corporate Bonds</u>
Sector				
Finance	\$1,120	\$ 415	\$1,535	25%
Consumer noncyclical	597	238	835	14
Communications	411	396	807	13
Utilities	313	259	572	9
Energy	210	261	471	8
Industrials	335	128	463	8
Consumer cyclical	320	51	371	6
Insurance	245	38	283	5
Basic materials	76	120	196	3
Government guaranteed corporate debt	—	174	174	3
Technology	122	—	122	2
All Other	110	110	220	4
Total	\$3,859	\$2,190	\$6,049	100%
% of Total	64%	36%	100%	

At December 31, 2013, other than the U.S., no other country accounted for more than 10% of the Company's corporate bonds.

At December 31, 2013, the ten largest issuers accounted for 18% of the corporate bonds held by the Company (7% of total investments and cash) and no single issuer accounted for more than 3% of total corporate bonds (2% of total investments and cash). Within the finance sector, substantially all (more than 99%) corporate bonds were rated investment grade and 82% were rated A- or better at December 31, 2013.

At December 31, 2013, 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):

<u>December 31, 2013</u>	<u>Government Guaranteed Corporate Debt</u>	<u>Finance Sector Corporate Bonds</u>	<u>Non-Finance Sector Corporate Bonds</u>	<u>Total Fair Value</u>
European Union				
United Kingdom	\$—	\$118	\$ 449	\$ 567
Netherlands	27	27	185	239
France	—	22	157	179
Italy	—	17	87	104
Spain	—	14	85	99
Germany	60	8	5	73
Luxembourg	—	—	68	68
All Other	27	17	70	114
Total	\$114	\$223	\$1,106	\$1,443
% of Total	8%	15%	77%	100%

At December 31, 2013, 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 \$49 million in total finance sector corporate bonds issued by companies in those countries.

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, 2013 were as follows (in millions of U.S. dollars):

December 31, 2013	Credit Rating ⁽¹⁾						Below investment grade/Unrated	Total Fair Value
	GNMA ⁽²⁾	GSEs ⁽³⁾	AAA	AA	A	BBB		
Asset-backed securities								
U.S.	\$—	\$ —	\$169	\$104	\$111	\$ 1	\$484	\$ 869
Non-U.S.	—	—	150	83	29	7	—	269
Asset-backed securities	\$—	\$ —	\$319	\$187	\$140	\$ 8	\$484	\$1,138
Residential mortgaged-backed securities U.S.	\$481	\$1,295	\$ 5	\$—	\$—	\$—	\$ 15	\$1,796
Non-U.S.	—	—	364	68	37	3	—	472
Residential mortgaged-backed securities	\$481	\$1,295	\$369	\$ 68	\$ 37	\$ 3	\$ 15	\$2,268
Other mortgaged-backed securities								
U.S.	\$ 6	\$ —	\$ 18	\$—	\$—	\$ 1	\$ 2	\$ 27
Non-U.S.	—	—	9	—	—	—	—	9
Other mortgaged-backed securities	\$ 6	\$ —	\$ 27	\$—	\$—	\$ 1	\$ 2	\$ 36
Total	\$487	\$1,295	\$715	\$255	\$177	\$ 12	\$501	\$3,442
% of Total	14%	38%	21%	7%	5%	—%	15%	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 investment portfolio at December 31, 2013, other than \$17 million of investments in distressed asset vehicles (included in Other invested assets). At December 31, 2013, the Company's U.S. residential mortgage-backed securities included approximately \$3 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.

Short-term investments consisted of non-U.S. government obligations and foreign corporate bonds. At December 31, 2013, the fair value and credit ratings of short-term investments were as follows (in millions of U.S. dollars):

<u>December 31, 2013</u>	<u>Non-U.S. Government</u>	<u>Corporate</u>	<u>Total Fair Value</u>	<u>Credit Rating⁽¹⁾</u>			
				<u>AAA</u>	<u>AA</u>	<u>A</u>	<u>BBB</u>
Country							
Australia	\$ 8	\$—	\$ 8	\$ 8	\$—	\$—	\$—
Canada	2	2	4	2	—	—	2
All Other	2	—	2	1	—	1	—
Total	\$12	\$ 2	\$ 14	\$11	\$—	\$ 1	\$ 2
% of Total	86%	14%	100%	79%	— %	7%	14%

(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, 2013 were as follows (in millions of U.S. dollars):

<u>December 31, 2013</u>	<u>Fair Value</u>	<u>Percentage to Total Fair Value of Equities</u>
Sector		
Real estate investment trusts	\$ 176	17%
Energy	160	16
Insurance	144	14
Finance	139	14
Consumer noncyclical	109	11
Communications	73	7
Technology	62	6
Industrials	48	5
All Other	101	10
Total	\$1,012	100%
Mutual funds and exchange traded funds		
Funds holding fixed income securities	185	
Funds and ETFs holding equities	24	
Total equities	\$1,221	

At December 31, 2013, the Company's "insurance sector" equities included an investment of \$121 million in Essent Group Ltd. (Essent), the U.S. mortgage guaranty insurance company that conducted an initial public offering in the fourth quarter of 2013. The Company has agreed, subject to certain exceptions, not to dispose of or hedge any of the common shares of Essent, prior to April 28, 2014.

At December 31, 2013, U.S. issuers represented 61% of the publicly traded common stocks and ETFs. At December 31, 2013, the ten largest common stocks accounted for 28% of equities (excluding equities held in ETFs and funds holding fixed income securities). At December 31, 2013, other than the Company's investment in Essent, 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 and cash equivalents. At December 31, 2013, approximately 96% (or \$177 million) of the funds holding fixed income securities were emerging markets funds. At December 31, 2013, the Company held less than \$1 million of equities (excluding equities held in ETFs and funds holding fixed income securities) issued by finance sector institutions based in peripheral EU countries (Portugal, Ireland, Italy, Greece and Spain).

Maturity Distribution

The distribution of fixed maturities and short-term investments at December 31, 2013, by contractual maturity date, was as follows (in millions of U.S. dollars):

<u>December 31, 2013</u>	<u>Cost</u>	<u>Fair Value</u>
One year or less	\$ 374	\$ 378
More than one year through five years	4,915	5,057
More than five years through ten years	3,920	3,962
More than ten years	724	768
Subtotal	9,933	10,165
Mortgage/asset-backed securities	3,457	3,442
Total	\$13,390	\$13,607

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.

Other Invested Assets

The Company's other invested assets consisted primarily of investments in non-publicly traded companies, asset-backed securities, notes and loan receivables, note securitizations, 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, 2013 were as follows (in millions of U.S. dollars):

<u>December 31, 2013</u>	<u>Carrying Value ⁽¹⁾</u>	<u>Notional Value of Derivatives</u>
Strategic investments	\$187	\$ n/a
Asset-backed securities (including annuities and residuals)	49	n/a
Notes and loan receivables and notes securitizations	41	n/a
Total return swaps	(1)	32
Interest rate swaps ⁽²⁾	—	203
Credit default swaps (protection purchased)	—	14
Insurance-linked securities ⁽³⁾	—	169
Futures contracts	41	3,266
Foreign exchange forward contracts	(7)	1,957
Foreign currency option contracts	(1)	88
TBAs	(1)	184
Other	13	n/a
Total	\$321	

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 and fair value accounting.

- (2) *The Company enters into interest rate swaps to mitigate notional exposures on certain total return swaps and certain fixed maturities. Only the notional value of interest rate swaps on fixed maturities is presented separately in the table.*
- (3) *Insurance-linked securities include a longevity swap for which the notional amount is not reflective of the overall potential exposure of the swap. As such, the Company has included the probable maximum loss under the swap within the net notional exposure as an approximation of the notional amount.*

At December 31, 2013, the Company's strategic investments included \$187 million of investments classified in other invested assets. These strategic investments include investments in non-publicly traded companies, private placement equity and bond investments, notes and loan receivables, notes securitizations and other specialty asset classes, and the investments 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 \$161 million are recorded in equities and other assets at December 31, 2013.

At December 31, 2013, the Company's principal finance activities included \$112 million of investments classified in Other invested assets, which were comprised primarily of asset-backed securities, notes and loan receivables, notes securitizations, annuities and residuals and private placement equity investments, which were partially offset by the combined fair value of total return and interest rate 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, 2013, all of the Company's principal finance total return and interest rate swap portfolio was related to tax advantaged real estate backed transactions.

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, 2013. 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, 2013, 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 \$3 million. The counterparties to the Company's credit default swaps, foreign exchange forward contracts and foreign currency option contracts include European 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).

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. 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. The composition of the investments underlying the funds held – directly managed account at December 31, 2013 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, 2013, approximately 98% 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, short-term investments and cash and cash equivalents underlying the funds held – directly managed account at December 31, 2013 and 2012 were as follows:

	<u>2013</u>	<u>2012</u>
Average credit quality	AA	AA
Average yield to maturity	1.2%	1.0%
Expected average duration	2.9 years	3.0 years

The modest increase in the average yield to maturity on fixed maturities, short-term investments and cash and cash equivalents underlying the funds held – directly managed account at December 31, 2013 compared to December 31, 2012, was primarily due to increases in U.S. and European risk-free interest rates. The average credit quality and the expected average duration of the fixed maturities underlying the funds held – directly managed account at December 31, 2013 were comparable to December 31, 2012.

The cost, fair value and credit rating of the investments underlying the funds held – directly managed account at December 31, 2013 and 2012 were as follows (in millions of U.S. dollars):

<u>December 31, 2013</u>	<u>Cost ⁽¹⁾</u>	<u>Fair Value</u>	<u>Credit Rating ⁽²⁾</u>			
			<u>AAA</u>	<u>AA</u>	<u>A</u>	<u>BBB</u>
Fixed maturities						
U.S. government	\$107	\$108	\$—	\$108	\$—	\$—
U.S. government sponsored enterprises	47	50	—	50	—	—
Non-U.S. sovereign government, supranational and government related	132	137	44	69	24	—
Corporate	238	249	23	89	100	37
Fixed maturities	524	544	67	316	124	37
Short-term investments	2	2	2	—	—	—
Total fixed maturities and short-term investments	526	546	\$ 69	\$316	\$124	\$ 37
Other invested assets	28	15				
Total	\$554	\$561				
% of Total fixed maturities and short-term investments			13%	58%	22%	7%
<u>December 31, 2012</u>	<u>Cost ⁽¹⁾</u>	<u>Fair Value</u>	<u>Credit Rating ⁽²⁾</u>			
			<u>AAA</u>	<u>AA</u>	<u>A</u>	<u>BBB</u>
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
Fixed maturities	771	815	\$101	\$472	\$195	\$ 47
Other invested assets	27	18				
Total	\$798	\$833				
% of Fixed maturities			12%	58%	24%	6%

(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 \$833 million at December 31, 2012 to \$561 million at December 31, 2013 was primarily related to the run-off of the underlying loss reserves associated with this account and increases in U.S. and European risk-free interest rates.

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, 2013, 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.

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, 2013 were as follows (in millions of U.S. dollars):

<u>December 31, 2013</u>	<u>Non-U.S. Sovereign Government</u>	<u>Supranational Debt</u>	<u>Non-U.S. Government Related</u>	<u>Total Fair Value</u>	<u>Credit Rating ⁽¹⁾</u>		
					<u>AAA</u>	<u>AA</u>	<u>A</u>
Non-European Union							
Canada	\$—	\$—	\$ 74	\$ 74	\$ 21	\$ 29	\$ 24
All Other	—	4	—	4	4	—	—
Total Non-European Union	\$—	\$ 4	\$ 74	\$ 78	\$ 25	\$ 29	\$ 24
European Union							
France	\$ 9	\$—	\$ 24	\$ 33	\$—	\$ 33	\$—
All Other	3	22	1	26	19	7	—
Total European Union	\$ 12	\$ 22	\$ 25	\$ 59	\$ 19	\$ 40	\$—
Total	\$ 12	\$ 26	\$ 99	\$137	\$ 44	\$ 69	\$ 24
% of Total	9%	19%	72%	100%	32%	50%	18%

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

At December 31, 2013, 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, 2013 were as follows (in millions of U.S. dollars):

<u>December 31, 2013</u>	<u>U.S.</u>	<u>Foreign</u>	<u>Total Fair Value</u>	<u>Percentage</u>
				<u>to Total Fair Value of Corporate Bonds</u>
Sector				
Finance	\$ 14	\$ 65	\$ 79	32 %
Consumer noncyclical	42	9	51	21
Energy	6	29	35	14
Utilities	6	16	22	9
Basic materials	7	9	16	6
Communications	5	9	14	6
Government guaranteed corporate debt	—	10	10	4
Consumer cyclical	8	1	9	3
All Other	12	1	13	5
Total	\$100	\$149	\$249	100%
% of Total	40%	60%	100%	

At December 31, 2013, other than the U.S., France, the U.K. and the Netherlands, which accounted for 40%, 14%, 12% and 11% 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, 2013, the ten largest issuers accounted for 32% 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, 2013, 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, 2013, 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):

<u>December 31, 2013</u>	<u>Government Guaranteed Corporate Debt</u>	<u>Finance Sector Corporate Bonds</u>	<u>Non-Finance Sector Corporate Bonds</u>	<u>Total Fair Value</u>
European Union				
France	\$—	\$ 16	\$19	\$ 35
United Kingdom	3	15	12	30
Netherlands	—	11	16	27
Germany	7	—	2	9
All Other	—	8	6	14
Total	\$ 10	\$ 50	\$55	\$115
% of Total	9%	43%	48%	100%

At December 31, 2013, corporate bonds underlying the funds held – directly managed account included less than \$9 million 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 and short-term investments underlying the funds held – directly managed account at December 31, 2013, by contractual maturity date was as follows (in millions of U.S. dollars):

<u>December 31, 2013</u>	<u>Cost</u>	<u>Fair Value</u>
One year or less	\$ 89	\$ 89
More than one year through five years	317	331
More than five years through ten years	103	109
More than ten years	17	17
Total	\$526	\$546

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.

European Exposures

As discussed in Item 1 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 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, AA+, 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 1A 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 funds held 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, 2013 and 2012, the Company recorded \$843 million and \$805 million, respectively, of funds held assets in its Consolidated Balance Sheets. At December 31, 2013, the five largest cedants represented 60% of the funds held balance. Approximately 79% of the funds held balance at December 31, 2013 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 1.8% to 4.3% for the year ended December 31, 2013. 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 43% of the Company's total funds held balance.

With respect to the remaining 21% of the funds held balance at December 31, 2013, 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, 2013 included two of the five cedants with the largest funds held assets, which represented 17% 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 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, 2013.

The Non-life reserves for unpaid losses and loss expenses at December 31, 2013 and 2012 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, 2013 and 2012, the Company recorded gross and net Non-life reserves for unpaid losses and loss expenses as follows (in millions of U.S. dollars):

	<u>2013</u>	<u>2012</u>
Gross Non-life reserves for unpaid losses and loss expenses	\$10,646	\$10,709
Net Non-life reserves for unpaid losses and loss expenses	10,379	10,418
Net reserves guaranteed by Colisée Re	727	857

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, 2013, 2012 and 2011 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.

Policy Benefits for Life and Annuity Contracts

At December 31, 2013 and 2012, the Company recorded gross and net policy benefits for life and annuity contracts as follows (in millions of U.S. dollars):

	<u>2013</u>	<u>2012</u>
Gross policy benefits for life and annuity contracts	\$1,974	\$1,813
Net policy benefits for life and annuity contracts	1,967	1,793

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, 2013, 2012 and 2011.

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, 2013 and 2012, the Company recorded \$274 million and \$312 million, respectively, of reinsurance recoverable on paid and unpaid losses in its Consolidated Balance Sheets. At December 31, 2013, 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:

<u>Rating Category</u>	<u>% of total reinsurance recoverable on paid and unpaid losses</u>
AA or better	10%
A	62
Less than A/Unrated/Other	<u>28</u>
Total	100%

At December 31, 2013, 72% of the Company’s reinsurance recoverable on paid and unpaid losses were due from reinsurers with A- or better rating from Standard & Poor’s, compared to 84% at December 31, 2012.

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, 2013 were as follows (in millions of U.S. dollars):

	Total	< 1 year	1-3 years	3-5 years	> 5 years
Contractual obligations:					
Operating leases	113.9	30.1	55.4	28.0	0.4
Other operating agreements	14.7	7.6	6.7	0.4	—
Other invested assets ⁽¹⁾	161.8	67.3	82.1	12.4	—
Unpaid losses and loss expenses ⁽²⁾	10,646.3	3,410.1	2,969.5	1,477.4	2,789.3
Policy benefits for life and annuity contracts ⁽³⁾	2,937.0	248.5	655.1	278.7	1,754.7
Deposit liabilities ⁽³⁾	394.7	84.3	58.9	40.1	211.4
Employment agreements ⁽⁴⁾	32.7	20.9	10.8	1.0	—
Other long-term liabilities:					
Senior Notes—principal ⁽⁵⁾	750	—	—	—	750
Senior Notes—interest	n/a	44.7	89.4	80.8	27.5 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 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
Series F non-cumulative preferred shares—principal ⁽⁸⁾	250	—	—	—	250
Series F non-cumulative preferred shares—dividends	n/a	14.7	29.4	29.4	14.7 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, 2013, 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, 2013 of \$1,974 million and \$329 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 available to certain eligible employees in France. In April 2013, the Company announced the restructuring of its business support operations into a single integrated worldwide support platform and changes to the structure of its Global Non-life Operations. The restructuring includes involuntary and voluntary employee termination plans in certain jurisdictions (collectively, termination plans). The continuing salary and other employment benefit costs related to the affected employees will be expensed as

the employee remains with the Company and provides service. Following their departure from the Company, employees participating in the termination plans continue to receive pre-determined payments related to employment benefits, which were accrued for by the Company under the terms of the termination plans during the years ended December 31, 2010 and 2013, respectively. The amounts in the table above reflect the Company's remaining obligations to the eligible employees under all of these plans that will be paid through 2018. For further details related to the restructuring in 2013, see Overview above.

- (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, 2013 and 2012. The 6.875% Senior Notes with aggregate principal outstanding of \$250 million mature on June 1, 2018.*
- (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, 2013 and 2012.*
- (7) The Company's 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.*
- (8) The Company's Series F preferred shares are non-cumulative, perpetual and have no mandatory redemption requirement, but may be redeemed at our option under certain circumstances.*

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, 2013, 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 canceled by the bank, the credit facility automatically extends for one year, each year until maturity.

Shareholders' Equity and Capital Resources Management

Shareholders' equity attributable to PartnerRe Ltd. common shareholders was \$6.7 billion at December 31, 2013, a 3% decrease compared to \$6.9 billion at December 31, 2012. The major factors contributing to the decrease in shareholders' equity during the year ended December 31, 2013 were:

- a net decrease of \$616 million, due to the repurchase of common shares of \$695 million under the Company's share repurchase program, partially offset by the issuance of common shares under the Company's employee equity plans of \$79 million;
- dividend payments of \$200 million related to both the Company's common and preferred shares; and
- a net decrease of \$48 million related to the redemption of Series C preferred shares of \$290 million, which was partially offset by proceeds of \$242 million, after underwriting discounts, commissions and other expenses, related to the issuance of the Series F preferred shares (see Note 11 to the Consolidated Financial Statements included in Item 8 of Part II of this report and Contractual Obligations and Commitments above); partially offset by
- comprehensive income of \$641 million, which was primarily related to net income of \$664 million and was partially offset by the change in the currency translation adjustment of \$32 million.

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, 2013.

As part of its long-term strategy, the Company will continue to actively manage capital resources to support its operations throughout the reinsurance cycle and for the benefit of its shareholders, subject to the ability to maintain strong ratings from the major rating agencies and the unquestioned ability to pay claims as they arise. Generally, the Company seeks to increase its capital when its current capital position is not sufficient to support the volume of attractive business opportunities available. Conversely, the Company will seek to reduce its capital, through the payment of dividends on its common shares or share 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 certain key measures to evaluate its financial performance and the overall growth in value generated for the Company's common shareholders. As described in Key Financial Measures above, the Company's long-term objective is to manage a portfolio of diversified risks that will create total shareholder value and the Company measures its success in achieving its long-term objective by using compound annual growth in Diluted Tangible Book Value per Share plus dividends. Management believes this measure aligns the Company's stated long-term objective with the measure most investors use to evaluate total shareholder value creation given that it focuses on the tangible value of total shareholder returns, excluding the impact of goodwill and intangibles. Growth in Diluted Tangible 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.

The growth in Diluted Tangible Book Value per Share plus dividends was 11.2% during the year ended December 31, 2013. This growth was driven by net income attributable to PartnerRe Ltd., dividends on the common shares and the accretive impact of share repurchases, which were partially offset by realized and unrealized losses from the Company's investment portfolio that were attributable to increases in risk-free rates. The 5-year compound annual growth in Diluted Tangible Book Value per Share plus dividends was in excess of 14%.

Given the Company's profitability in any particular quarterly or annual period can be significantly affected by the level of large catastrophic losses, Management assesses this long-term objective over the reinsurance cycle as the Company's performance during any particular quarterly or annual period is not necessarily indicative of its performance over the longer-term reinsurance cycle.

The presentation of Diluted Tangible Book Value per Share and growth in Diluted Tangible Book Value per Share plus dividends are non-GAAP financial measures within the meaning of Regulation G and, accordingly, the definition, the calculation and a reconciliation to the most directly comparable GAAP financial measure is provided for each measure in Key Financial Measures above.

The capital structure of the Company at December 31, 2013 and 2012 was as follows (in millions of U.S. dollars):

	2013		2012	
Capital Structure:				
Senior notes ⁽¹⁾	\$ 750	10%	\$ 750	10%
Capital efficient notes ⁽²⁾	63	1	63	1
Preferred shares, aggregate liquidation value	854	11	894	11
Common shareholders' equity attributable to PartnerRe Ltd.	5,856	78	<u>6,040</u>	<u>78</u>
Total Capital	\$7,523	100%	<u>\$7,747</u>	<u>100%</u>

(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, 2013 and 2012.*

- (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, 2013 and 2012.*

The decrease in total capital during the year ended December 31, 2013 was related to the same factors describing the decrease in shareholders' equity above.

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 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 each of the years ended December 31, 2013, 2012 and 2011, the Company incurred interest expense and paid interest of \$27.5 million 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, 2013, 2012 and 2011, the Company incurred interest expense 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 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, 2013 and 2012, 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, 2013, 2012 and 2011, the Company incurred interest expense and paid interest of \$4.6 million in relation to the CENts.

The Company did not enter into any short-term borrowing arrangements during the years ended December 31, 2013 and 2012.

Shareholders' Equity

Share Repurchases

In September 2013, the Company's Board of Directors approved a new share repurchase authorization of up to a total of 6 million common shares, which replaced the prior authorization of 6 million common shares approved in March 2013. 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. At December 31, 2013, the Company had approximately 5.0 million common shares remaining under its current share repurchase authorization and approximately 34.2 million common shares were held in treasury and are available for reissuance.

During 2013, the Company repurchased under its authorized share repurchase program, approximately 7.7 million of its common shares at a total cost of \$695 million, representing an average cost of \$90.73 per share. These shares were repurchased at a discount to diluted book value per share at December 31, 2012 of approximately 10%.

Subsequently, during the period from January 1, 2014 to February 25, 2014, the Company repurchased 1.1 million common shares at a total cost of \$112 million, representing an average cost of \$99.43 per share. Following these repurchases, the Company had approximately 3.8 million common shares remaining under its current share repurchase authorization and approximately 35.3 million common shares are held in treasury and are available for reissuance.

Redeemable Preferred Shares

During the years ended December 31, 2013, 2012 and 2011, the Company had outstanding Series C, Series D and Series E cumulative redeemable preferred shares (Series C preferred shares, Series D preferred shares, Series E preferred shares) and during the year ended December 31, 2013 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 C	Series D	Series E	Series F
Date of issuance	May 2003	November 2004	June 2011	February 2013
Number of preferred shares issued	11.6	9.2	15.0	10.0
Annual dividend rate	6.75%	6.5%	7.25%	5.875%
Total consideration	\$ 280.9	\$ 222.3	\$ 361.7	\$ 242.3
Underwriting discounts and commissions	\$ 9.1	\$ 7.7	\$ 12.1	\$ 7.7
Aggregate liquidation value	\$ 290.0	\$ 230.0	\$ 373.8	\$ 250.0
Date of redemption	March 2013	n/a	n/a	n/a

n/a: not applicable

On February 14, 2013, the Company issued the Series F preferred shares. The net proceeds received on issuance of the Series F preferred shares were used, together with available cash, to redeem the Series C preferred shares.

On March 18, 2013, the Company redeemed the Series C preferred shares for the aggregate liquidation value of \$290 million plus accrued and unpaid dividends. In connection with the redemption, the Company recognized a loss of \$9.1 million related to the original issuance costs of the Series C preferred shares and calculated as a difference between the redemption price and the consideration received after underwriting discounts and commissions. The loss was recognized in determining the net income attributable to PartnerRe Ltd. common shareholders.

The Company may redeem each of the Series D, E and F preferred shares at \$25.00 per share plus accrued and unpaid dividends without interest as follows: (i) the Series D preferred shares can be redeemed at the Company's option at any time or in part from time to time; (ii) the Series E preferred shares can be redeemed at the Company's option on or after June 1, 2016 or at any time upon certain changes in tax law and (iii) the Series F preferred shares can be redeemed at the Company's option at any time or in part from time to time on or after March 1, 2018. 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 are non-cumulative and are payable quarterly.

Dividends on each of the Series D and E preferred shares are cumulative from the date of issuance and are payable quarterly in arrears. Dividends on Series F preferred shares are non-cumulative and are payable quarterly.

In the event of liquidation of the Company, each of the Series D, E and F preferred shares rank on parity with each of the other series of preferred shares and would rank senior to the common shares. The holders of the Series D and E preferred shares would receive a distribution of \$25.00 per share, or the aggregate liquidation value, plus accrued but unpaid dividends, if any. The holders of the Series F would receive a distribution of \$25.00 per share, or the aggregate liquidation value, plus declared and unpaid dividends, if any.

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, 2013 and 2012, cash and cash equivalents were \$1.5 billion and \$1.1 billion, respectively. The increase in cash and cash equivalents was primarily due to cash provided by the Company's operating and investing activities, which was partially utilized to fund the Company's share repurchases and dividend payments.

Net cash provided by operating activities increased to \$827 million in 2013 from \$693 million in 2012. The increase was primarily due to higher underwriting cash flows, which were related to a higher level of premium receipts driven by the increase in gross premiums written and a lower level of loss payments in 2013 compared to 2012. This increase in cash flows from operating activities was partially offset by lower investment income.

Net cash provided by investing activities was \$418 million in 2013 compared to net cash used by investing activities of \$220 million in 2012. The net cash provided by investing activities in 2013 primarily reflects the sale and maturity of investments to fund financing activities, as described below.

Net cash used in financing activities was \$866 million in 2013 compared to \$688 million in 2012. Net cash used in financing activities in 2013 was primarily related to the Company's share repurchases, the redemption of the Series C preferred shares and dividend payments on common and preferred shares, which were partially offset by proceeds from the issuance of the Series F preferred shares. Net cash used in financing activities in 2012 was related to share repurchases and dividend payments on common and preferred shares.

The parent company is a holding company with no operations or significant assets other than its investments in 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, 2013, the parent company incurred other operating expenses of \$92 million, common dividends were \$142 million, preferred dividends were \$58 million and share repurchases were \$695 million. In January 2014, the Company announced that it was increasing its quarterly dividend to \$0.67 per common share or approximately \$141 million in total for 2014, assuming a constant number of common shares outstanding and a constant dividend rate, and it will declare approximately \$57 million in dividends to preferred shareholders in 2014.

The Company's ability to pay common and preferred shareholders' dividends and its corporate expenses is dependent mainly on cash dividends from PartnerRe Bermuda, PartnerRe Europe and PartnerRe U.S. (collectively, the reinsurance subsidiaries), which are the Company's most significant subsidiaries. The payment of such dividends by the reinsurance subsidiaries to the Company is limited under Bermuda and Irish laws and certain statutes of various U.S. states in which PartnerRe U.S. is licensed to transact business. The restrictions are generally based on net income and/or certain levels of policyholders' earned surplus as determined in accordance with the relevant statutory accounting practices. At December 31, 2013, there were no restrictions on the Company's ability to pay common and preferred shareholders' dividends from its retained earnings, except for the reinsurance subsidiaries' dividend restrictions as described in Note 14 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 case of PartnerRe U.S. Holdings, interest payments on the Senior Notes and the CENts. At December 31, 2013, 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 2014 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 access certain uncommitted credit facilities. As discussed in Investments above, the Company's investments and cash totaled \$16.6 billion at December 31, 2013, the main components of which were investment grade fixed maturities, short-term investments and cash and cash equivalents totaling \$14.0 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 canceled retroactively or commuted by the cedant.

The Company's current financial strength ratings are as follows:

Standard & Poor's	A+
Moody's	A1
A.M. Best	A+
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, 2013, the total amount of such credit facilities available to the Company was approximately \$850 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 \$137 million and \$410 million, respectively, at December 31, 2013, in respect of reported loss and unearned premium reserves.

On November 14, 2012, the Company entered into an agreement to renew and 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 initial \$100 million being secured. This credit facility matures on November 14, 2014.

In addition, 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, 2013 is a \$250 million secured credit facility, which matures on December 4, 2016, and a \$200 million secured credit facility, which matures on December 31, 2014. At December 31, 2013, 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, 2013, the value of the U.S. dollar weakened against most major currencies compared to December 31, 2012, 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, 2013, 2012 and 2011.

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 decreased by \$32 million during the year ended December 31, 2013 compared to an increase of \$29 million and a decrease of \$12 million during the years ended December 31, 2012 and 2011, respectively, due to the translation of the Company's subsidiaries and branches, whose functional currencies are the Canadian dollar and the euro.

The reconciliation of the currency translation adjustment for the years ended December 31, 2013, 2012 and 2011 was as follows (in millions of U.S. dollars):

	<u>2013</u>	<u>2012</u>	<u>2011</u>
Currency translation adjustment at beginning of year	\$ 33	\$ 4	\$ 16
Change in currency translation adjustment included in other comprehensive loss (income)	<u>(32)</u>	<u>29</u>	<u>(12)</u>
Currency translation adjustment at end of year	\$ 1	\$33	\$ 4

From time to time, the Company enters into net investment hedges. At December 31, 2013, 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.

The following addresses 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. The Company believes that this process of matching the duration mitigates the overall interest rate risk on an economic basis. 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 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, 2013, the Company held approximately \$3,442 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, 2013, 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):

	<u>-200 Basis Points</u>	<u>% Change</u>	<u>-100 Basis Points</u>	<u>% Change</u>	<u>December 31, 2013</u>	<u>+100 Basis Points</u>	<u>% Change</u>	<u>+200 Basis Points</u>	<u>% Change</u>
Fair value of investments									
exposed to interest rate									
risk ⁽¹⁾⁽²⁾	\$15,886	6%	\$15,431	3%	\$14,976	\$14,521	(3)%	\$14,066	(6)%
Fair value of funds held –									
directly managed account									
exposed to interest rate									
risk ⁽²⁾	669	6	650	3	631	612	(3)	593	(6)
Total invested assets ⁽³⁾	18,432	5	17,958	3	17,484	17,010	(3)	16,536	(5)
Shareholders’ equity	7,714	14	7,240	7	6,766	6,292	(7)	5,818	(14)

(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 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 Sheet.

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, 2013 compared to December 31, 2012.

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. This can result in a liability whose economic value is different from the carrying value reported in the Consolidated Balance Sheet given the Company records the carrying value of its outstanding debt obligations and preferred securities at the original issued principal amount. The Company believes that the economic fair value of its outstanding Senior Notes, CENts and preferred shares at December 31, 2013 was as follows (in millions of U.S. dollars):

	<u>Carrying Value</u>	<u>Fair Value</u>
Debt related to Senior Notes ⁽¹⁾	\$750	\$844
Debt related to Capital Efficient Notes ⁽²⁾	63	61
Series D cumulative preferred shares	230	208
Series E cumulative preferred shares	374	378
Series F non-cumulative preferred shares	250	202

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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, 2013 and 2012.*
 - (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, 2013 and 2012.*

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 D and Series E cumulative preferred shares, and the Series F non-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 decreased modestly at December 31, 2013 compared to December 31, 2012, primarily due to rising U.S. risk-free interest rates.

Other than the changes related to the redemption of the Series C preferred shares and the issuance of the Series F preferred shares, the fair value of the Company's preferred securities declined at December 31, 2013, compared to December 31, 2012 due to rising risk-free interest rates. See Shareholders' Equity and Capital Resources Management—Shareholders' Equity above for a discussion the issuance of the Series F preferred shares in February 2013 and the redemption of the Series C preferred shares in March 2013.

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, 2013, 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):

	<u>-200 Basis Points</u>	<u>% Change</u>	<u>-100 Basis Points</u>	<u>% Change</u>	<u>December 31, 2013</u>	<u>+100 Basis Points</u>	<u>% Change</u>	<u>+200 Basis Points</u>	<u>% Change</u>
Fair value of investments exposed to credit spread risk ⁽¹⁾⁽²⁾	\$15,788	5%	\$15,382	3%	\$14,976	\$14,570	(3)%	\$14,164	(5)%
Fair value of funds held – directly managed account exposed to credit spread risk ⁽²⁾	653	3	642	2	631	620	(2)	609	(3)
Total invested assets ⁽³⁾	18,318	5	17,901	2	17,484	17,067	(2)	16,650	(5)
Shareholders’ equity	7,600	12	7,183	6	6,766	6,349	(6)	5,932	(12)

(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, 2013 compared to December 31, 2012.

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, and Australian dollar. As the Company’s reporting currency is the U.S. dollar, foreign exchange rate fluctuations may materially impact the Company’s Consolidated Financial Statements.

The Company is generally able to match its liability funds against its net reinsurance liabilities both by currency and duration to protect the Company against foreign exchange and interest rate risks. However, a natural offset does not exist for all currencies. For the non-U.S. dollar currencies for which the Company deems the net asset or liability exposures to be material, the Company employs a hedging strategy utilizing foreign exchange forward contracts and other derivative financial instruments, as appropriate, to 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 and equity securities, 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 Company's gross and net exposure in its Consolidated Balance Sheet at December 31, 2013 to foreign currency as well as the associated foreign currency derivatives the Company has entered into to manage this exposure, was as follows (in millions of U.S. dollars):

	<u>euro</u>	<u>CAD</u>	<u>GBP</u>	<u>NZD</u>	<u>AUD</u>	<u>Other</u>	<u>Total⁽¹⁾</u>
Total assets	\$ 4,338	\$1,104	\$ 1,683	\$ 146	\$ 105	\$ 680	\$ 8,056
Total liabilities	(4,377)	(609)	(1,084)	(241)	(170)	(1,379)	(7,860)
Total gross foreign currency exposure	(39)	495	599	(95)	(65)	(699)	196
Total derivative amount	(241)	(22)	(576)	89	86	709	45
Net foreign currency exposure	\$ (280)	\$ 473	\$ 23	\$ (6)	\$ 21	\$ 10	\$ 241

(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, 2013.

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, 2013, the Company's net foreign currency exposure in its Consolidated Balance Sheet, after the effect of derivatives, was \$241 million. The Company's most significant net foreign currency exposure at December 31, 2013 was to the Canadian dollar which reflects the unhedged net investment in its Canadian branches. The decrease of \$420 million in the Company's net foreign currency exposure to \$241 million at December 31, 2013 compared to \$661 million at December 31, 2012 is primarily related to a decrease in the Company's net foreign currency exposure to the euro.

At December 31, 2013, assuming all other variables remain constant and disregarding any tax effects, a change in the U.S. dollar of 10% or 20% relative to all of the other currencies held by the Company simultaneously would result in a change in the Company's net assets of \$24 million and \$48 million, respectively, inclusive of the effect of foreign exchange forward contracts and other derivative financial instruments.

Counterparty Credit Risk

Investments and Cash

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, 2013, approximately 55% of the Company's fixed maturity portfolio (including the funds held – directly managed account and funds holding fixed maturity securities) was rated AA (or equivalent rating) or better.

At December 31, 2013, approximately 77% the Company's fixed maturity and short-term investments (including funds holding fixed maturity securities and excluding the funds held – directly managed account) were rated A- or better and 8% were 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, 2013, 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+. The single largest non-U.S. sovereign government issuer accounted for less than 19% of the Company's total non-U.S. sovereign government, supranational and government related category (excluding the funds held – directly managed account) and less than 3% of total investments and cash (excluding the funds held – directly managed account) at December 31, 2013. In addition, the single largest corporate issuer and the top 10 corporate issuers accounted for less than 3% and less than 19% of the Company's total corporate fixed maturity securities (excluding the funds held – directly

managed account), respectively, at December 31, 2013. 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 32% of total corporate fixed maturity securities underlying the funds held – directly managed account at December 31, 2013, respectively.

Funds held – directly managed account

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 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.

Derivatives

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, 2013, the Company's absolute notional value of foreign exchange forward contracts and foreign currency option contracts was \$2,045 million, while the net fair value of those contracts was an unrealized loss of \$8 million.

Underwriting Operations

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, 2013, the Company purchased protection related to its credit/surety line primarily in the form of credit default swaps with a notional value of \$14 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 investment return earned by the cedant on its investment portfolio are exposed to an additional layer of credit risk. The Company is also exposed to some extent to the underlying financial market risk of the pool of assets, inasmuch as the underlying policies may have guaranteed minimum returns.

The Company has exposure to credit risk as it relates to its business written through brokers if any of the Company's brokers is unable to fulfill their contractual obligations with respect to payments to the Company. In addition, in some jurisdictions, if the broker fails to make payments to the insured under the Company's policy, the Company might remain liable to the insured for the deficiency. 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 43% of the Company's gross premiums written for the year ended December 31, 2013.

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, 2013 were \$2,466 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 \$8 million at December 31, 2013.

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, 2013, the balance of reinsurance recoverable on paid and unpaid losses was \$274 million, which is net of the allowance provided for uncollectible reinsurance recoverables of \$15 million. At December 31, 2013, 72% 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, 2013, compared to December 31, 2012.

Equity Price Risk

The Company invests a portion of its capital funds in marketable equity securities (fair market value of \$1,036 million, excluding funds holding fixed income securities of \$185 million) at December 31, 2013. 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 0.92 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, 2013 as follows (in millions of U.S. dollars):

	<u>20%</u>	<u>%</u>	<u>10%</u>	<u>%</u>	<u>December 31,</u>	<u>10%</u>	<u>%</u>	<u>20%</u>	<u>%</u>
	<u>Decrease</u>	<u>Change</u>	<u>Decrease</u>	<u>Change</u>	<u>2013</u>	<u>Increase</u>	<u>Change</u>	<u>Increase</u>	<u>Change</u>
Equities ⁽¹⁾	\$ 846	(18)%	\$ 941	(9)%	\$ 1,036	\$ 1,131	9%	\$ 1,226	18%
Total invested assets ⁽²⁾ . . .	17,294	(1)	17,389	(1)	17,484	17,579	1	17,674	1
Shareholders' equity	6,576	(3)	6,671	(1)	6,766	6,861	1	6,956	3

(1) Excludes funds holding fixed income securities of \$185 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, 2013 compared to December 31, 2012.

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, 2013	December 31, 2012
Assets		
Investments:		
Fixed maturities, at fair value (amortized cost: 2013, \$13,376,455; 2012, \$13,653,615)	\$13,593,303	\$14,395,315
Short-term investments, at fair value (amortized cost: 2013, \$13,543; 2012, \$150,634) ..	13,546	150,552
Equities, at fair value (cost: 2013, \$1,009,286; 2012, \$1,000,326)	1,221,053	1,094,002
Other invested assets	320,981	333,361
Total investments	15,148,883	15,973,230
Funds held—directly managed (cost: 2013, \$778,569; 2012, \$895,261)	785,768	930,741
Cash and cash equivalents, at fair value, which approximates amortized cost	1,496,485	1,121,705
Accrued investment income	185,717	184,315
Reinsurance balances receivable	2,465,713	1,991,991
Reinsurance recoverable on paid and unpaid losses	308,892	348,086
Funds held by reinsured companies	843,081	805,489
Deferred acquisition costs	644,952	568,391
Deposit assets	351,905	257,208
Net tax assets	14,133	25,098
Goodwill	456,380	456,380
Intangible assets	187,090	214,270
Other assets	149,296	103,528
Total assets	\$23,038,295	\$22,980,432
Liabilities		
Unpaid losses and loss expenses	\$10,646,318	\$10,709,371
Policy benefits for life and annuity contracts	1,974,133	1,813,244
Unearned premiums	1,723,767	1,534,625
Other reinsurance balances payable	202,549	238,578
Deposit liabilities	328,588	252,217
Net tax liabilities	284,442	387,647
Accounts payable, accrued expenses and other	291,350	290,265
Debt related to senior notes	750,000	750,000
Debt related to capital efficient notes	70,989	70,989
Total liabilities	16,272,136	16,046,936
Shareholders' Equity		
Common shares (par value \$1.00; issued: 2013, 86,657,045 shares; 2012, 85,459,905 shares)	86,657	85,460
Preferred shares (par value \$1.00; issued and outstanding: 2013, 34,150,000 shares; 2012, 35,750,000 shares; aggregate liquidation value: 2013, \$853,750; 2012, \$893,750)	34,150	35,750
Additional paid-in capital	3,901,627	3,861,844
Accumulated other comprehensive (loss) income	(12,238)	10,597
Retained earnings	5,406,797	4,952,002
Common shares held in treasury, at cost (2013, 34,213,611 shares; 2012, 26,550,530 shares)	(2,707,461)	(2,012,157)
Total shareholders' equity attributable to PartnerRe Ltd.	6,709,532	6,933,496
Noncontrolling interests	56,627	—
Total shareholders' equity	6,766,159	6,933,496
Total liabilities and shareholders' equity	\$23,038,295	\$22,980,432

See accompanying Notes to Consolidated Financial Statements.

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, 2013	For the year ended December 31, 2012	For the year ended December 31, 2011
Revenues			
Gross premiums written	\$ 5,569,706	\$ 4,718,235	\$ 4,633,054
Net premiums written	\$ 5,396,526	\$ 4,572,860	\$ 4,486,329
(Increase) decrease in unearned premiums	(198,316)	(86,921)	161,425
Net premiums earned	5,198,210	4,485,939	4,647,754
Net investment income	484,367	571,338	629,148
Net realized and unrealized investment (losses) gains	(160,735)	493,409	66,692
Other income	16,565	11,920	7,915
Total revenues	5,538,407	5,562,606	5,351,509
Expenses			
Losses and loss expenses and life policy benefits	3,157,808	2,804,610	4,372,570
Acquisition costs	1,077,628	936,909	938,361
Other operating expenses	500,466	411,374	434,846
Interest expense	48,929	48,895	48,949
Amortization of intangible assets	27,180	31,799	36,405
Net foreign exchange losses (gains)	18,203	175	(34,675)
Total expenses	4,830,214	4,233,762	5,796,456
Income (loss) before taxes and interest in earnings (losses) of equity investments			
Income tax expense	708,193	1,328,844	(444,947)
Interest in earnings (losses) of equity investments	48,416	204,284	68,972
	13,665	9,954	(6,372)
Net income (loss)	673,442	1,134,514	(520,291)
Net income attributable to noncontrolling interests	(9,434)	—	—
Net income (loss) attributable to PartnerRe Ltd.	664,008	1,134,514	(520,291)
Preferred dividends	57,861	61,622	47,020
Loss on redemption of preferred shares	9,135	—	—
Net income (loss) attributable to PartnerRe Ltd. common shareholders	\$ 597,012	\$ 1,072,892	\$ (567,311)
Comprehensive income (loss)			
Net income (loss) attributable to PartnerRe Ltd.	\$ 664,008	\$ 1,134,514	\$ (520,291)
Change in currency translation adjustment	(31,778)	28,488	(11,834)
Change in unfunded pension obligation, net of tax	9,861	(4,294)	(3,917)
Change in unrealized losses on investments, net of tax	(918)	(953)	(949)
Total other comprehensive (loss) income, net of tax	(22,835)	23,241	(16,700)
Comprehensive income (loss) attributable to PartnerRe Ltd.	\$ 641,173	\$ 1,157,755	\$ (536,991)
Per share data attributable to PartnerRe Ltd. common shareholders			
Net income (loss) per common share:			
Basic net income (loss)	\$ 10.78	\$ 17.05	\$ (8.40)
Diluted net income (loss)	\$ 10.58	\$ 16.87	\$ (8.40)
Weighted average number of common shares outstanding	55,378,980	62,915,992	67,558,732
Weighted average number of common shares and common share equivalents outstanding	56,448,105	63,615,748	67,558,732

See accompanying Notes to Consolidated Financial Statements.

PartnerRe Ltd.

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

	For the year ended December 31, 2013	For the year ended December 31, 2012	For the year ended December 31, 2011
Common shares			
Balance at beginning of year	\$ 85,460	\$ 84,767	\$ 84,033
Issuance of common shares	1,197	693	734
Balance at end of year	86,657	85,460	84,767
Preferred shares			
Balance at beginning of year	35,750	35,750	20,800
Issuance of preferred shares	10,000	—	14,950
Redemption of preferred shares	(11,600)	—	—
Balance at end of year	34,150	35,750	35,750
Additional paid-in capital			
Balance at beginning of year	3,861,844	3,803,796	3,419,864
Issuance of common shares	77,783	58,048	37,160
Issuance of preferred shares	231,265	—	346,772
Redemption of preferred shares	(269,265)	—	—
Balance at end of year	3,901,627	3,861,844	3,803,796
Accumulated other comprehensive (loss) income			
Balance at beginning of year	10,597	(12,644)	4,056
Currency translation adjustment			
Balance at beginning of year	32,755	4,267	16,101
Change in currency translation adjustment	(31,778)	28,488	(11,834)
Balance at end of year	977	32,755	4,267
Unfunded pension obligation			
Balance at beginning of year	(27,370)	(23,076)	(19,159)
Change in unfunded pension obligation	9,861	(4,294)	(3,917)
Balance at end of year (net of tax: 2013, \$5,029; 2012, \$7,731; 2011, \$6,590)	(17,509)	(27,370)	(23,076)
Unrealized gain on investments			
Balance at beginning of year	5,212	6,165	7,114
Change in unrealized losses on investments	(918)	(953)	(949)
Balance at end of year (net of tax: 2013, 2012 and 2011: \$nil)	4,294	5,212	6,165
Balance at end of year	(12,238)	10,597	(12,644)
Retained earnings			
Balance at beginning of year	4,952,002	4,035,103	4,761,178
Net income (loss)	673,442	1,134,514	(520,291)
Net income attributable to noncontrolling interests	(9,434)	—	—
Dividends on common shares	(142,217)	(155,993)	(158,764)
Dividends on preferred shares	(57,861)	(61,622)	(47,020)
Loss on redemption of preferred shares	(9,135)	—	—
Balance at end of year	5,406,797	4,952,002	4,035,103
Common shares held in treasury			
Balance at beginning of year	(2,012,157)	(1,479,230)	(1,083,012)
Repurchase of common shares	(695,304)	(532,927)	(396,218)
Balance at end of year	(2,707,461)	(2,012,157)	(1,479,230)
Total shareholders' equity attributable to PartnerRe Ltd.	\$ 6,709,532	\$ 6,933,496	\$ 6,467,542
Noncontrolling interests	56,627	—	—
Total shareholders' equity	\$ 6,766,159	\$ 6,933,496	\$ 6,467,542

See accompanying Notes to Consolidated Financial Statements.

PartnerRe Ltd.

Consolidated Statements of Cash Flows
(Expressed in thousands of U.S. dollars)

	For the year ended December 31, 2013	For the year ended December 31, 2012	For the year ended December 31, 2011
Cash flows from operating activities			
Net income (loss)	\$ 673,442	\$ 1,134,514	\$ (520,291)
Adjustments to reconcile net income (loss) to net cash provided by operating activities:			
Amortization of net premium on investments	151,666	137,313	91,339
Amortization of intangible assets	27,180	31,799	36,405
Net realized and unrealized investment losses (gains)	160,735	(493,409)	(66,692)
Changes in:			
Reinsurance balances, net	(507,346)	(102,009)	(21,036)
Reinsurance recoverable on paid and unpaid losses, net of ceded premiums payable	45,422	31,730	625
Funds held by reinsured companies and funds held – directly managed	99,394	381,733	606,266
Deferred acquisition costs	(72,956)	(13,437)	52,069
Net tax assets and liabilities	(99,067)	80,628	(58,970)
Unpaid losses and loss expenses including life policy benefits	41,956	(634,736)	606,698
Unearned premiums	198,316	86,921	(161,425)
Other net changes in operating assets and liabilities	108,525	52,246	8,647
Net cash provided by operating activities	827,267	693,293	573,635
Cash flows from investing activities			
Sales of fixed maturities	7,887,186	6,969,074	8,328,352
Redemptions of fixed maturities	1,167,483	1,000,181	1,211,016
Purchases of fixed maturities	(8,872,874)	(8,067,087)	(10,549,343)
Sales and redemptions of short-term investments	312,376	110,360	336,456
Purchases of short-term investments	(176,339)	(215,473)	(331,432)
Sales of equities	796,403	821,977	730,929
Purchases of equities	(695,456)	(830,323)	(619,533)
Consideration paid, related to the acquisition of Presidio, net of cash acquired	—	(9,242)	—
Other, net	(786)	995	(186,823)
Net cash provided by (used in) investing activities	417,993	(219,538)	(1,080,378)
Cash flows from financing activities			
Dividends paid to common and preferred shareholders	(200,078)	(217,615)	(205,784)
Repurchase of common shares	(715,421)	(504,991)	(413,737)
Issuance of common shares	51,111	34,323	16,041
Net proceeds from issuance of preferred shares	241,265	—	361,722
Redemption of preferred shares	(290,000)	—	—
Sale of shares to noncontrolling interests	47,193	—	—
Net cash used in financing activities	(865,930)	(688,283)	(241,758)
Effect of foreign exchange rate changes on cash	(4,550)	(6,024)	(20,326)
Increase (decrease) in cash and cash equivalents	374,780	(220,552)	(768,827)
Cash and cash equivalents—beginning of year	1,121,705	1,342,257	2,111,084
Cash and cash equivalents—end of year	\$ 1,496,485	\$ 1,121,705	\$ 1,342,257
Supplemental cash flow information:			
Taxes paid	\$ 174,031	\$ 186,970	\$ 197,610
Interest paid	\$ 49,259	\$ 49,259	\$ 49,259

See accompanying Notes to Consolidated Financial Statements.

PartnerRe Ltd.

Notes to Consolidated Financial Statements

1. Organization

PartnerRe Ltd. (PartnerRe or the Company) predominantly provides reinsurance and certain specialty insurance lines on a worldwide basis 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, accident 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 and reinsurance business transferred into PartnerRe Europe) 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. (subsequently renamed and referred to herein as PartnerRe Health), a California-based U.S. specialty accident and health reinsurance and insurance writer. The Consolidated Statements of Operations and Cash Flows include PartnerRe Health's results from January 1, 2013.

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.

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.

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.

(c) Deferred Acquisition Costs

Acquisition costs, comprising only 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 deferred acquisition costs related to the Company's Non-life business. 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 deferred acquisition costs related to the Company's Life business.

(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. 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.

(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. Non-publicly traded 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 either the equity method or the fair value option. The remaining 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.

(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 PartnerRe Health. The Company assesses the appropriateness of its

valuation of goodwill on at least an annual basis or more frequently if events or changes in circumstances indicate that the carrying amount may not be recoverable. 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 PartnerRe Health. Definite-lived intangible assets are amortized over their useful lives, generally ranging from eleven 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 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)).

(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, for hedging certain investments, or for 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 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 canceled 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 or Loss per Common Share

Diluted net income or loss per common share is defined as net income or loss attributable to PartnerRe Ltd. 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 or loss attributable to PartnerRe Ltd. common shareholders is defined as net income or loss 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 or loss per share. Basic net income or loss per share is defined as net income or loss attributable to PartnerRe Ltd. 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 periodic review and adjustment based on expected actual performance. 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 within Other operating expenses in the Consolidated Statements of Operations.

(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 and Noncontrolling Interests

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, 2013. 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.

The Company has also formed a subsidiary with other third party investors, Lorenz Re Ltd. (Lorenz Re), that is considered to be a VIE. The Company determined that it is the primary beneficiary as it has the power to direct and has more than an insignificant economic interest in the activities of Lorenz Re. Lorenz Re is consolidated by the Company and all inter-company balances and transactions are eliminated. Net income or loss and shareholders' equity attributable to Lorenz Re's third party investors are recorded in the Consolidated Financial Statements as noncontrolling interests (see Note 13).

(t) Segment Reporting

The Company monitors the performance of its operations in three segments, Non-life, Life and Health 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 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 July 2013, the Financial Accounting Standards Board issued new guidance aimed at harmonizing presentation of an unrecognized tax benefit when a net operating loss carryforward, a similar tax loss, or a tax credit carryforward exists. The guidance is effective for interim and annual periods beginning on or after December 15, 2013. The Company does not expect adoption of this guidance to have a significant impact on its Consolidated Financial Statements or disclosures.

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 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, credit default 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 equities and longevity and other total return swaps.

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, 2013 and 2012, 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):

December 31, 2013	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	\$ —	\$ 1,623,859	\$ —	\$ 1,623,859
U.S. states, territories and municipalities	—	16,207	108,380	124,587
Non-U.S. sovereign government, supranational and government related	—	2,353,699	—	2,353,699
Corporate	—	6,048,663	—	6,048,663
Asset-backed securities	—	691,654	446,577	1,138,231
Residential mortgage-backed securities	—	2,268,517	—	2,268,517
Other mortgage-backed securities	—	35,747	—	35,747
Fixed maturities	\$ —	\$13,038,346	\$554,957	\$13,593,303
Short-term investments	\$ —	\$ 13,546	\$ —	\$ 13,546
Equities				
Real estate investment trusts	\$ 175,796	\$ —	\$ —	\$ 175,796
Energy	159,509	—	—	159,509
Insurance	144,020	—	—	144,020
Finance	108,944	9,556	20,207	138,707
Consumer noncyclical	108,663	—	—	108,663
Communications	70,792	—	2,199	72,991
Technology	53,768	—	7,752	61,520
Industrials	47,677	—	—	47,677
Consumer cyclical	45,915	—	—	45,915
Utilities	37,151	—	—	37,151
Other	19,993	—	—	19,993
Mutual funds and exchange traded funds	61,902	139,322	7,887	209,111
Equities	\$1,034,130	\$ 148,878	\$ 38,045	\$ 1,221,053
Other invested assets				
Derivative assets				
Foreign exchange forward contracts	\$ —	\$ 1,249	\$ —	\$ 1,249
Futures contracts	41,031	—	—	41,031
Total return swaps	—	—	79	79
Interest rate swaps	—	2,147	—	2,147
TBAs	—	2	—	2
Other				
Notes and loan receivables and notes securitization	—	—	41,446	41,446
Annuities and residuals	—	—	24,064	24,064
Private equities	—	—	39,131	39,131
Derivative liabilities				
Foreign exchange forward contracts	—	(8,648)	—	(8,648)
Foreign currency option contracts	—	(535)	—	(535)
Credit default swaps (protection purchased)	—	(71)	—	(71)
Insurance-linked securities	—	—	(268)	(268)
Total return swaps	—	—	(599)	(599)
Interest rate swaps	—	(2,558)	—	(2,558)
TBAs	—	(1,331)	—	(1,331)
Other invested assets	\$ 41,031	\$ (9,745)	\$103,853	\$ 135,139
Funds held – directly managed				
U.S. government and government sponsored enterprises	\$ —	\$ 157,296	\$ —	\$ 157,296
U.S. states, territories and municipalities	—	—	286	286
Non-U.S. sovereign government, supranational and government related	—	137,186	—	137,186
Corporate	—	248,947	—	248,947
Short-term investments	—	2,426	—	2,426
Other invested assets	—	—	15,165	15,165
Funds held – directly managed	\$ —	\$ 545,855	\$ 15,451	\$ 561,306
Total	\$1,075,161	\$13,736,880	\$712,306	\$15,524,347

December 31, 2012	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	\$ —	\$ 1,130,924	\$ —	\$ 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
TBAs	—	115	—	115
Other				
Notes and loan receivables and notes securitization	—	—	34,902	34,902
Annuities and residuals	—	—	46,882	46,882
Private equities	—	—	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)
TBAs	—	(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
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

At December 31, 2013 and 2012, the aggregate carrying amounts of items included in Other invested assets that the Company did not measure at fair value were \$185.8 million and \$262.2 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 \$561.3 million and \$833.2 million at December 31, 2013 and 2012, respectively, the funds held – directly managed account also included cash and cash equivalents, carried at fair value, of \$84.8 million and \$53.7 million, respectively, and accrued investment income of \$6.7 million and \$10.2 million, respectively. At December 31, 2013 and 2012, the aggregate carrying amounts of items included in the funds held – directly managed account that the Company did not measure at fair value were \$133.0 million and \$33.6 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, 2013 and 2012, substantially all of the accrued investment income in the Consolidated Balance Sheets relate 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, 2013, there were no transfers between Level 1 and Level 2. 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.

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, 2013 and 2012, the fair values of financial instrument assets recorded in the Consolidated Balance Sheets not described above, approximate their carrying values.

The 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, 2013 and 2012, were as follows (in thousands of U.S. dollars):

<u>For the year ended December 31, 2013</u>	<u>Balance at beginning of year</u>	<u>Realized and unrealized investment (losses) gains included in net income</u>	<u>Purchases and issuances ⁽¹⁾</u>	<u>Settlements and sales ⁽²⁾</u>	<u>Net transfers into/ (out of) Level 3</u>	<u>Balance at end of year</u>	<u>Change in unrealized investment gains (losses) relating to assets held at end of year</u>
Fixed maturities							
U.S. states, territories and municipalities	\$233,235	\$ (4,440)	\$103,860	\$(224,275)	\$—	\$108,380	\$ 1,234
Corporate	100,904	(2,271)	—	(98,633)	—	—	—
Asset-backed securities	323,134	(1,339)	301,477	(176,695)	—	446,577	(9,018)
Fixed maturities	<u>\$657,273</u>	<u>\$ (8,050)</u>	<u>\$405,337</u>	<u>\$(499,603)</u>	<u>\$—</u>	<u>\$554,957</u>	<u>\$ (7,784)</u>
Equities							
Finance	\$ 13,477	\$ 1,730	\$ 5,000	\$ —	\$—	\$ 20,207	\$ 1,730
Communications	—	159	2,040	—	—	2,199	159
Technology	6,987	765	—	—	—	7,752	765
Mutual funds and exchange traded funds	7,264	623	—	—	—	7,887	623
Equities	<u>\$ 27,728</u>	<u>\$ 3,277</u>	<u>\$ 7,040</u>	<u>\$ —</u>	<u>\$—</u>	<u>\$ 38,045</u>	<u>\$ 3,277</u>
Other invested assets							
Derivatives, net	\$ 3,911	\$ (6,136)	\$ 121	\$ 1,316	\$—	\$ (788)	\$ (69)
Notes and loan receivables and notes securitization	34,902	936	15,732	(10,124)	—	41,446	936
Annuities and residuals	46,882	1,107	—	(23,925)	—	24,064	877
Private equities	1,404	(6,358)	44,085	—	—	39,131	(6,358)
Other invested assets	<u>\$ 87,099</u>	<u>\$(10,451)</u>	<u>\$ 59,938</u>	<u>\$(32,733)</u>	<u>\$—</u>	<u>\$103,853</u>	<u>\$ (4,614)</u>
Funds held – directly managed							
U.S. states, territories and municipalities	\$ 345	\$ (59)	\$ —	\$ —	\$—	\$ 286	\$ (59)
Other invested assets	17,976	(2,054)	—	(757)	—	15,165	(990)
Funds held – directly managed	<u>\$ 18,321</u>	<u>\$ (2,113)</u>	<u>\$ —</u>	<u>\$(757)</u>	<u>\$—</u>	<u>\$ 15,451</u>	<u>\$ (1,049)</u>
Total	<u>\$790,421</u>	<u>\$(17,337)</u>	<u>\$472,315</u>	<u>\$(533,093)</u>	<u>\$—</u>	<u>\$712,306</u>	<u>\$(10,170)</u>

(1) Purchases and issuances of derivatives include issuances of \$0.8 million.

(2) Settlements and sales of U.S. states, territories and municipalities, asset-backed securities, derivatives and annuities and residuals include sales of \$223.7 million, \$13.7 million, \$1.2 million and \$6.3 million, respectively.

For the year ended December 31, 2012	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
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
Fixed maturities	<u>\$480,530</u>	<u>\$16,147</u>	<u>\$353,172</u>	<u>\$(192,576)</u>	<u>\$ —</u>	<u>\$657,273</u>	<u>\$12,122</u>
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
Equities	<u>\$ 16,165</u>	<u>\$ 4,380</u>	<u>\$ 13,992</u>	<u>\$ (9)</u>	<u>\$(6,800)</u>	<u>\$ 27,728</u>	<u>\$ 4,373</u>
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 equities	—	(46)	1,450	—	—	1,404	(46)
Other invested assets	<u>\$ 97,027</u>	<u>\$22,180</u>	<u>\$ 90,484</u>	<u>\$(122,592)</u>	<u>\$ —</u>	<u>\$ 87,099</u>	<u>\$ 7,220</u>
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
Funds held – directly managed	<u>\$ 15,767</u>	<u>\$ 2,554</u>	<u>\$ —</u>	<u>\$ —</u>	<u>\$ —</u>	<u>\$ 18,321</u>	<u>\$ 2,554</u>
Total	<u>\$609,489</u>	<u>\$45,261</u>	<u>\$457,648</u>	<u>\$(315,177)</u>	<u>\$(6,800)</u>	<u>\$790,421</u>	<u>\$26,269</u>

(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.

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.

The significant unobservable inputs used in the valuation of financial instruments measured at fair value using Level 3 inputs at December 31, 2013 and 2012 were as follows (fair value in thousands of U.S. dollars):

<u>December 31, 2013</u>	<u>Fair value</u>	<u>Valuation techniques</u>	<u>Unobservable inputs</u>	<u>Range (Weighted average)</u>
Fixed maturities				
U.S. states, territories and municipalities	\$108,380	Discounted cash flow	Credit spreads	2.9% – 9.9% (5.3%)
Asset-backed securities – interest only	21	Discounted cash flow	Credit spreads	5.5% – 10.7% (8.8%)
Asset-backed securities – other	446,556	Discounted cash flow	Credit spreads	4.0% – 12.2% (7.1%)
Equities				
Finance	15,483	Weighted market comparables	Net income multiple	14.6 (14.6)
			Tangible book value multiple	1.1 (1.1)
			Liquidity discount	25.0% (25.0%)
			Comparable return	8.5% (8.5%)
Finance	4,724	Profitability analysis	Projected return on equity	14.0% (14.0%)
Communications	2,199	Weighted market comparables	Adjusted earnings multiple	9.4 (9.4)
			Comparable return	0% (0%)
Technology	7,752	Weighted market comparables	Revenue multiple	0.9 (0.9)
			Adjusted earnings multiple	4.4 (4.4)
Other invested assets				
Total return swaps	(520)	Discounted cash flow	Credit spreads	2.8% – 18.9% (17.0%)
Notes and loan receivables	21,280	Discounted cash flow	Credit spreads	17.5% (17.5%)
			Gross revenue/fair value	1.5 (1.5)
Notes securitization	20,166	Discounted cash flow	Credit spreads	6.2% (6.2%)
Annuities and residuals	24,064	Discounted cash flow	Credit spreads	4.0% – 7.9% (5.8%)
			Prepayment speed	0% – 15.0% (6.4%)
			Constant default rate	0.3% – 35.0% (12.4%)
Private equity—direct	11,742	Discounted cash flow and weighted market comparables	Net income multiple	8.3 (8.3)
			Tangible book value multiple	1.6 (1.6)
			Recoverability of intangible assets	0% (0%)
Private equity funds	8,993	Lag reported market value	Net asset value, as reported	100.0% (100.0%)
			Market adjustments	1.8% – 9.8% (8.3%)
Private equity—other	18,396	Discounted cash flow	Credit spreads	3.8% (3.8%)
Funds held – directly managed				
Other invested assets	15,165	Lag reported market value	Net asset value, as reported	100.0% (100.0%)
			Market adjustments	-22.9% – 0% (-15.5%)

<u>December 31, 2012</u>	<u>Fair value</u>	<u>Valuation techniques</u>	<u>Unobservable inputs</u>	<u>Range (Weighted average)</u>
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% – 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%(-12.1%)

The tables above do 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 mutual fund investments (included within equities), certain insurance-linked securities (included within other invested assets) and mortality bonds (included within corporate fixed maturities).

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 significant 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, 2013, 2012 and 2011 were as follows (in thousands of U.S. dollars):

	<u>2013</u>	<u>2012</u>	<u>2011</u>
Fixed maturities and short-term investments	\$(525,787)	\$186,063	\$ 128,224
Equities	118,010	66,253	(101,860)
Other invested assets	(6,970)	18,732	(24,839)
Funds held – directly managed	(27,850)	7,969	5,853
Total	\$(442,597)	\$279,017	\$ 7,378

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

The following methods and assumptions were used by the Company in estimating the fair value of each class of financial 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 Mortgage Corporation, 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 and the Federal Home Loan Mortgage Corporation. 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 and the Federal Home Loan Mortgage Corporation 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.
- *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.
- *Asset-backed securities*—Asset-backed securities primarily consist of bonds issued by U.S. and foreign corporations that are predominantly 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. 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.

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, real estate investment trusts, mutual funds and exchange traded funds. Equities, real estate investment trusts 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 inputs used in the fair value measurement of inactively traded common stocks classified as Level 3 include 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, including net income multiples, tangible book value multiples, comparable returns, revenue multiples, adjusted earnings multiples and projected return on equity ratios. Significant increases (decreases) in any of these inputs could result in a significantly higher (lower) fair value measurement. Significant unobservable inputs used in measuring the fair value measurement of inactively traded common stocks also include a liquidity discount. A significant increase (decrease) in the liquidity discount could result in a significantly lower (higher) 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, credit default 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 equities 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 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, gross revenue to fair value ratios, net income multiples, tangible book value multiples and other valuation ratios. Significant increases (decreases) in any of these inputs in isolation could result in a significantly lower (higher) fair value measurement. Significant unobservable inputs used in the fair value measurement of other invested assets classified as Level 3 also include an assessment of the recoverability of intangible assets and 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 increase (decrease) in these inputs in isolation could result in a significantly higher (lower) 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, 2013 and 2012, 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 methods and assumptions 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 were as follows:

- 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, 2013 and 2012; 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 of \$63 million from PartnerRe Finance II Inc. at December 31, 2013 and 2012.

The carrying values and fair values of the Senior Notes and CENts at December 31, 2013 and 2012 were as follows (in thousands of U.S. dollars):

	<u>December 31, 2013</u>		<u>December 31, 2012</u>	
	<u>Carrying Value</u>	<u>Fair Value</u>	<u>Carrying Value</u>	<u>Fair Value</u>
Debt related to senior notes ⁽¹⁾	\$750,000	\$844,331	\$750,000	\$859,367
Debt related to capital efficient notes ⁽²⁾	63,384	61,094	63,384	66,990

(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, 2013 and 2012.*

(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, 2013 and 2012.*

At December 31, 2013 and 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, 2013 and 2012 were as follows (in thousands of U.S. dollars):

<u>December 31, 2013</u>	<u>Cost ⁽¹⁾</u>	<u>Gross Unrealized Gains</u>	<u>Gross Unrealized Losses</u>	<u>Fair Value</u>
Fixed maturities				
U.S. government and government sponsored enterprises	\$ 1,635,578	\$ 7,211	\$ (18,930)	\$ 1,623,859
U.S. states, territories and municipalities	121,697	4,395	(1,505)	124,587
Non-U.S. sovereign government, supranational and government related	2,295,608	67,453	(9,362)	2,353,699
Corporate	5,866,991	243,522	(61,850)	6,048,663
Asset-backed securities	1,126,812	15,232	(3,813)	1,138,231
Residential mortgage-backed securities	2,294,870	31,810	(58,163)	2,268,517
Other mortgage-backed securities	34,899	1,590	(742)	35,747
Fixed maturities	<u>13,376,455</u>	<u>371,213</u>	<u>(154,365)</u>	<u>13,593,303</u>
Short-term investments	13,543	4	(1)	13,546
Equities	<u>1,009,286</u>	<u>250,288</u>	<u>(38,521)</u>	<u>1,221,053</u>
Total	<u>\$14,399,284</u>	<u>\$621,505</u>	<u>\$(192,887)</u>	<u>\$14,827,902</u>
<u>December 31, 2012</u>	<u>Cost ⁽¹⁾</u>	<u>Gross Unrealized Gains</u>	<u>Gross Unrealized Losses</u>	<u>Fair Value</u>
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
Fixed maturities	<u>13,653,615</u>	<u>798,405</u>	<u>(56,705)</u>	<u>14,395,315</u>
Short-term investments	150,634	9	(91)	150,552
Equities	<u>1,000,326</u>	<u>115,351</u>	<u>(21,675)</u>	<u>1,094,002</u>
Total	<u>\$14,804,575</u>	<u>\$913,765</u>	<u>\$(78,471)</u>	<u>\$15,639,869</u>

(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, 2013, 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.

	<u>Cost</u>	<u>Fair Value</u>
One year or less	\$ 373,899	\$ 377,568
More than one year through five years	4,915,255	5,056,690
More than five years through ten years	3,920,421	3,961,736
More than ten years	<u>723,842</u>	<u>768,360</u>
Subtotal	9,933,417	10,164,354
Mortgage/asset-backed securities	<u>3,456,581</u>	<u>3,442,495</u>
Total	\$13,389,998	\$13,606,849

(c) Net Realized and Unrealized Investment (Losses) Gains

The components of the net realized and unrealized investment (losses) gains for the years ended December 31, 2013, 2012 and 2011 were as follows (in thousands of U.S. dollars):

	<u>2013</u>	<u>2012</u>	<u>2011</u>
Net realized investment gains on fixed maturities and short-term investments	\$ 118,575	\$172,987	\$ 157,207
Net realized investment gains on equities	75,217	72,155	90,866
Net realized gains (losses) on other invested assets	20,497	(16,691)	(176,295)
Change in net unrealized gains (losses) on other invested assets	56,652	(9,568)	(46,278)
Change in net unrealized investment (losses) gains on fixed maturities and short-term investments	(525,787)	186,063	128,224
Change in net unrealized investment gains (losses) on equities	118,010	66,253	(101,860)
Net other realized and unrealized investment (losses) gains	(2,107)	5,843	3,617
Net realized and unrealized investment (losses) gains on funds held – directly managed	(21,792)	<u>16,367</u>	<u>11,211</u>
Total net realized and unrealized investment (losses) gains	\$(160,735)	\$493,409	\$ 66,692

(d) Net Investment Income

The components of net investment income for the years ended December 31, 2013, 2012 and 2011 were as follows (in thousands of U.S. dollars):

	<u>2013</u>	<u>2012</u>	<u>2011</u>
Fixed maturities	\$446,299	\$512,833	\$561,576
Short-term investments, cash and cash equivalents	1,886	2,905	3,843
Equities	32,989	26,207	19,815
Funds held and other	34,215	44,109	49,502
Funds held – directly managed	20,502	29,031	37,919
Investment expenses	(51,524)	<u>(43,747)</u>	<u>(43,507)</u>
Net investment income	\$484,367	\$571,338	\$629,148

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 1.8% to 4.3% for the year ended December 31, 2013 and from 2.0% to 5.0% for the years ended December 31, 2012 and 2011. See Note 5 for additional information on the funds held – directly managed account.

(e) Pledged and Restricted Assets

At December 31, 2013 and 2012, approximately \$200.6 million and \$167.5 million, respectively, of cash and cash equivalents and approximately \$2,477.8 million and \$2,532.0 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.

The Company has agreed, subject to certain exceptions, not to dispose of or hedge any of the common shares in an investment with a fair value of \$121 million, which is included in equities, prior to April 28, 2014.

(f) Net Receivable (Payable) for Securities Sold/Purchased

Included within Other assets in the Consolidated Balance Sheet at December 31, 2013 and Accounts payable, accrued expenses and other in the Consolidated Balance Sheet at December 31, 2012 were amounts of gross receivable balances for securities sold and gross payable balances for securities purchased as follows (in thousands of U.S. dollars):

	<u>2013</u>	<u>2012</u>
Receivable for securities sold	\$150,816	\$ 22,133
Payable for securities purchased	(60,153)	(32,944)
Net receivable (payable) for securities sold/purchased	\$ 90,663	\$(10,811)

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. The decrease from December 31, 2012 to December 31, 2013 in the fair value of the investment portfolio underlying the funds held – directly managed account from \$833 million to \$561 million was primarily related to the run-off of the underlying loss reserves associated with this account and increases in U.S. and European risk-free interest rates.

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, 2013 and 2012 were as follows (in thousands of U.S. dollars):

<u>December 31, 2013</u>	<u>Cost ⁽¹⁾</u>	<u>Gross Unrealized Gains</u>	<u>Gross Unrealized Losses</u>	<u>Fair Value</u>
Fixed maturities				
U.S. government and government sponsored enterprises	\$153,951	\$ 3,789	\$ (444)	\$157,296
U.S. states, territories and municipalities	372	—	(86)	286
Non-U.S. sovereign government, supranational and government related	131,488	6,708	(1,010)	137,186
Corporate	<u>237,947</u>	<u>11,000</u>	<u>—</u>	<u>248,947</u>
Fixed maturities	523,758	21,497	(1,540)	543,715
Short -term investments	2,426	—	—	2,426
Other invested assets	<u>28,091</u>	<u>—</u>	<u>(12,787)</u>	<u>15,304</u>
Total	<u>\$554,275</u>	<u>\$21,497</u>	<u>\$(14,327)</u>	<u>\$561,445</u>
<u>December 31, 2012</u>	<u>Cost ⁽¹⁾</u>	<u>Gross Unrealized Gains</u>	<u>Gross Unrealized Losses</u>	<u>Fair Value</u>
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	<u>341,705</u>	<u>20,555</u>	<u>(17)</u>	<u>362,243</u>
Fixed maturities	771,143	44,263	(135)	815,271
Other invested assets	<u>26,777</u>	<u>619</u>	<u>(9,297)</u>	<u>18,099</u>
Total	<u>\$797,920</u>	<u>\$44,882</u>	<u>\$(9,432)</u>	<u>\$833,370</u>

(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, 2013 and 2012, were cash and cash equivalents of \$84.8 million and \$53.7 million, respectively, other assets and liabilities of \$132.9 million and \$33.4 million, respectively, and accrued investment income of \$6.7 million and \$10.2 million, respectively. The other assets and liabilities represent working capital assets held by Colisée Re related to the underlying business.

(b) Maturity Distribution of Fixed Maturities

The distribution of fixed maturities underlying the funds held – directly managed account at December 31, 2013, 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.

	<u>Cost</u>	<u>Fair Value</u>
One year or less	\$ 88,453	\$ 89,436
More than one year through five years	317,214	330,805
More than five years through ten years	103,231	108,761
More than ten years	<u>17,286</u>	<u>17,139</u>
Total	<u>\$526,184</u>	<u>\$546,141</u>

(c) Net Realized and Unrealized Investment (Losses) Gains

The components of the net realized and unrealized investment (losses) gains on the funds held – directly managed account for the years ended December 31, 2013, 2012 and 2011 were as follows (in thousands of U.S. dollars):

	<u>2013</u>	<u>2012</u>	<u>2011</u>
Net realized investment gains on fixed maturities and short-term investments . . .	\$ 6,021	\$ 8,405	\$ 5,369
Net realized investment gains (losses) on other invested assets	19	—	(42)
Change in net unrealized investment (losses) gains on fixed maturities and short-term investments	(24,176)	6,583	12,314
Change in net unrealized investment (losses) gains on other invested assets	(3,656)	1,379	(6,430)
Net realized and unrealized investment (losses) gains on funds held – directly managed	\$(21,792)	\$16,367	\$11,211

(d) Net Investment Income

The components of net investment income underlying the funds held – directly managed account for the years ended December 31, 2013, 2012 and 2011 were as follows (in thousands of U.S. dollars):

	<u>2013</u>	<u>2012</u>	<u>2011</u>
Fixed maturities	\$18,804	\$27,760	\$31,542
Short-term investments, cash and cash equivalents	1,246	1,046	1,906
Other	1,287	1,647	5,402
Investment expenses	(835)	(1,422)	(931)
Net investment income on funds held – directly managed	\$20,502	\$29,031	\$37,919

6. Derivatives

The Company's derivative instruments are recorded in the Consolidated Balance Sheets at fair value, with changes in fair value recognized in either net foreign exchange gains and losses or net realized and unrealized investment gains and losses in the Consolidated Statements of Operations or accumulated other comprehensive income or loss in the Consolidated Balance Sheets, depending on the nature of the derivative instrument. The Company's objectives for holding or issuing these derivatives are as follows:

Foreign Exchange Forward Contracts

The Company utilizes foreign exchange forward contracts as part of its overall currency risk management and investment strategies. From time to time, the Company also utilizes foreign exchange forward contracts to hedge a portion of its net investment exposure resulting from the translation of its foreign subsidiaries and branches whose functional currency is other than the U.S. dollar.

Foreign Currency Option Contracts and Futures Contracts

The Company utilizes foreign currency option contracts to mitigate foreign currency risk. The Company uses exchange traded treasury note futures contracts to manage portfolio duration and equity futures to hedge certain investments.

Credit Default Swaps

The Company purchases protection through credit default swaps to mitigate the risk associated with its underwriting operations, most notably in the credit/surety line, and to manage market exposures.

The Company also assumes credit risk through credit default swaps to replicate investment positions. The original term of these credit default swaps is generally five years or less and there are no recourse provisions associated with these swaps. While the Company would be required to perform under exposure assumed through credit default swaps in the event of a default on the underlying issuer, no issuer was in default at December 31, 2013. The counterparties on the Company's assumed credit default swaps are all investment grade rated financial institutions.

Insurance-Linked Securities

The Company enters into various weather derivatives and longevity total return swaps for which the underlying risks reference parametric weather risks for the weather derivatives and longevity risk for the longevity total return swaps.

Total Return and Interest Rate Swaps and Interest Rate Derivatives

The Company enters into total return swaps referencing various project, investments and principal finance obligations. The Company enters into interest rate swaps to mitigate the interest rate risk on certain of the total return swaps and certain fixed maturity investments. The Company also uses other interest rate derivatives to mitigate exposure to interest rate volatility.

To-Be-Announced Mortgage-Backed Securities

The Company utilizes TBAs as part of its overall investment strategy and to enhance investment performance.

The net fair values and the related net notional values of derivatives included in the Company's Consolidated Balance Sheets at December 31, 2013 and 2012 were as follows (in thousands of U.S. dollars):

	Asset derivatives at fair value	Liability derivatives at fair value	Net derivatives	
			Net notional exposure	Fair value
December 31, 2013				
Foreign exchange forward contracts	\$ 1,249	\$ (8,648)	\$1,957,409	\$ (7,399)
Foreign currency option contracts	—	(535)	87,620	(535)
Futures contracts	41,031	—	3,266,004	41,031
Credit default swaps (protection purchased)	—	(71)	14,000	(71)
Insurance-linked securities ⁽¹⁾	—	(268)	168,724	(268)
Total return swaps	79	(599)	31,740	(520)
Interest rate swaps ⁽²⁾	2,147	(2,558)	202,859	(411)
TBAs	2	(1,331)	183,835	(1,329)
Total derivatives	\$44,508	\$(14,010)		\$30,498
December 31, 2012				
Foreign exchange forward contracts	\$ 7,889	\$(17,395)	\$2,170,914	\$ (9,506)
Foreign currency option contracts	1,410	(186)	133,377	1,224
Futures contracts	1,956	(1,352)	3,981,107	604
Credit default swaps (protection purchased)	6	(807)	55,000	(801)
Credit default swaps (assumed risks)	512	—	17,500	512
Insurance-linked securities ⁽¹⁾	—	(2,173)	135,964	(2,173)
Total return swaps	6,630	(546)	68,730	6,084
Interest rate swaps ⁽²⁾	—	(7,880)	—	(7,880)
TBAs	115	(163)	155,760	(48)
Total derivatives	\$18,518	\$(30,502)		\$(11,984)

- (1) At December 31, 2013 and 2012, insurance-linked securities include a longevity swap for which the notional amount is not reflective of the overall potential exposure of the swap. As such, the Company has included the probable maximum loss under the swap within the net notional exposure as an approximation of the notional amount.
- (2) The Company enters into interest rate swaps to mitigate notional exposures on certain total return swaps and certain fixed maturities. Only the notional value of interest rate swaps on fixed maturities is presented separately in the table.

The fair value of all derivatives at December 31, 2013 and 2012 is recorded in Other invested assets in the Company's Consolidated Balance Sheets. At December 31, 2013 and 2012, none of the Company's derivatives were designated as hedges.

The gains and losses in the Consolidated Statements of Operations for derivatives not designated as hedges for the years ended December 31, 2013, 2012 and 2011 were as follows (in thousands of U.S. dollars):

	<u>2013</u>	<u>2012</u>	<u>2011</u>
Foreign exchange forward contracts	\$(59,019)	\$ 23,474	\$ 98,089
Foreign currency option contracts	(5,164)	3,789	(9,927)
Total included in net foreign exchange gains and losses	\$(64,183)	\$ 27,263	\$ 88,162
Futures contracts	\$ 78,841	\$(31,757)	\$(185,816)
Credit default swaps (protection purchased)	(134)	(907)	(352)
Credit default swaps (assumed risks)	123	2,016	886
Insurance-linked securities	(707)	4,343	(9,584)
Total return swaps	(6,597)	(749)	2,473
Interest rate swaps	7,469	112	(2,200)
TBAs	(8,808)	7,045	15,366
Total included in net realized and unrealized investment gains and losses . . .	\$ 70,187	\$(19,897)	\$(179,227)
Total derivatives	\$ 6,004	\$ 7,366	\$ (91,065)

Offsetting of Derivatives

The gross and net fair values of derivatives that are subject to offsetting in the Consolidated Balance Sheets at December 31, 2013 and 2012 were as follows (in thousands of U.S. dollars):

	Gross amounts recognized ⁽¹⁾	Gross amounts offset in the balance sheet	Net amounts of assets/liabilities presented in the balance sheet	Gross amounts not offset in the balance sheet		Net amount
				Financial instruments	Cash collateral received/pledged	
December 31, 2013						
Total derivative assets	\$ 44,508	\$—	\$ 44,508	\$ (2)	\$ —	\$ 44,506
Total derivative liabilities	\$(14,010)	\$—	\$(14,010)	\$ 2	\$4,341	\$ (9,667)
December 31, 2012						
Total derivative assets	\$ 18,518	\$—	\$ 18,518	\$(115)	\$ —	\$ 18,403
Total derivative liabilities	\$(30,502)	\$—	\$(30,502)	\$ 115	\$ —	\$(30,387)

- (1) Amounts include all derivative instruments, irrespective of whether there is a legally enforceable master netting arrangement in place.

7. Goodwill and Intangible Assets

The Company's goodwill and intangible assets at December 31, 2013 and 2012 were as follows (in thousands of U.S. dollars):

<u>2013</u>	<u>Goodwill</u>	<u>Definite-lived intangible assets</u>	<u>Indefinite-lived intangible asset</u>	<u>Total intangible assets</u>
Balance at January 1	\$456,380	\$206,920	\$7,350	\$214,270
Intangible assets amortization	—	(27,180)	—	(27,180)
Balance at December 31	\$456,380	\$179,740	\$7,350	\$187,090
<u>2012</u>	<u>Goodwill</u>	<u>Definite-lived intangible assets</u>	<u>Indefinite-lived intangible asset</u>	<u>Total intangible assets</u>
Balance at January 1	\$455,533	\$126,517	\$7,350	\$133,867
Acquired during the year	847	112,202	—	112,202
Intangible assets amortization	—	(31,799)	—	(31,799)
Balance at December 31	\$456,380	\$206,920	\$7,350	\$214,270

On December 31, 2012, the Company acquired 100% of the outstanding common shares of PartnerRe Health for \$72 million plus tangible book value, consistent with the Company's diversified strategy.

Intangible asset amortization during the years ended December 31, 2013, 2012 and 2011 totaled \$27.2 million, \$31.8 million and \$44.8 million, respectively, of which \$nil, \$nil and \$8.4 million, respectively, is recorded within acquisition costs and \$27.2 million, \$31.8 million and \$36.4 million, respectively, is recorded within amortization of intangible assets in the Consolidated Statements of Operations. The amount recorded within acquisition costs in the Consolidated Statements of Operations approximates the amount of Paris Re's deferred acquisition costs that would have been recorded as acquisition costs had they not been fair valued under purchase accounting.

The gross carrying value and accumulated amortization of intangible assets by type at December 31, 2013 and 2012 is as follows (in thousands of U.S. dollars):

	<u>2013</u>		<u>2012</u>	
	<u>Gross carrying value</u>	<u>Accumulated amortization</u>	<u>Gross carrying value</u>	<u>Accumulated amortization</u>
Definite-lived intangible assets:				
Unpaid losses and loss expenses	\$191,196	\$115,958	\$191,196	\$ 96,478
Renewal rights	80,863	38,132	80,863	32,700
Customer relationships	63,408	1,637	63,408	—
Fronting arrangements	631	631	631	—
Total definite-lived intangible assets	\$336,098	\$156,358	\$336,098	\$129,178
Indefinite-lived intangible asset:				
U.S. insurance licenses	7,350	n/a	7,350	n/a
Total intangible assets	\$343,448	\$156,358	\$343,448	\$129,178

n/a: not applicable

At December 31, 2013 and 2012, the allocation of the goodwill to the Company's segments and sub-segments was as follows (in thousands of U.S. dollars):

	<u>Amount</u>
Non-life segment:	
North America	\$ 82,026
Global (Non-U.S.) P&C	149,895
Global Specialty	179,641
Catastrophe	26,014
Life and Health segment	18,804
Total goodwill	<u>\$456,380</u>

The estimated amortization expense for each of the five succeeding fiscal years related to the Company's definite-lived intangible assets is as follows (in thousands of U.S. dollars):

<u>Year</u>	<u>Amount</u>
2014	\$ 27,486
2015	26,593
2016	25,919
2017	22,818
2018	21,247
Total	<u>\$124,063</u>

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

(a) Unpaid Losses and Loss Expenses

Unpaid losses and loss expenses are categorized into three types of reserves: case reserves, ACRs and IBNR reserves. Case reserves represent unpaid losses reported by the Company's cedants and recorded by the Company. ACRs are established for particular circumstances where, on the basis of individual loss reports, the Company estimates that the particular loss or collection of losses covered by a treaty may be greater than those advised by the cedant. IBNR reserves represent a provision for claims that have been incurred but not yet reported to the Company, as well as future loss development on losses already reported, in excess of the case reserves and ACRs. The Company's gross liability for unpaid losses and loss expenses reported by cedants (case reserves) and those estimated by the Company (ACRs and IBNR reserves) at December 31, 2013 and 2012 was as follows (in thousands of U.S. dollars):

	<u>2013</u>	<u>2012</u>
Case reserves	\$ 4,663,164	\$ 4,872,591
ACRs	403,145	354,382
IBNR reserves	5,580,009	5,482,398
Total unpaid losses and loss expenses	<u>\$10,646,318</u>	<u>\$10,709,371</u>

The reconciliation of the beginning and ending gross and net liability for unpaid losses and loss expenses, excluding policy benefits for life and annuity contracts, for the years ended December 31, 2013, 2012 and 2011 was as follows (in thousands of U.S. dollars):

	<u>2013</u>	<u>2012</u>	<u>2011</u>
Gross liability at beginning of year	\$10,709,371	\$11,273,091	\$10,666,604
Reinsurance recoverable at beginning of year	291,330	353,105	348,747
Net liability at beginning of year	10,418,041	10,919,986	10,317,857
Net incurred losses related to:			
Current year	3,118,755	2,785,694	4,252,766
Prior years	(721,499)	(628,065)	(530,457)
	2,397,256	2,157,629	3,722,309
Change in Paris Re Reserve Agreement	(49,544)	(86,163)	(61,383)
Net paid losses related to:			
Current year	242,053	237,783	930,407
Prior years	2,159,506	2,467,279	2,060,152
	2,401,559	2,705,062	2,990,559
Effects of foreign exchange rate changes	14,740	131,651	(68,238)
Net liability at end of year	10,378,934	10,418,041	10,919,986
Reinsurance recoverable at end of year	267,384	291,330	353,105
Gross liability at end of year	\$10,646,318	\$10,709,371	\$11,273,091

The reconciliation of losses and loss expenses including life policy benefits for the years ended December 31, 2013, 2012 and 2011 was as follows (in thousands of U.S. dollars):

	<u>2013</u>	<u>2012</u>	<u>2011</u>
Net incurred losses related to:			
Non-life	\$2,397,256	\$2,157,629	\$3,722,309
Life and Health	760,552	646,981	650,261
Losses and loss expenses and life policy benefits	\$3,157,808	\$2,804,610	\$4,372,570

The net favorable prior year loss development for each of the Company's Non-life sub-segments for the years ended December 31, 2013, 2012 and 2011 was as follows (in thousands of U.S. dollars):

	<u>2013</u>	<u>2012</u>	<u>2011</u>
Net favorable prior year loss development:			
Non-life sub-segment			
North America	\$222,839	\$218,483	\$189,180
Global (Non-U.S.) P&C	180,052	114,279	115,995
Global Specialty	227,383	250,523	128,975
Catastrophe	91,225	44,780	96,307
Total net favorable prior year loss development	\$721,499	\$628,065	\$530,457

Within the Company's North America sub-segment, the Company reported net favorable loss development for prior accident years in 2013, 2012 and 2011. The net favorable loss development for prior accident years in 2013, 2012 and 2011 was driven by most lines of business, with the casualty line being the most pronounced. The net favorable loss development in each year was primarily due to favorable loss emergence.

For the Global (Non-U.S.) P&C sub-segment, the Company reported net favorable loss development for prior accident years in 2013, 2012 and 2011. The net favorable loss development for prior accident years in 2013 was driven by all lines of business, with the property line being the most pronounced, and included favorable loss

emergence related to certain catastrophic and large loss events. 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 in 2011 was driven by all lines of business, most notably by the motor line. The net favorable loss development in each year was primarily due to favorable loss emergence.

For the Global Specialty sub-segment, the Company reported net favorable loss development for prior accident years in 2013, 2012 and 2011. The net favorable loss development for prior accident years in 2013 was driven by all lines of business, predominantly the aviation/space, marine and specialty property lines. 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 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 in each year was primarily due to favorable loss emergence.

For the Catastrophe sub-segment, the Company reported net favorable loss development for prior accident years in 2013, 2012 and 2011. The net favorable loss development in each year was primarily due to favorable loss emergence.

(b) Paris Re Reserve Agreement

Following Paris Re's acquisition of substantially all of the reinsurance operations of Colisée Re in 2006, Paris Re's French operating subsidiary (Paris Re France) entered into a reserve agreement (Reserve Agreement), which provides that AXA and Colisée Re shall guarantee reserves in respect of Paris Re France and subsidiaries acquired in the acquisition. The Reserve Agreement relates to losses incurred prior to December 31, 2005. Accordingly, the Company's Consolidated Statements of Operations do not include any favorable or adverse development related to these guaranteed reserves. 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 Liabilities Managers, an affiliate of Colisée Re.

Favorable or adverse development related to the guaranteed reserves is recorded as a change in unpaid losses and loss expenses in the Consolidated Balance Sheets and as a change in the Reserve Agreement payable or receivable balance to/from Colisée Re, which is included within the Funds held – directly managed account and Other reinsurance balances payable in the Consolidated Balance Sheets at December 31, 2013 and 2012, respectively. Accordingly, the reconciliation of the beginning and ending gross and net liability for unpaid losses and loss expenses for the years ended December 31, 2013, 2012 and 2011 includes the change in the Reserve Agreement. At December 31, 2013 and 2012, the Company's net liability for unpaid losses and loss expenses includes \$727 million and \$857 million, respectively, of guaranteed reserves, with the decrease from December 31, 2012 to December 31, 2013 being primarily related to the run-off of the underlying loss reserves.

(c) Claims Related to Catastrophic Events

A significant amount of judgment was used to estimate the range of potential losses related to the 2010 and the February and June 2011 New Zealand Earthquakes (collectively, the New Zealand Earthquakes) and the Japan Earthquake, and there remains a considerable degree of uncertainty related to the range of possible ultimate losses related to these events and, in particular, the New Zealand Earthquakes. Loss estimates arising from earthquakes are inherently more uncertain than those from other catastrophic events and the Company believes the ultimate losses arising from the New Zealand Earthquakes may be materially in excess of, or less than, the amounts provided for in the Consolidated Balance Sheet at December 31, 2013.

The remaining significant risks and uncertainties related to the New Zealand Earthquakes 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. In addition, there is additional complexity related to the New Zealand Earthquakes given multiple earthquakes occurred in the same region in a relatively short period of time, resulting in cedants continuing to revise their allocation of losses between the various events and between different treaties, under which the Company may provide different amounts of coverage.

(d) Asbestos and Environmental Claims

The Company's net reserves for unpaid losses and loss expenses at December 31, 2013 and 2012 included \$193 million and \$199 million, respectively, that represent estimates of its net ultimate liability for asbestos and environmental claims. The gross liability for such claims at December 31, 2013 and 2012 was \$203 million and \$205 million, respectively, which primarily relate to Paris Re's gross liability for asbestos and environmental claims for accident years 2005 and prior of \$123 million and \$125 million, respectively, with any favorable or adverse development being subject to the Reserve Agreement. Of the remaining \$80 million in gross reserves at December 31, 2013 and 2012, the majority relates to casualty exposures in the United States arising from business written by the French branch of PartnerRe Europe 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.

(e) Policy Benefits for Life and Annuity Contracts

The Life and Health segment reported net favorable loss development for prior accident years of \$39 million, \$14 million and \$1 million for the years ended December 31, 2013, 2012 and 2011, respectively.

The net favorable prior year loss development of \$39 million in 2013 was primarily related to the guaranteed minimum death benefit (GMDB) business and, to a lesser extent, certain short-term treaties in the mortality line of business. The net favorable development was primarily due to favorable claims experience, data updates received from cedants and improvements in the capital markets related to the GMDB business.

The net favorable prior year loss development of \$14 million in 2012 was primarily related to the GMDB business, mainly driven by improvements in the capital markets, and certain short-term treaties in the mortality line of business.

The modest net favorable prior year loss development of \$1 million in 2011 was the net result of favorable prior year loss development on certain mortality treaties and the GMDB business, which were almost entirely offset by adverse prior year loss development related to disability riders on certain short-term non-proportional treaties in the mortality line following the receipt of updated information from cedants.

The Company used interest rate assumptions to estimate its liabilities for policy benefits for life and annuity contracts which ranged from 0.1% to 6.8% and 0.2% to 6.6% at December 31, 2013 and 2012, respectively.

9. Reinsurance

(a) Reinsurance Recoverable on Paid and Unpaid Losses

The Company uses retrocessional agreements to reduce its exposure to risk of loss on reinsurance assumed. These agreements provide for recovery from retrocessionaires of a portion of losses and loss expenses. The Company remains liable to its cedants to the extent that the retrocessionaires do not meet their obligations under these agreements, and therefore the Company evaluates the financial condition of its reinsurers and monitors concentration of credit risk on an ongoing basis. The Company actively manages its reinsurance exposures by generally selecting retrocessionaires having a credit rating of A- or higher. In certain cases where an otherwise suitable retrocessionaire has a credit rating lower than A-, the Company generally requires the posting of collateral, including escrow funds and letters of credit, as a condition to its entering into a retrocession agreement. The Company regularly reviews its reinsurance recoverable balances to estimate an allowance for uncollectible amounts based on quantitative and qualitative factors. The allowance for uncollectible reinsurance recoverable was \$15 million and \$13 million at December 31, 2013 and 2012, respectively.

(b) Ceded Reinsurance

Net premiums written, net premiums earned and losses and loss expenses and life policy benefits are reported net of reinsurance in the Company's Consolidated Statements of Operations. Assumed, ceded and net amounts for the years ended December 31, 2013, 2012 and 2011 were as follows (in thousands of U.S. dollars):

	<u>Premiums Written</u>	<u>Premiums Earned</u>	<u>Losses and Loss Expenses and Life Policy Benefits</u>
2013			
Assumed	\$5,569,706	\$5,373,866	\$3,207,860
Ceded	173,180	175,656	50,052
Net	\$5,396,526	\$5,198,210	\$3,157,808
2012			
Assumed	\$4,718,235	\$4,640,949	\$2,838,117
Ceded	145,375	155,010	33,507
Net	\$4,572,860	\$4,485,939	\$2,804,610
2011			
Assumed	\$4,633,054	\$4,789,293	\$4,456,094
Ceded	146,725	141,539	83,524
Net	\$4,486,329	\$4,647,754	\$4,372,570

10. Debt

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 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 each of the years ended December 31, 2013, 2012 and 2011, the Company incurred interest expense and paid interest of \$27.5 million 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, 2013, 2012 and 2011, the Company incurred interest expense 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 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, 2013 and 2012, 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, 2013, 2012 and 2011, the Company incurred interest expense and paid interest of \$4.6 million in relation to the CENts.

11. Shareholders' Equity

Authorized Shares

At December 31, 2013 and 2012, the total authorized shares of the Company were 200 million shares, par value \$1.00 per share, as follows (in millions of shares):

	<u>2013</u>	<u>2012</u>
Designated common shares	130.0	130.0
Designated 6.75% Series C cumulative redeemable preferred shares	—	11.6
Designated 6.5% Series D cumulative redeemable preferred shares	9.2	9.2
Designated 7.25% Series E cumulative redeemable preferred shares	15.0	15.0
Designated 5.875% Series F non-cumulative redeemable preferred shares	10.0	—
Designated and redeemed preference shares	25.6	14.0
Undesignated	10.2	20.2
	200.0	200.0

Common Shares

Share repurchases

During 2013, the Company repurchased, under its authorized share repurchase program, 7.7 million of its common shares at a total cost of \$695.3 million, representing an average cost of \$90.73 per share. At December 31, 2013, the Company had approximately 5.0 million common shares remaining under its current share repurchase authorization and approximately 34.2 million common shares were held in treasury and are available for reissuance.

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.

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.

Redeemable Preferred Shares

During the years ended December 31, 2013, 2012 and 2011, the Company had outstanding Series C, Series D and Series E cumulative redeemable preferred shares (Series C preferred shares, Series D preferred shares, Series E preferred shares) and during the year ended December 31, 2013 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):

	<u>Series C</u>	<u>Series D</u>	<u>Series E</u>	<u>Series F</u>
Date of issuance	May 2003	November 2004	June 2011	February 2013
Number of preferred shares issued	11.6	9.2	15.0	10.0
Annual dividend rate	6.75%	6.5%	7.25%	5.875%
Total consideration	\$ 280.9	\$ 222.3	\$ 361.7	\$ 242.3
Underwriting discounts and commissions . . .	\$ 9.1	\$ 7.7	\$ 12.1	\$ 7.7
Aggregate liquidation value	\$ 290.0	\$ 230.0	\$ 373.8	\$ 250.0
Date of redemption	March 2013	n/a	n/a	n/a

n/a: not applicable

On February 14, 2013, the Company issued the Series F preferred shares. The net proceeds received on issuance of the Series F preferred shares were used, together with available cash, to redeem the Series C preferred shares.

On March 18, 2013, the Company redeemed the Series C preferred shares for the aggregate liquidation value of \$290 million plus accrued and unpaid dividends. In connection with the redemption, the Company recognized a loss of \$9.1 million related to the original issuance costs of the Series C preferred shares and calculated as a difference between the redemption price and the consideration received after underwriting discounts and commissions. The loss was recognized in determining the net income attributable to PartnerRe Ltd. common shareholders.

The Company may redeem each of the Series D, E and F preferred shares at \$25.00 per share plus accrued and unpaid dividends without interest as follows: (i) the Series D preferred shares can be redeemed at the Company's option at any time or in part from time to time; (ii) the Series E preferred shares can be redeemed at the Company's option on or after June 1, 2016 or at any time upon certain changes in tax law and (iii) the Series F preferred shares can be redeemed at the Company's option at any time or in part from time to time on or after March 1, 2018. 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 are non-cumulative and are payable quarterly.

Dividends on each of the Series D and E preferred shares are cumulative from the date of issuance and are payable quarterly in arrears. Dividends on Series F preferred shares are non-cumulative and are payable quarterly.

In the event of liquidation of the Company, each of the Series D, E and F preferred shares rank on parity with each of the other series of preferred shares and would rank senior to the common shares. The holders of the Series D and E preferred shares would receive a distribution of \$25.00 per share, or the aggregate liquidation value, plus accrued but unpaid dividends, if any. The holders of the Series F would receive a distribution of \$25.00 per share, or the aggregate liquidation value, plus declared and unpaid dividends, if any.

12. Net Income (Loss) per Share

The reconciliation of basic and diluted net income (loss) per share and dividends declared per common share for the years ended December 31, 2013, 2012 and 2011 is as follows (in thousands of U.S. dollars, except share and per share data):

	<u>2013</u>	<u>2012</u>	<u>2011</u>
Numerator:			
Net income (loss) attributable to PartnerRe Ltd.	\$ 664,008	\$ 1,134,514	\$ (520,291)
Less: preferred dividends	57,861	61,622	47,020
Less: loss on redemption of preferred shares	9,135	—	—
Net income (loss) attributable to PartnerRe Ltd. common shareholders	\$ 597,012	\$ 1,072,892	\$ (567,311)
Denominator:			
Weighted number of common shares outstanding—basic	55,378,980	62,915,992	67,558,732
Share options and other ⁽¹⁾	1,069,125	699,756	—
Weighted average number of common shares and common share equivalents outstanding—diluted	56,448,105	63,615,748	67,558,732
Basic net income (loss) per share	\$ 10.78	\$ 17.05	\$ (8.40)
Diluted net income (loss) per share ⁽¹⁾	\$ 10.58	\$ 16.87	\$ (8.40)
Dividends declared per common share	\$ 2.56	\$ 2.48	\$ 2.35

(1) At December 31, 2013, 2012 and 2011, share based awards to purchase 14.8 thousand, 554.7 thousand and 2,854.4 thousand common shares, respectively, were excluded from the calculation of diluted weighted average number of common shares and common share equivalents outstanding because their exercise prices were greater than the average market price of the common shares. In addition, dilutive securities, in the form of share options and other, of 687.3 thousand shares were not included in the weighted average number of common shares and common share equivalents outstanding for the purpose of computing the diluted net loss per share because to do so would have been anti-dilutive for the year ended December 31, 2011.

13. Noncontrolling Interests

In March 2013, the Company formed with other third party investors, Lorenz Re, a Bermuda domiciled special purpose insurer to provide additional capacity to the Company for a diversified portfolio of catastrophe reinsurance treaties over a multi-year period on a fully collateralized reinsurance basis. The original business was written by the Company and was ceded to Lorenz Re effective April 1, 2013.

During the year ended December 31, 2013, the Company and third party investors contributed approximately \$28 million and \$47 million, respectively, of Lorenz Re's non-voting redeemable preferred share capital, which is redeemable at the option of the Company. Lorenz Re's preferred shares are expected to be redeemed following the commutation of the portfolio back to the Company on or before June 1, 2016.

At December 31, 2013, the total assets of Lorenz Re were \$99.6 million, primarily consisting of cash and investments, and the total liabilities were \$11.1 million, primarily consisting of unearned premiums and unpaid losses and loss expenses. The assets of Lorenz Re can only be used to settle the liabilities of Lorenz Re and there is no recourse to the Company for any liabilities of Lorenz Re.

The reconciliation of the beginning and ending balance of the noncontrolling interests in Lorenz Re for the year ended December 31, 2013 is as follows (in thousands of U.S. dollars):

	<u>2013</u>
Balance at January 1	\$ —
Net income attributable to noncontrolling interests	9,434
Sale of shares to noncontrolling interests	47,193
Balance at December 31	<u>\$56,627</u>

14. Dividend Restrictions and Statutory Requirements

The Company's ability to pay common and preferred shareholders' dividends and its corporate expenses is dependent mainly on cash dividends from PartnerRe Bermuda, PartnerRe Europe and PartnerRe U.S. (collectively, the reinsurance subsidiaries), which are the Company's most significant subsidiaries. The payment of such dividends by the reinsurance subsidiaries to the Company is limited under Bermuda and Irish laws and certain statutes of various U.S. states in which PartnerRe U.S. is licensed to transact business. The restrictions are generally based on net income and/or certain levels of policyholders' earned surplus as determined in accordance with the relevant statutory accounting practices. At December 31, 2013, there were no restrictions on the Company's ability to pay common and preferred shareholders' dividends from its retained earnings, except for the reinsurance subsidiaries' dividend restrictions described below.

The reinsurance subsidiaries are required to file annual statements with insurance regulatory authorities prepared on an accounting basis prescribed or permitted by such authorities (statutory basis), maintain minimum levels of solvency and liquidity and comply with risk-based capital requirements and licensing rules. At December 31, 2013, the reinsurance subsidiaries' solvency, liquidity and risk-based capital amounts were in excess of the minimum levels required. The typical adjustments to insurance statutory basis amounts to convert to U.S. GAAP include elimination of certain statutory reserves, deferral of certain acquisition costs, recognition of goodwill, intangible assets and deferred income taxes, valuation of bonds at fair value and presentation of ceded reinsurance balances gross of assumed balances.

PartnerRe Bermuda may declare dividends subject to it continuing to meet its minimum solvency and capital requirements, 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). The ECR is calculated with reference to the Bermuda Solvency Capital Requirement model, which is a risk-based capital model. At December 31, 2013, the maximum dividend that PartnerRe Bermuda could pay without prior regulatory approval was approximately \$1,009 million.

PartnerRe Europe may declare dividends subject to it continuing to meet its minimum solvency and capital requirements, which are to hold statutory capital and surplus equal to or exceeding the Required Solvency Margin (RSM). The RSM is calculated with reference to Solvency I regulations. The maximum dividend is limited to "profits available for distribution", which consist of accumulated realized profits less accumulated realized losses. At December 31, 2013, the maximum dividend that PartnerRe Europe could pay without prior regulatory approval was approximately \$565 million.

PartnerRe U.S. may declare dividends subject to it continuing to meet its minimum solvency and capital requirements and is generally limited to paying dividends from earned surplus. The maximum dividend that can be declared and paid without prior approval is limited, together with all dividends declared and paid during the preceding twelve months, to the lesser of net investment income for the previous twelve months or 10% of its total statutory capital and surplus. At December 31, 2013, the maximum dividend that PartnerRe U.S. could pay without prior regulatory approval was \$nil as a result of dividends having already been declared and paid during 2013.

The statutory financial statements and returns of the Company's reinsurance subsidiaries at, and for the year ended, December 31, 2013 are due to be submitted to the relevant regulatory authorities later in 2014, with different filing dates in each jurisdiction. In certain jurisdictions, the statutory financial statements and returns are subject to the review and final approval of the relevant regulatory authorities.

The statutory net income (loss) of the Company's reinsurance subsidiaries for the years ended December 31, 2013, 2012 and 2011 was as follows (in millions of U.S. dollars):

	<u>2013</u>	<u>2012</u>	<u>2011</u>
PartnerRe Bermuda	\$616	\$659	\$(524)
PartnerRe Europe	8	323	2
PartnerRe U.S.	123	181	98

The required and actual statutory capital and surplus of the Company's reinsurance subsidiaries at December 31, 2013 and 2012 was as follows (in millions of U.S. dollars):

	PartnerRe Bermuda		PartnerRe Europe		PartnerRe U.S.	
	2013	2012	2013	2012	2013	2012
Required statutory capital and surplus	\$2,283	\$2,402	\$ 947	\$ 911	\$ 852	\$ 699
Actual statutory capital and surplus	3,292	3,771	1,512	1,589	1,332	1,260

At December 31, 2013 and 2012, the Company has Swiss and French branches of PartnerRe Europe that are regulated by the Central Bank of Ireland, as prescribed by the EU Reinsurance Directive.

In addition to the required statutory capital and surplus requirements in the table above, the Company assesses its own solvency capital needs both at a Group and subsidiary level taking into account factors which may not be fully reflected in statutory requirements. The Company's solvency capital requirements determined under these self assessments may impact the level of the dividends payable by its reinsurance subsidiaries.

Of the Company's total net assets of \$6.7 billion at December 31, 2013, the total amount of restricted net assets for the Company's consolidated subsidiaries was \$4.9 billion and primarily related to the statutory dividend restrictions described above.

15. Taxation

The Company and its Bermuda domiciled subsidiaries are not subject to Bermuda income or capital gains tax under current Bermuda law. In the event that there is a change in current law such that taxes on income or capital gains are imposed, the Company and its Bermuda domiciled subsidiaries would be exempt from such tax until March 2035 pursuant to the Bermuda Exempted Undertakings Tax Protection Act of 1966.

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

Income tax returns are open for examination for the tax years 2008-2013 in Canada and Switzerland, 2009-2013 in Ireland, 2010-2013 in the United States, 2011-2013 in France and 2012-2013 in Singapore. As a global organization, the Company may be subject to a variety of transfer pricing or permanent establishment challenges by taxing authorities in various jurisdictions. While management believes that adequate provision has been made in the Consolidated Financial Statements for any potential assessments that may result from tax examinations for all open tax years, the completion of tax examinations for open years may result in changes to the amounts recognized in the Consolidated Financial Statements.

Income tax expense for the years ended December 31, 2013, 2012 and 2011 was as follows (in thousands of U.S. dollars):

	<u>2013</u>	<u>2012</u>	<u>2011</u>
Current income tax expense			
U.S.	\$ 55,993	\$ 29,196	\$ 82,065
Non U.S.	73,599	115,669	72,268
Total current income tax expense	<u>\$129,592</u>	<u>\$144,865</u>	<u>\$154,333</u>
Deferred income tax (benefit) expense			
U.S.	\$ (13,693)	\$ 48,740	\$ (36,780)
Non U.S.	(70,886)	6,717	(8,112)
Total deferred income tax (benefit) expense	<u>\$ (84,579)</u>	<u>\$ 55,457</u>	<u>\$ (44,892)</u>
Unrecognized tax expense (benefit)			
U.S.	\$ (335)	\$ (623)	\$ 81
Non U.S.	3,738	4,585	(40,550)
Total unrecognized tax expense (benefit)	<u>\$ 3,403</u>	<u>\$ 3,962</u>	<u>\$ (40,469)</u>
Total income tax expense			
U.S.	\$ 41,965	\$ 77,313	\$ 45,366
Non U.S.	6,451	126,971	23,606
Total income tax expense	<u>\$ 48,416</u>	<u>\$204,284</u>	<u>\$ 68,972</u>

Income (loss) before taxes attributable to the Company's domestic and foreign operations and a reconciliation of the actual income tax rate to the amount computed by applying the effective tax rate of 0% under Bermuda (the Company's domicile) law to income (loss) before taxes was as follows for the years ended December 31, 2013, 2012 and 2011 (in thousands of U.S. dollars):

	<u>2013</u>	<u>2012</u>	<u>2011</u>
Domestic (Bermuda)	\$611,900	\$ 661,648	\$(634,310)
Foreign	109,958	677,150	182,991
Income (loss) before taxes	<u>\$721,858</u>	<u>\$1,338,798</u>	<u>\$(451,319)</u>
Reconciliation of effective tax rate (% of income (loss) before taxes)			
Expected tax rate	0.0%	0.0%	0.0%
Foreign taxes at local expected tax rates	5.1	14.6	(7.2)
Impact of foreign exchange (losses) gains	(1.1)	(0.4)	0.4
Unrecognized tax benefit	0.5	0.3	9.0
Tax-exempt income and expenses not deductible	(0.9)	(0.3)	(11.6)
Impact of enacted changes in tax laws	1.8	0.7	—
Foreign branch tax	(1.4)	(0.7)	(5.7)
Valuation allowance	1.3	1.2	(1.9)
Other	1.4	(0.1)	1.7
Actual tax rate	<u>6.7%</u>	<u>15.3%</u>	<u>(15.3)%</u>

Deferred tax assets and liabilities reflect the tax impact of temporary differences between the carrying amounts of assets and liabilities for financial reporting and income tax purposes. Significant components of the net deferred tax assets and liabilities at December 31, 2013 and 2012 were as follows (in thousands of U.S. dollars):

	<u>2013</u>	<u>2012</u>
Deferred tax assets		
Discounting of loss reserves and adjustment to life policy reserves	\$ 78,999	\$ 50,341
Foreign tax credit carryforwards	42,620	37,569
Tax loss carryforwards	23,940	47,373
Unearned premiums	23,022	17,856
Other deferred tax assets	<u>33,648</u>	<u>36,424</u>
	202,229	189,563
Valuation allowance	<u>(46,111)</u>	<u>(47,412)</u>
Deferred tax assets	156,118	142,151
Deferred tax liabilities		
Deferred acquisition costs	52,165	46,311
Goodwill and other intangibles	102,619	106,445
Equalization reserves	128,132	122,930
Unrealized appreciation and timing differences on investments	72,769	141,856
Other deferred tax liabilities	<u>23,866</u>	<u>24,968</u>
Deferred tax liabilities	379,551	442,510
Net deferred tax liabilities	\$(223,433)	\$(300,359)

The components of net tax assets and liabilities at December 31, 2013 and 2012 were as follows (in thousands of U.S. dollars):

	<u>2013</u>	<u>2012</u>
Net tax assets	\$ 14,133	\$ 25,098
Net tax liabilities	<u>(284,442)</u>	<u>(387,647)</u>
Net tax liabilities	\$(270,309)	\$(362,549)
	<u>2013</u>	<u>2012</u>
Net current tax liabilities	\$ (26,308)	\$ (45,606)
Net deferred tax liabilities	(223,433)	(300,359)
Net unrecognized tax benefit	<u>(20,568)</u>	<u>(16,584)</u>
Net tax liabilities	\$(270,309)	\$(362,549)

Realization of the deferred tax assets is dependent on generating sufficient taxable income in future periods. Although realization is not assured, Management believes that it is more likely than not that the deferred tax assets will be realized. The valuation allowance recorded at December 31, 2013 related to a foreign tax credit carryforward of \$24.7 million in Ireland and to a tax loss carryforward of \$21.4 million in Singapore. The valuation allowance recorded at December 31, 2012 related to a tax loss carryforward of \$34.2 million in Singapore and to a foreign tax credit carryforward of \$13.2 million in Ireland.

At December 31, 2013, the deferred tax assets (after valuation allowance) included foreign tax credit carryforwards of \$14.4 million in Ireland, which can be carried forward for an unlimited period of time, and \$3.6 million in the United States, which can be carried forward for 10 years. At December 31, 2012, the deferred tax assets (after valuation allowance) included foreign tax credit carryforwards of \$14.6 million in Ireland, which can be carried forward for an unlimited period of time, and \$9.7 million in the United States, which can be carried forward for 10 years, and tax loss carryforwards of \$9.9 million in Canada, which can be carried forward for 20 years.

The total amount of unrecognized tax benefits for the years ended December 31, 2013, 2012 and 2011 was as follows (in thousands of U.S. dollars):

	January 1, 2013	Changes in tax positions taken during a prior period	Tax positions taken during the current period	Change as a result of a lapse of the statute of limitations	Impact of the change in foreign currency exchange rates	December 31, 2013
Unrecognized tax benefits that, if recognized, would impact the effective tax rate	\$15,784	\$(5,038)	\$10,164	\$(2,102)	\$545	\$19,353
Interest and penalties recognized on the above	800	507	51	(179)	36	1,215
Total unrecognized tax benefits, including interest and penalties	\$16,584	\$(4,531)	\$10,215	\$(2,281)	\$581	\$20,568
	January 1, 2012	Changes in tax positions taken during a prior period	Tax positions taken during the current period	Change as a result of a lapse of the statute of limitations	Impact of the change in foreign currency exchange rates	December 31, 2012
Unrecognized tax benefits that, if recognized, would impact the effective tax rate	\$11,879	\$1,571	\$3,080	\$(1,057)	\$311	\$15,784
Interest and penalties recognized on the above	411	504	8	(144)	21	800
Total unrecognized tax benefits, including interest and penalties	\$12,290	\$2,075	\$3,088	\$(1,201)	\$332	\$16,584
	January 1, 2011	Changes in tax positions taken during a prior period	Tax positions taken during the current period	Change as a result of a lapse of the statute of limitations	Impact of the change in foreign currency exchange rates	December 31, 2011
Unrecognized tax benefits that, if recognized, would impact the effective tax rate	\$51,529	\$3,194	\$3,788	\$(47,886)	\$1,254	\$11,879
Interest and penalties recognized on the above	—	435	—	—	(24)	411
Total unrecognized tax benefits, including interest and penalties	\$51,529	\$3,629	\$3,788	\$(47,886)	\$1,230	\$12,290

For the years ended December 31, 2013, 2012 and 2011, there were no unrecognized tax benefits that, if recognized, would create a temporary difference between the reported amount of an item in the Company's Consolidated Balance Sheets and its tax basis. The Company recognizes interest and penalties as income tax expense in its Consolidated Statements of Operations.

At December 31, 2013, the total amount of unrecognized tax benefits for which it is reasonably possible to change within twelve months was \$7.3 million, which primarily relates to the expected expiration of the statute of limitations related to certain tax positions.

16. Share-Based Awards

Employee Equity Plan

The Company's Employee Equity Plan (EEP), which was approved by the Company's shareholders, permits the grant of share options, RS, RSUs, SSARs or other share-based awards to employees of the Company. The EEP is administered by the Compensation and Management Development Committee of the Board (the Committee). From 2013, the Company also grants PSUs to employees of the Company.

The EEP permits the grant of up to 8.3 million shares, of which a total of 3.4 million shares can be issued as either RS, RSUs or PSUs and 4.9 million shares can be issued as share options or SSARs. If an award under the EEP is cancelled or forfeited without the delivery of the full number of shares underlying such award, only the net number of shares actually delivered to the participant will be counted against the EEP's authorized shares. Under the EEP, the exercise price of the award will not be less than the fair value of the award at the time of grant. The fair value is defined in the EEP as the closing price reported on the grant date. RSU and PSU awards granted under the EEP generally cliff vest after three years of continuous service. Share options and SSARs vest ratably over three years of continuous service and have a ten year contractual term. Participants in the EEP are eligible to receive dividend equivalents, which the Company records as an expense, on RSUs and PSUs that are unvested. At December 31, 2013, 4.4 million shares, of which a total of 1.6 million shares can be issued as either RS, RSUs or PSUs and 2.8 million shares can be issued as share options or SSARs, remained available for issuance under this plan.

In addition, the Committee is authorized to grant performance awards to eligible senior executives. These performance awards will, if the Committee intends such award to qualify as "qualified performance based compensation" under Section 162(m) of the Internal Revenue Code (IRC), become earned and payable only if pre-established targets relating to certain performance measures are achieved. The individual maximum number of shares underlying any such share-denominated award granted in any calendar year will be 0.5 million shares, and the individual maximum amount of any such cash-denominated award in any calendar year shall not exceed \$5.0 million.

Non-Employee Directors Share Plan

The Company's Non-Employee Directors Share Plan (Directors Share Plan), which was approved by the Company's shareholders, permits the grant of up to 1.2 million shares, of which a total of 0.8 million shares can be issued as either RS or RSUs and 0.4 million shares can be issued as share options or SSARs. Under the Directors Share Plan, the exercise price of the award will not be less than the fair value of the award at the time of grant. The fair value is defined in the Directors Share Plan as the closing price reported on the grant date.

Prior to 2013, options and RSUs were awarded under the Directors Share Plan while in 2013, only RSUs were awarded. Prior to May 2012, options generally vested at the time of grant, were expensed immediately and had a ten year contractual term. From May 2012, options generally vest and are expensed ratably over three years and have a ten year contractual term. Prior to May 2010, RSUs generally vested at the time of grant with a delivery date restriction of one year and were expensed immediately. From May 2010, RSUs have a five year cliff vest with no delivery restrictions and are expensed over the vesting period. Prior to the RSU grant, directors have the ability to elect to receive their awards in the form of either 100% RSUs, or split, with 60% of the award being RSUs and 40% of the award being cash upon delivery.

At December 31, 2013, 0.4 million shares, of which a total of 0.1 million shares can be issued as either RS or RSUs and 0.3 million shares can be issued as share options or SSARs, remained available for issuance under this plan.

Employee Share Purchase Plan

The PartnerRe Ltd. Employee Share Purchase Plan (ESPP), which was approved by the Company's shareholders, has a twelve month offering period with two purchase periods of six months each. All employees are eligible to participate in the ESPP and can contribute between 1% and 10% of their base salary toward the purchase of the Company's shares up to the limit set by the IRC. Employees who enroll in the ESPP may purchase the Company's shares at a 15% discount of the lower fair value on either the enrolment date or purchase date. Participants in the ESPP are eligible to receive dividends on their shares as of the purchase date. A total of 0.6 million common shares may be issued under the ESPP. At December 31, 2013, 0.2 million shares remained available for issuance under this plan.

Swiss Share Purchase Plan

The Swiss Share Purchase Plan (SSPP) has two offering periods per year with two purchase periods of six months each. Swiss employees, who work at least 20 hours per week, are eligible to participate in the SSPP and can contribute between 1% and 8% of their base salary toward the purchase of the Company's shares up to a maximum of 5,000 Swiss francs per annum. Employees who enroll in the SSPP may purchase the Company's shares at a 40% discount of the fair value on the purchase date. There is a restriction on transfer or sale of these shares for a period of two years following purchase. Participants in the SSPP are eligible to receive dividends on their shares as of the purchase date. A total of 0.4 million common shares may be issued under the SSPP. At December 31, 2013, 0.2 million shares remained available for issuance under this plan.

Share-Based Compensation

Under each of the Company's equity plans, the Company issues new shares upon the exercise of share options and SSARs or the conversion of RSUs into shares.

For the years ended December 31, 2013, 2012 and 2011, the Company's share-based compensation expense was \$29.8 million, \$26.8 million and \$24.2 million, respectively, with a tax benefit of \$3.3 million, \$3.6 million and \$2.4 million, respectively. Included within these tax benefits are amounts related to the exercise of share options and the conversion of RSUs and SSARs into shares by employees of the Company's U.S. subsidiaries of \$7.0 million, \$1.6 million and \$3.1 million for the years ended December 31, 2013, 2012 and 2011, respectively.

Share Options

The activity related to share options granted and exercised for the years ended December 31, 2013, 2012 and 2011 was as follows:

	<u>2013</u>	<u>2012</u>	<u>2011</u>
Options granted	—	120,210	123,162
Weighted average grant date fair value of options granted	\$ —	\$ 7.90	\$ 7.43
Options exercised	819,764	518,548	194,201
Total intrinsic value of options exercised (in millions of U.S. dollars)	\$ 24.8	\$ 8.8	\$ 4.6
Proceeds from option exercises (in millions of U.S. dollars)	\$ 49.6	\$ 29.3	\$ 10.6

The activity related to the Company's share options for the year ended December 31, 2013 was as follows:

	<u>Options</u>	<u>Weighted Average Exercise Price</u>
Outstanding at January 1, 2013	1,457,853	65.66
Granted	—	—
Exercised	(819,764)	61.97
Forfeited or expired	(1,810)	108.20
Outstanding at December 31, 2013	636,279	70.28
Options exercisable at December 31, 2013	569,301	70.23
Options vested and expected to vest at December 31, 2013	633,748	70.28

The weighted average remaining contractual term and the aggregate intrinsic value of share options outstanding, exercisable, vested and expected to vest at December 31, 2013, was 5.1 years and \$22.4 million, respectively.

The Company values share options issued with a Black-Scholes valuation model and used the following assumptions for the years ended December 31, 2013, 2012 and 2011:

	<u>2013</u>	<u>2012</u>	<u>2011</u>
Expected life	—	6 years	6 years
Expected volatility	—	17.7%	14.9%
Risk-free interest rate	—	1.0%	2.0%
Dividend yield	—	2.7%	2.7%

Expected volatility is based on the historical volatility of the Company's common shares over a period equivalent to the expected life of the Company's share options. The risk-free interest rate is based on the market yield of U.S. treasury securities with maturities equivalent to the expected life of the Company's share options. The dividend yield is based on the average dividend yield of the Company's shares over the expected life of the Company's share options.

Restricted Share Units and Performance Share Units

During the years ended December 31, 2013, 2012 and 2011, the Company issued 329,174 RSUs and PSUs, 294,184 RSUs and 314,182 RSUs with a weighted average grant date fair value of \$89.44, \$65.33 and \$81.20, respectively. The Company values RSUs and PSUs issued under all plans at the fair value of its common shares at the date of grant, as defined by the plan document.

The activity related to the Company's RSUs and PSUs for the year ended December 31, 2013 was as follows:

	<u>RSUs and PSUs</u>
Outstanding at January 1, 2013	869,495
Granted	329,174
Released	(290,277)
Forfeited	(53,494)
Outstanding at December 31, 2013	<u>854,898</u>

The RSUs that vested during the years ended December 31, 2013, 2012 and 2011 had a fair value of \$22.8 million, \$5.5 million and \$18.3 million, respectively.

The total unrecognized share-based compensation expense related to unvested RSUs and PSUs was approximately \$27.3 million at December 31, 2013, which is expected to be recognized over a weighted-average period of 2.0 years.

Share-Settled Share Appreciation Rights (SSARs)

During the years ended December 31, 2013, 2012 and 2011, the Company issued 125,561 SSARs, 356,900 SSARs, and 210,582 SSARs with a weighted average grant date fair value of \$11.25, \$7.34 and \$10.32, respectively.

The activity related to the Company's SSARs for the year ended December 31, 2013 was as follows:

	<u>SSARs</u>
Outstanding at January 1, 2013	1,820,594
Granted	125,561
Exercised	(314,390)
Forfeited or expired	(9,950)
Outstanding at December 31, 2013	<u>1,621,815</u>
Exercisable at December 31, 2013	1,202,541

The total unrecognized share-based compensation expense related to unvested SSARs was approximately \$2.0 million at December 31, 2013, which is expected to be recognized over a weighted-average period of 1.6 years.

The Company values SSARs issued with a Black-Scholes valuation model and used the following assumptions for the years ended December 31, 2013, 2012 and 2011:

	<u>2013</u>	<u>2012</u>	<u>2011</u>
Expected life	6 years	6 years	6 years
Expected volatility	18.3%	17.6%	15.6%
Risk-free interest rate	1.0%	1.1%	2.7%
Dividend yield	2.3%	2.8%	2.8%

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

Warrants

In 2009, the Company issued 27,655 replacement warrants as part of the acquisition of Paris Re. At December 31, 2013, 8,853 warrants are outstanding and fully vested with a weighted average remaining contractual life of 3.0 years and a weighted average exercise price of \$32.34. During the year ended December 31, 2013, 2,390 warrants were exercised with a weighted average exercise price of \$32.90.

17. Retirement Benefit Arrangements

For employee retirement benefits, the Company maintains certain defined contributions plans and other active and frozen defined benefit plans. The majority of the defined benefit obligation at December 31, 2013 relates to the active defined benefit plan for the Company’s Zurich office employees (the Zurich Plan).

Defined Contribution Plans

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

The Company incurred expenses for these defined contribution arrangements of \$14.5 million, \$15.7 million and \$16.0 million for the years ended December 31, 2013, 2012 and 2011, respectively.

Active Defined Benefit Plan

The Company maintains the Zurich Plan, which is classified as a hybrid plan and accounted for as a defined benefit plan under U.S. GAAP. At December 31, 2013 and 2012, the funded status of the Zurich Plan was as follows (in thousands of U.S. dollars):

	<u>2013</u>	<u>2012</u>
Funded status		
Unfunded pension obligation at beginning of year	\$ 32,262	\$ 25,162
Change in pension obligation		
Service cost	6,934	6,474
Interest cost	2,314	2,976
Plan participants' contributions	1,938	1,998
Actuarial (gain) loss	(8,408)	7,046
Plan amendments	—	(707)
Benefits paid	(216)	(8,582)
Foreign currency adjustments	2,901	4,349
Settlements	(13,783)	—
Change in pension obligation	(8,320)	13,554
Change in fair value of plan assets		
Actual return on plan assets	3,119	3,782
Employer contributions	5,922	5,941
Plan participants' contributions	1,938	1,998
Benefits paid	(216)	(8,582)
Foreign currency adjustments	2,348	3,315
Settlements	(13,783)	—
Change in fair value of plan assets	(672)	6,454
Funded status		
Unfunded pension obligation at end of year	\$ 24,614	\$ 32,262
Additional information:		
Projected benefit obligation at end of year	\$126,390	\$134,710
Accumulated pension obligation at end of year	123,524	129,492
Fair value of plan assets at end of year	101,776	102,448

At December 31, 2013 and 2012, the funded status was included in Accounts payable, accrued expenses and other in the Consolidated Balance Sheets. The total amounts recognized in Accumulated other comprehensive (loss) income at December 31, 2013 and 2012 were \$12.9 million (net of \$3.4 million of taxes) and \$22.8 million (net of \$6.1 million of taxes), respectively.

The net periodic benefit cost for the years ended December 31, 2013, 2012 and 2011 were \$10.7 million, \$8.3 million and \$10.0 million, respectively.

The investment strategy of the Zurich Plan's Pension Committee is to achieve a consistent long-term return, which will provide sufficient funding for future pension obligations while limiting risk. The expected long-term rate of return on plan assets is based on the expected asset allocation and assumptions concerning long-term interest rates, inflation rates and risk premiums for equities above the risk-free rates of return. These assumptions take into consideration historical long-term rates of return for the relevant asset categories. The investment strategy is reviewed regularly.

The fair value of the Zurich Plan's assets at December 31, 2013 and 2012 were insured funds and cash (Level 2) of \$101.8 million and \$102.4 million, respectively. The insured funds comprise the accumulated pension plan contributions and investment returns thereon, which are held in an insurance arrangement that provides at least a guaranteed minimum investment return. The insured funds are held by a collective foundation of AXA Life Ltd. and are guaranteed under the insurance arrangement.

The assumptions used to determine the Zurich Plan's pension obligation and net periodic benefit cost for the years ended December 31, 2013, 2012 and 2011 were as follows:

	2013		2012		2011	
	<u>Pension obligation</u>	<u>Net periodic benefit cost</u>	<u>Pension obligation</u>	<u>Net periodic benefit cost</u>	<u>Pension obligation</u>	<u>Net periodic benefit cost</u>
Discount rate	2.25%	1.75%	1.75%	2.5%	2.5%	2.75%
Expected return on plan assets	—	1.75	—	2.5	—	3.0
Rate of compensation increase	2.5	2.5	2.5	3.5	3.5	3.5

At December 31, 2013, estimated employer contributions to be paid in 2014 related to the Zurich Plan were \$5.8 million and future benefit payments were estimated to be paid as follows (in thousands of U.S. dollars):

<u>Year</u>	<u>Amount</u>
2014	\$ 4,417
2015	4,807
2016	5,046
2017	4,925
2018	4,722
2019 to 2023	28,714

The Company does not believe that any of the Zurich Plan's assets will be returned to the Company during 2014.

18. Commitments and Contingencies

(a) Concentration of Credit Risk

Fixed maturities

The Company's investment portfolio is managed following prudent standards of diversification and a prudent investment philosophy. The Company is not exposed to any significant credit concentration risk on its investments, except for debt securities issued by the U.S. government and other highly rated non-U.S. sovereign governments' securities. At December 31, 2013 and 2012, other than the U.S. government, the Company's fixed maturity investment portfolio did not contain exposure to any non-U.S. sovereign government or any other issuer that accounted for more than 10% of the Company's shareholders' equity attributable to PartnerRe. 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.

Derivatives

The Company's investment strategy allows for the use of derivative instruments, subject to strict limitations. Derivative instruments may be used to replicate investment positions and for the purpose of managing overall currency risk, market exposures and portfolio duration, for hedging certain investments, or for enhancing investment performance that would be allowed under the Company's investment policy if implemented in other ways. The Company is exposed to credit risk in the event of non-performance by the counterparties to the Company's derivative contracts. However, the Company diversifies the counterparties to its derivative contracts to reduce credit risk, and because the counterparties to these contracts are high credit quality international banks, the Company does not anticipate non-performance. These contracts are generally of short duration and settle on a net basis. The difference between the contract amounts and the related market value represents the Company's maximum credit exposure.

Financing receivables

Included in the Company's Other invested assets are certain notes receivable which meet the definition of financing receivables and are accounted for using the cost method of accounting. These notes receivable are collateralized by commercial or residential property. The Company utilizes a third party consultant to determine the initial investment criteria and to monitor the subsequent performance of the notes receivable. The process undertaken prior to the investment in these notes receivable includes an examination of the underlying collateral. The Company reviews its receivable positions on at least a quarterly basis using actual redemption experience. At December 31, 2013 and 2012, based on the latest available information, the Company recorded an allowance for credit losses related to these notes receivable of \$2.8 million and \$3.0 million, respectively.

The Company monitors the performance of the notes receivable based on the type of underlying collateral and by assigning a "performing" or a "non-performing" indicator of credit quality to each individual receivable. At December 31, 2013, the Company's notes receivable of \$24.5 million were all performing and were collateralized by residential property and commercial property of \$19.8 million and \$4.7 million, respectively. At December 31, 2012, the Company's notes receivable of \$46.7 million were all performing and were collateralized by residential property and commercial property of \$31.3 million and \$15.4 million, respectively.

The Company purchased \$29.4 million and \$37.8 million of financing receivables during the years ended December 31, 2013 and 2012, respectively. There were no significant sales of financing receivables during the years ended December 31, 2013 and 2012, however, the outstanding balances were reduced by settlements of the underlying debt.

Underwriting operations

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

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

The Company has exposure to credit risk related to reinsurance balances receivable and reinsurance recoverable on paid and unpaid losses. The credit risk exposure related to these balances is mitigated by several factors, including but not limited to, credit checks performed as part of the underwriting process, monitoring of aged receivable balances and the contractual right to offset premiums receivable or funds held balances against unpaid losses and loss expenses. The Company regularly reviews its reinsurance recoverable balances to estimate an allowance for uncollectible amounts based on quantitative and qualitative factors. At December 31, 2013 and 2012, the Company has recorded a provision for uncollectible premiums receivable of \$8 million and \$9 million, respectively. See also Note 9 for discussion of credit risk related to reinsurance recoverable on paid and unpaid losses.

The Company is also subject to the credit risk of its cedants in the event of insolvency or the cedant's failure to honor the value of funds held balances for any other reason. The funds held – directly managed account is with

one cedant and is supported by an underlying portfolio of investments, which are managed by the Company (see Note 5). 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.

(b) Lease Arrangements

The Company leases office space under operating leases expiring in various years through 2019. The leases are renewable at the option of the lessee under certain circumstances. The following is a schedule of future minimum rental payments, exclusive of escalation clauses, on non-cancelable leases at December 31, 2013 (in thousands of U.S. dollars):

<u>Year</u>	<u>Amount</u>
2014	\$ 30,075
2015	29,109
2016	26,313
2017	21,391
2018	6,614
2019	<u>397</u>
Total future minimum rental payments	\$113,899

Rent expense for the years ended December 31, 2013, 2012 and 2011 was \$33.0 million, \$36.3 million, and \$37.0 million, respectively, excluding any restructuring charges related to real estate.

(c) Employment Agreements

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

(d) Restructuring Charges

In April 2013, the Company announced the restructuring of its business support operations into a single integrated worldwide support platform and changes to the structure of its Global Non-life Operations. The restructuring includes involuntary and voluntary employee termination plans in certain jurisdictions (collectively, termination plans) and certain real estate costs. Employees affected by the termination plans have varying leaving dates, largely through to mid-2014.

During the year ended December 31, 2013, the Company recorded a pre-tax charge of \$58 million related to the expected costs of the restructuring, which was primarily related to the termination plans and certain real estate costs, within other operating expenses. The continuing salary and other employment benefit costs related to the affected employees will be expensed as the employee remains with the Company and provides service.

In connection with the restructuring, and included within the total expected costs of between \$60 million and \$70 million announced by the Company in April 2013, the Company expects to incur further real estate costs totaling between \$5 million and \$10 million in the first half of 2014.

(e) Other Agreements

The Company has entered into service agreements and lease contracts that provide for business and information technology support and computer equipment. Future payments under these contracts amount to \$15 million through 2018.

The Company has entered into strategic investments with unfunded capital commitments. In the next five years, the Company expects to fund capital commitments totaling \$162 million with \$67 million, \$52 million, \$31 million, \$12 million and \$nil to be paid during 2014, 2015, 2016, 2017 and 2018, respectively.

The Company has 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, 2013, 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.

(f) 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 omissions, 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, 2013, 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.

19. 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, 2013, the total amount of such credit facilities available to the Company was approximately \$850 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 \$137 million and \$410 million, respectively, at December 31, 2013, in respect of reported loss and unearned premium reserves.

On November 14, 2011, the Company entered into an agreement to renew and 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 initial \$100 million being secured. This credit facility matures on November 14, 2014.

In addition, 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, 2013 is a \$250 million secured credit facility, which matures on December 4, 2016, and a \$200 million secured credit facility, which matures on December 31, 2014. At December 31, 2013, no conditions of default existed under these facilities.

20. Agreements with Related Parties

The Company was party to agreements with Atradius N.V. (a company in which a board member was a supervisory director until May 2012) and ING Group N.V. (a company in which a board member is a supervisory director since May 2012). All agreements entered into with Atradius N.V. and ING Group N.V. were completed on an arm's-length basis.

Agreements with Atradius N.V.

In the normal course of its underwriting activities, the Company and certain subsidiaries entered into reinsurance contracts with Atradius N.V. The activity included in the Consolidated Statements of Operations related to Atradius N.V. for the years ended December 31, 2012 and 2011 was as follows (in thousands of U.S. dollars):

	<u>2012</u>	<u>2011</u>
Net premiums written	\$80,292	\$75,991
Net premiums earned	75,714	77,230
Losses and loss expenses and life policy benefits	35,197	32,595
Acquisition costs	28,475	33,906

Included in the Consolidated Balance Sheets were the following balances related to Atradius N.V. at December 31, 2012 (in thousands of U.S. dollars):

	<u>2012</u>
Reinsurance balances receivable	\$11,974
Unpaid losses and loss expenses	82,711
Unearned premiums	40,312
Other net assets	12,135

Agreements with ING Group N.V.

In the normal course of its underwriting activities, the Company and certain subsidiaries entered into reinsurance contracts with ING Group N.V. The activity included in the Consolidated Statements of Operations related to ING Group N.V. for the years ended December 31, 2013 and 2012 includes net premiums earned of \$2.6 million and \$3.4 million, respectively, and losses and loss expenses and life policy benefits of \$1.3 million and \$0.8 million, respectively. Included in the Consolidated Balance Sheets at December 31, 2013 and 2012 were unpaid losses and loss expenses of \$12.9 million and \$12.7 million, respectively.

Other Agreements

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

21. Segment Information

The Company monitors the performance of its operations in three segments, Non-life, Life and Health and Corporate and Other. The Non-life segment is further divided into four sub-segments: North America, Global (Non-U.S.) P&C, Global Specialty and Catastrophe. Effective January 1, 2013, the Life segment is referred to as Life and Health to reflect and include PartnerRe Health's results following its acquisition on December 31, 2012 and the Global (Non-U.S.) Specialty sub-segment is referred to as Global Specialty. Segments and sub-segments represent markets that are reasonably homogeneous in terms of geography, client types, buying patterns, underlying risk patterns and approach to risk management.

The North America sub-segment includes agriculture, casualty, credit/surety, motor, multiline, property and other risks generally originating in the United States. The Global (Non-U.S.) P&C sub-segment includes casualty, motor and property business generally originating outside of the United States. The Global 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 Life and Health segment includes mortality, longevity and accident and health lines of business. 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.

Since the Company does not manage its assets by segment, net investment income is not allocated to the Non-life segment. However, because of the interest-sensitive nature of some of the Company's Life and Health products, net investment income is considered in Management's assessment of the profitability of the Life and Health segment. The following items are not considered in evaluating the results of the Non-life and Life and Health segments: net realized and unrealized investment gains and losses, interest expense, amortization of intangible assets, net foreign exchange gains and losses, income tax expense or benefit and interest in earnings and losses of equity investments. Segment results are shown before consideration of intercompany transactions.

Management measures results for the Non-life segment on the basis of the loss ratio, acquisition ratio, technical ratio, other operating expense ratio and combined ratio (all defined below). Management measures results for the Non-life sub-segments on the basis of the loss ratio, acquisition ratio and technical ratio. Management measures results for the Life and Health segment on the basis of the allocated underwriting result, which includes revenues from net premiums earned, other income or loss and allocated net investment income for Life and Health, and expenses from life policy benefits, acquisition costs and other operating expenses.

The following tables provide a summary of the segment results for the years ended December 31, 2013, 2012 and 2011 (in millions of U.S. dollars, except ratios):

Segment Information
For the year ended December 31, 2013

	North America	Global (Non-U.S.) P&C	Global Specialty	Catastrophe	Total Non-life segment	Life and Health segment	Corporate and Other	Total
Gross premiums written	\$1,601	\$ 818	\$1,676	\$ 495	\$ 4,590	\$ 972	\$ 8	\$ 5,570
Net premiums written	\$1,587	\$ 811	\$1,579	\$ 450	\$ 4,427	\$ 964	\$ 6	\$ 5,397
(Increase) decrease in unearned premiums	(54)	(68)	(73)	3	(192)	(7)	—	(199)
Net premiums earned	\$1,533	\$ 743	\$1,506	\$ 453	\$ 4,235	\$ 957	\$ 6	\$ 5,198
Losses and loss expenses and life policy benefits	(975)	(373)	(920)	(132)	(2,400)	(760)	2	(3,158)
Acquisition costs	(351)	(196)	(362)	(44)	(953)	(125)	—	(1,078)
Technical result	\$ 207	\$ 174	\$ 224	\$ 277	\$ 882	\$ 72	\$ 8	\$ 962
Other income					3	11	3	17
Other operating expenses					(259)	(71)	(170)	(500)
Underwriting result					\$ 626	\$ 12	n/a	\$ 479
Net investment income						61	423	484
Allocated underwriting result ⁽¹⁾						\$ 73	n/a	n/a
Net realized and unrealized investment losses							(161)	(161)
Interest expense							(49)	(49)
Amortization of intangible assets							(27)	(27)
Net foreign exchange losses							(18)	(18)
Income tax expense							(49)	(49)
Interest in earnings of equity investments							14	14
Net income							n/a	\$ 673
Loss ratio ⁽²⁾	63.6%	50.2%	61.1%	29.0%	56.7%			
Acquisition ratio ⁽³⁾	22.9	26.4	24.0	9.7	22.5			
Technical ratio ⁽⁴⁾	86.5%	76.6%	85.1%	38.7%	79.2%			
Other operating expense ratio ⁽⁵⁾					6.1			
Combined ratio ⁽⁶⁾					85.3%			

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

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

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

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

(5) Other operating expense ratio is obtained by dividing other operating expenses by net premiums earned.

(6) Combined ratio is defined as the sum of the technical ratio and the other operating expense ratio.

Segment Information
For the year ended December 31, 2012

	North America	Global (Non-U.S.) P&C	Global Specialty	Catastrophe	Total Non-life segment	Life and Health segment	Corporate and Other	Total
Gross premiums written	\$1,221	\$ 684	\$1,505	\$ 500	\$ 3,910	\$ 802	\$ 6	\$ 4,718
Net premiums written	\$1,219	\$ 681	\$1,415	\$ 453	\$ 3,768	\$ 799	\$ 6	\$ 4,573
(Increase) decrease in unearned premiums	(43)	(3)	(42)	4	(84)	(4)	1	(87)
Net premiums earned	\$1,176	\$ 678	\$1,373	\$ 457	\$ 3,684	\$ 795	\$ 7	\$ 4,486
Losses and loss expenses and life policy benefits	(816)	(415)	(821)	(103)	(2,155)	(647)	(3)	(2,805)
Acquisition costs	(291)	(167)	(321)	(42)	(821)	(116)	—	(937)
Technical result	\$ 69	\$ 96	\$ 231	\$ 312	\$ 708	\$ 32	\$ 4	\$ 744
Other income					5	4	3	12
Other operating expenses					(257)	(52)	(102)	(411)
Underwriting result					\$ 456	\$ (16)	n/a	\$ 345
Net investment income						64	507	571
Allocated underwriting result						\$ 48	n/a	n/a
Net realized and unrealized investment gains							494	494
Interest expense							(49)	(49)
Amortization of intangible assets							(32)	(32)
Net foreign exchange losses							—	—
Income tax expense							(204)	(204)
Interest in earnings of equity investments							10	10
Net income							n/a	\$ 1,135
Loss ratio	69.4%	61.3%	59.8%	22.4%	58.5%			
Acquisition ratio	24.7	24.6	23.4	9.3	22.3			
Technical ratio	94.1%	85.9%	83.2%	31.7%	80.8%			
Other operating expense ratio					7.0			
Combined ratio					87.8%			

Segment Information
For the year ended December 31, 2011

	North America	Global (Non-U.S.) P&C	Global Specialty	Catastrophe	Total Non-life segment	Life and Health segment	Corporate and Other	Total
Gross premiums written	\$1,104	\$ 682	\$1,446	\$ 599	\$ 3,831	\$ 790	\$ 12	\$ 4,633
Net premiums written	\$1,104	\$ 678	\$1,344	\$ 562	\$ 3,688	\$ 786	\$ 12	\$ 4,486
Decrease in unearned premiums . .	31	81	32	12	156	6	—	162
Net premiums earned	\$1,135	\$ 759	\$1,376	\$ 574	\$ 3,844	\$ 792	\$ 12	\$ 4,648
Losses and loss expenses and life policy benefits	(741)	(567)	(950)	(1,459)	(3,717)	(650)	(6)	(4,373)
Acquisition costs	(276)	(191)	(328)	(26)	(821)	(117)	—	(938)
Technical result	\$ 118	\$ 1	\$ 98	\$ (911)	\$ (694)	\$ 25	\$ 6	\$ (663)
Other income					4	1	3	8
Other operating expenses					(283)	(53)	(99)	(435)
Underwriting result					\$ (973)	\$ (27)	n/a	\$ (1,090)
Net investment income						66	563	629
Allocated underwriting result . . .						\$ 39	n/a	n/a
Net realized and unrealized investment gains							67	67
Interest expense							(49)	(49)
Amortization of intangible assets							(36)	(36)
Net foreign exchange gains							34	34
Income tax expense							(69)	(69)
Interest in losses of equity investments							(6)	(6)
Net loss							n/a	\$ (520)
Loss ratio	65.3%	74.7%	69.1%	254.2%	96.7%			
Acquisition ratio	24.3	25.1	23.8	4.5	21.3			
Technical ratio	89.6%	99.8%	92.9%	258.7%	118.0%			
Other operating expense ratio					7.4			
Combined ratio					125.4%			

The following table provides the distribution of net premiums written by line of business for the years ended December 31, 2013, 2012 and 2011:

	<u>2013</u>	<u>2012</u>	<u>2011</u>
Non-life			
Property and casualty			
Casualty	12%	13%	11%
Motor	7	5	5
Multiline and other	4	3	2
Property	12	14	15
Specialty			
Agriculture	11	7	7
Aviation/Space	4	5	5
Catastrophe	8	10	13
Credit/Surety	6	7	7
Energy	2	2	2
Engineering	4	4	4
Marine	6	7	6
Specialty casualty	3	2	2
Specialty property	3	4	3
Life and Health	18	17	18
Total	100%	100%	100%

The following table provides the geographic distribution of gross premiums written based on the location of the underlying risk for the years ended December 31, 2013, 2012 and 2011:

	<u>2013</u>	<u>2012</u>	<u>2011</u>
Asia, Australia and New Zealand	11%	11%	12%
Europe	40	41	41
Latin America, Caribbean and Africa	10	11	11
North America	39	37	36
Total	100%	100%	100%

The Company produces its business both through brokers and through direct relationships with insurance company clients. None of the Company's cedants accounted for more than 5% of total gross premiums written during the years ended December 31, 2013, 2012 and 2011.

The Company had two brokers that individually accounted for 10% or more of its gross premiums written during the years ended December 31, 2013, 2012 and 2011. The brokers accounted for 22%, 24%, and 26% and 21%, 22%, and 21% of gross premiums written for the years ended December 31, 2013, 2012 and 2011, respectively.

The following table summarizes the percentage of gross premiums written through these two brokers by segment and sub-segment for the years ended December 31, 2013, 2012 and 2011:

	<u>2013</u>	<u>2012</u>	<u>2011</u>
Non-life			
North America	60%	70%	64%
Global (Non-U.S.) P&C	29	28	29
Global Specialty	41	42	43
Catastrophe	74	74	81
Life and Health	12	13	16

22. Unaudited Quarterly Financial Information

(in millions of U.S. dollars, except per share amounts)	2013				2012			
	Fourth Quarter	Third Quarter	Second Quarter	First Quarter	Fourth Quarter	Third Quarter	Second Quarter	First Quarter
Net premiums written	\$1,186	\$1,265	\$1,309	\$1,636	\$ 920	\$1,043	\$1,136	\$1,473
Net premiums earned	1,421	1,421	1,209	1,147	1,168	1,237	1,091	990
Net investment income	114	122	125	124	136	135	153	147
Net realized and unrealized investment gains (losses)	99	16	(299)	23	5	257	38	193
Other income	3	5	4	4	3	3	3	2
Total revenues	1,637	1,564	1,039	1,298	1,312	1,632	1,285	1,332
Losses and loss expenses and life policy benefits	879	751	867	661	801	721	706	576
Acquisition costs	318	283	242	235	245	247	233	212
Other operating expenses	131	108	145	116	112	95	106	98
Interest expense	12	12	12	12	12	12	12	12
Amortization of intangible assets	6	7	7	7	5	9	9	9
Net foreign exchange losses (gains)	8	1	11	(2)	3	2	(8)	3
Total expenses	1,354	1,162	1,284	1,029	1,178	1,086	1,058	910
Income (loss) before taxes and interest in earnings (losses) of equity investments	283	402	(245)	269	134	546	227	422
Income tax expense (benefit)	11	70	(75)	42	23	64	50	67
Interest in earnings (losses) of equity investments	4	6	(4)	7	1	5	(1)	5
Net income (loss)	276	338	(174)	234	112	487	176	360
Net income attributable to noncontrolling interests	(4)	(4)	(1)	—	—	—	—	—
Net income (loss) attributable to PartnerRe Ltd.	272	334	(175)	234	112	487	176	360
Preferred dividends	14	14	15	15	15	15	15	15
Loss on redemption of preferred shares	—	—	—	9	—	—	—	—
Net income (loss) attributable to PartnerRe Ltd. common shareholders	\$ 258	\$ 320	\$ (190)	\$ 210	\$ 97	\$ 472	\$ 161	\$ 345
Basic net income (loss) per common share	\$ 4.86	\$ 5.95	\$ (3.37)	\$ 3.60	\$ 1.58	\$ 7.62	\$ 2.52	\$ 5.27
Diluted net income (loss) per common share	4.76	5.84	(3.37)	3.53	1.56	7.53	2.50	5.24
Dividends declared per common share	0.64	0.64	0.64	0.64	0.62	0.62	0.62	0.62

REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

To the Board of Directors and Shareholders of PartnerRe Ltd.

We have audited the accompanying consolidated balance sheets of PartnerRe Ltd. and subsidiaries (the Company) as of December 31, 2013 and 2012, and the related consolidated statements of operations and comprehensive income (loss), shareholders' equity, and cash flows for each of the three years in the period ended December 31, 2013. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, such consolidated financial statements present fairly, in all material respects, the financial position of PartnerRe Ltd. and subsidiaries as of December 31, 2013 and 2012, and the results of their operations and their cash flows for each of the three years in the period ended December 31, 2013, in conformity with accounting principles generally accepted in the United States of America.

We have also audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), the Company's internal control over financial reporting as of December 31, 2013, based on the criteria established in Internal Control—Integrated Framework (1992) issued by the Committee of Sponsoring Organizations of the Treadway Commission and our report dated February 27, 2014 expressed an unqualified opinion on the Company's internal control over financial reporting.

/s/ DELOITTE & TOUCHE LTD.

Deloitte & Touche Ltd.

Hamilton, Bermuda
February 27, 2014

ITEM 9. CHANGES IN AND DISAGREEMENTS WITH ACCOUNTANTS ON ACCOUNTING AND FINANCIAL DISCLOSURE

None.

ITEM 9A. CONTROLS AND PROCEDURES

Disclosure Controls and Procedures

The Company carried out an evaluation, under the supervision and with the participation of Management, including the Chief Executive Officer and Chief Financial Officer, as of December 31, 2013, of the effectiveness of the design and operation of its disclosure controls and procedures, as defined in Rules 13a-15(e) and 15d-15(e) under the Securities Exchange Act of 1934, as amended. Based upon that evaluation, the Chief Executive Officer and Chief Financial Officer concluded that, as of December 31, 2013, the disclosure controls and procedures are effective such that information required to be disclosed by the Company in reports that it files or submits pursuant to the Securities Exchange Act is recorded, processed, summarized and reported within the time periods specified in the rules and forms of the Securities and Exchange Commission and is accumulated and communicated to Management, including its principal executive and principal financial officers, as appropriate, to allow timely decisions regarding required disclosures.

Management's Report on Internal Control over Financial Reporting

Management is responsible for establishing and maintaining adequate internal control over financial reporting as defined in Rules 13a-15(f) and 15d-15(f) under the Securities Exchange Act of 1934, as amended. Internal control over financial reporting is designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles. Internal control over financial reporting includes those policies and procedures that:

- (i) pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of the assets of the Company;
- (ii) provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with generally accepted accounting principles, and that receipts and expenditures are being made only in accordance with authorizations of Management and directors; and
- (iii) provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use, or disposition of assets that could have a material effect on the financial statements.

Because of its inherent limitations, internal control over financial reporting may not prevent or detect material misstatements. Also, projections of any evaluation of effectiveness to future periods are subject to the risk that the controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

Management has assessed the effectiveness of internal control over financial reporting as of December 31, 2013. In making this assessment, Management used the criteria set forth by the Committee of Sponsoring Organizations of the Treadway Commission in Internal Control-Integrated Framework (1992).

Based on our assessment and those criteria Management believes that the Company maintained effective internal control over financial reporting as of December 31, 2013.

Deloitte & Touche Ltd., the Company's independent registered public accounting firm, has issued a report on the effectiveness of the Company's internal control over financial reporting, and its report appears below.

Internal Control Over Financial Reporting

There have been no changes in the Company's internal control over financial reporting identified in connection with such evaluation that occurred during the three months ended December 31, 2013 that have materially affected, or are reasonably likely to materially affect, the Company's internal controls over financial reporting.

REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

To the Board of Directors and Shareholders of PartnerRe Ltd.

We have audited the internal control over financial reporting of PartnerRe Ltd. and subsidiaries (the Company) as of December 31, 2013, based on criteria established in Internal Control—Integrated Framework (1992) issued by the Committee of Sponsoring Organizations of the Treadway Commission. The Company's management is responsible for maintaining effective internal control over financial reporting and for its assessment of the effectiveness of internal control over financial reporting, included in the accompanying Management's Report on Internal Control over Financial Reporting. Our responsibility is to express an opinion on the Company's internal control over financial reporting based on our audit.

We conducted our audit in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether effective internal control over financial reporting was maintained in all material respects. Our audit included obtaining an understanding of internal control over financial reporting, assessing the risk that a material weakness exists, testing and evaluating the design and operating effectiveness of internal control based on the assessed risk, and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion.

A company's internal control over financial reporting is a process designed by, or under the supervision of, the company's principal executive and principal financial officers, or persons performing similar functions, and effected by the company's board of directors, management, and other personnel to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles. A company's internal control over financial reporting includes those policies and procedures that (1) pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of the assets of the company; (2) provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with generally accepted accounting principles, and that receipts and expenditures of the company are being made only in accordance with authorizations of management and directors of the company; and (3) provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use, or disposition of the company's assets that could have a material effect on the financial statements.

Because of the inherent limitations of internal control over financial reporting, including the possibility of collusion or improper management override of controls, material misstatements due to error or fraud may not be prevented or detected on a timely basis. Also, projections of any evaluation of the effectiveness of the internal control over financial reporting to future periods are subject to the risk that the controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

In our opinion, the Company maintained, in all material respects, effective internal control over financial reporting as of December 31, 2013, based on the criteria established in Internal Control—Integrated Framework (1992) issued by the Committee of Sponsoring Organizations of the Treadway Commission.

We have also audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), the consolidated financial statements as of and for the year ended December 31, 2013 of the Company and our report dated February 27, 2014 expressed an unqualified opinion on those financial statements.

/s/ DELOITTE & TOUCHE LTD.

Deloitte & Touche Ltd.

Hamilton, Bermuda
February 27, 2014

ITEM 9B. OTHER INFORMATION

Management Update

On February 26, 2014, the Company announced that, in connection with certain other executive management changes, Marvin Pestcoe, Chief Executive Officer, Life & Health, Investments, and a member of the Company's Executive Committee, has advised the Company of his retirement, effective April 15, 2014.

In connection with his retirement, Mr. Pestcoe will receive a cash payment of \$360,000 as a special award and will be reimbursed by the Company for the cost of continued coverage under the Company's group health plans pursuant to the Consolidated Omnibus Budget Reconciliation Act of 1985, as amended, for a period of 12 months following his retirement.

Following his retirement, Mr. Pestcoe will continue to provide consulting services to the Company. The Company has entered into a consulting agreement with Mr. Pestcoe, pursuant to which Mr. Pestcoe will, among other things, support the Chief Executive Officer of the Company and be involved with special projects for a period of one year, commencing on April 16, 2014. Mr. Pestcoe will be paid an aggregate consulting fee of \$480,000 for his services and will not receive any health, welfare or retirement benefits, or any perquisites, from the Company during the consulting period. The consulting agreement is filed as Exhibit 10.22 to this Form 10-K.

PART III

ITEM 10. DIRECTORS, EXECUTIVE OFFICERS AND CORPORATE GOVERNANCE

The information with respect to directors and executive officers and corporate governance of the Company is contained under the captions Our Directors, Our Executive Officers, Corporate Governance and Election of Directors in the Proxy Statement and is incorporated herein by reference in response to this item.

CODE OF ETHICS

The information with respect to the Company's code of ethics is contained under the caption Code of Business Conduct and Ethics in the Proxy Statement and is incorporated herein by reference in response to this item.

AUDIT COMMITTEE

The information with respect to the Company's Audit Committee is contained under the caption Audit Committee in the Proxy Statement and is incorporated herein by reference in response to this item.

ITEM 11. EXECUTIVE COMPENSATION

The information with respect to executive compensation is contained under the caption Executive Compensation and Director Compensation in the Proxy Statement and is incorporated herein by reference in response to this item.

ITEM 12. SECURITY OWNERSHIP OF CERTAIN BENEFICIAL OWNERS AND MANAGEMENT AND RELATED STOCKHOLDER MATTERS

The information with respect to security ownership of certain beneficial owners and management is contained under the captions Security Ownership of Certain Beneficial Owners, Management and Directors in the Proxy Statement and is incorporated herein by reference in response to this item.

Equity Compensation Plan Information

As part of the Company's long-term incentive compensation for executives and employees, the Company maintains the PartnerRe Ltd. 2005 Employee Equity Plan. In addition, for directors, the Company maintains the PartnerRe Non-Employee Directors Share Plan. These two plans enable employees and directors to acquire and maintain share ownership, thereby strengthening their commitment to PartnerRe and promoting a commonality of interest among directors, employees and shareholders. The Company finds that the existence of such plans helps to attract and retain key employees and directors. In connection with the Paris Re acquisition, the Company assumed Paris Re's equity compensation plans.

The following tables set out details of the Company's equity compensation plans, both active and expired, at December 31, 2013. In May 2009, the Company's shareholders approved a new Employee Share Purchase Plan (ESPP) and authorized the issuance of 600,000 shares under the new ESPP. In May 2011, the Company's shareholders approved a new Swiss Share Purchase Plan (SSPP) which offers competitive benefits to its employees in Switzerland, and authorized the issuance of 400,000 shares under the new SSPP. All equity compensation plans, with the exception of Paris Re's equity compensation plans, have been approved by shareholders (see Note 16 to Consolidated Financial Statements in Item 8 of Part II of this report).

Plan Category	A Number of Securities To be Issued upon Exercise of Outstanding Options, Warrants and Rights ⁽¹⁾	B Weighted-Average Exercise Price of Outstanding Options, Warrants and Rights ⁽²⁾	C Number of Securities Remaining Available for Future Issuance under Equity Compensation Plans (Excluding Securities Reflected in Column A) ⁽¹⁾
Equity compensation plans approved by shareholders	3,031,064	\$73.49	5,252,499
Equity compensation plans not approved by shareholders	90,781	70.05	—
Total	3,121,845	\$73.35	5,252,499

Equity Compensation Plans Approved by Shareholders

Plan	A Number of Securities To be Issued upon Exercise of Outstanding Options, Warrants and Rights ⁽¹⁾	B Weighted-Average Exercise Price of Outstanding Options, Warrants and Rights ⁽²⁾	C Number of Securities Remaining Available for Future Issuance under Equity Compensation Plans (Excluding Securities Reflected in Column A) ⁽¹⁾
Employee Incentive Plan ⁽³⁾	41,151	\$59.49	—
2005 Employee Equity Plan (Options)	1,665,531	74.72	2,855,290
2003 Non-Employee Directors Share Plan (Options)	469,484	70.32	290,290
2003 Non-Employee Directors Share Plan (Restricted Stock Units)	45,092	n/a	56,213
Employee Equity Plan (Restricted Stock Units and Performance Share Units)	809,806	n/a	1,588,751
ESPP	—	n/a	249,423
SSPP	—	n/a	212,532
Total	3,031,064	\$73.49	5,252,499

(1) Does not include the estimated number of shares to be purchased pursuant to the ESPP or the SSPP during the current purchase period, which commenced on December 1, 2013 and will close on May 31, 2014.

- (2) *The weighted average exercise price does not take into account any restricted share unit awards or the estimated number of shares to be purchased pursuant to the ESPP or SSPP during the current purchase period.*
- (3) *The Employee Incentive Plan has expired.*

Equity Compensation Plans Not Approved by Shareholders

<u>Plan</u>	A Number of Securities To be Issued upon Exercise of Outstanding Options, Warrants and Rights	B Weighted-Average Exercise Price of Outstanding Options, Warrants and Rights	C Number of Securities Remaining Available for Future Issuance under Equity Compensation Plans (Excluding Securities Reflected in Column A)
Paris Re 2006 Equity Purchase Plan	8,853	\$ 32.34	—
Paris Re 2006 Equity Incentive Plan	64,731	66.27	—
Paris Re 2007 Equity Incentive Plan	<u>17,197</u>	103.67	<u>—</u>
Total	90,781	\$ 70.05	—

ITEM 13. CERTAIN RELATIONSHIPS AND RELATED TRANSACTIONS, AND DIRECTOR INDEPENDENCE

The information with respect to certain relationships and related transactions, and director independence is contained under the caption Certain Relationships and Related Transactions in the Proxy Statement and is incorporated herein by reference in response to this item.

ITEM 14. PRINCIPAL ACCOUNTANT FEES AND SERVICES

The information with respect to principal accountant fees and services is contained under the caption Principal Accountant Fees and Services in the Proxy Statement and is incorporated herein by reference in response to this item.

PART IV

ITEM 15. EXHIBITS AND FINANCIAL STATEMENT SCHEDULES

Exhibit Description	Incorporated by Reference				Filed Herewith
	Form	Original Number	Date Filed	SEC File Reference Number	
(a) Exhibits and Financial Statement Schedules					
1. Financial Statements					
Included in Part II—See Item 8 of this report					X
2. Financial Statement Schedules					
Included in Part IV of this report:					
Report of Independent Registered Public Accounting Firm on Financial Statement Schedules					X
Schedule I—Consolidated Summary of Investments—at December 31, 2013					X
Schedule II—Condensed Financial Information of PartnerRe Ltd.					X
Schedule III—Supplementary Insurance Information—for the Years Ended December 31, 2013, 2012 and 2011					X
Schedule IV—Reinsurance—for the Years Ended December 31, 2013, 2012 and 2011					X
Schedule VI—Supplemental Information Concerning Property- Casualty Insurance Operations—for the Years Ended December 31, 2013, 2012 and 2011					X
3. Exhibits					
Included on page 235					

SIGNATURES

Pursuant to the requirements of Section 13 or 15(d) of the Securities Exchange Act of 1934, the Company has duly caused this report to be signed on its behalf by the undersigned, thereunto duly authorized, on February 27, 2014.

PARTNERRE LTD.

By: /s/ WILLIAM BABCOCK
 Name: **William Babcock**
 Title: **Executive Vice President & Chief Financial Officer**

Pursuant to the requirements of the Securities Exchange Act of 1934, this report has been signed below by the following persons on behalf of the Company and in the capacities and on the dates indicated.

<u>Signatures</u>	<u>Title</u>	<u>Date</u>
/s/ CONSTANTINOS MIRANTHIS Constantinos Miranthis	President and Chief Executive Officer and Director (Principal Executive Officer)	February 27, 2014
/s/ WILLIAM BABCOCK William Babcock	Executive Vice President & Chief Financial Officer (Principal Financial Officer)	February 27, 2014
/s/ DAVID J. OUTTRIM David J. Outtrim	Chief Accounting Officer (Principal Accounting Officer)	February 27, 2014
/s/ JEAN-PAUL MONTUPET Jean-Paul Montupet	Chairman of the Board of Directors	February 27, 2014
/s/ JUDITH HANRATTY Judith Hanratty, CVO, OBE	Director	February 27, 2014
/s/ JAN H. HOLSBOER Jan H. Holsboer	Director	February 27, 2014
/s/ ROBERTO MENDOZA Roberto Mendoza	Director	February 27, 2014
/s/ DEBRA J. PERRY Debra J. Perry	Director	February 27, 2014
/s/ RÉMY SAUTTER Rémy Sautter	Director	February 27, 2014
/s/ GREG FH SEOW Greg FH Seow	Director	February 27, 2014
/s/ LUCIO STANCA Lucio Stanca	Director	February 27, 2014
/s/ KEVIN M. TWOMEY Kevin M. Twomey	Director	February 27, 2014
/s/ EGBERT WILLAM Egbert Willam	Director	February 27, 2014
/s/ DAVID ZWIENER David Zwiener	Director	February 27, 2014

REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

To the Board of Directors and Shareholders of PartnerRe Ltd.

We have audited the consolidated financial statements of PartnerRe Ltd. and subsidiaries (the Company) as of December 31, 2013 and 2012, and for each of the three years in the period ended December 31, 2013, and the Company's internal control over financial reporting as of December 31, 2013, and have issued our reports thereon dated February 27, 2014; such reports are included elsewhere in this Form 10-K. Our audits also included the financial statement schedules of the Company listed in Item 15. These financial statement schedules are the responsibility of the Company's management. Our responsibility is to express an opinion based on our audits. In our opinion, such financial statement schedules, when considered in relation to the basic consolidated financial statements taken as a whole, present fairly, in all material respects, the information set forth therein.

/s/ DELOITTE & TOUCHE LTD.

Deloitte & Touche Ltd.

Hamilton, Bermuda
February 27, 2014

SCHEDULE I

PartnerRe Ltd.
Consolidated Summary of Investments
Other Than Investments in Related Parties
at December 31, 2013
(Expressed in thousands of U.S. dollars)

<u>Type of investment</u>	<u>Cost ^{(1) (2)}</u>	<u>Fair Value ⁽²⁾</u>	<u>Amount at which shown in the balance sheet ⁽²⁾</u>
Fixed maturities			
U.S. government and government sponsored enterprises . . .	\$ 1,635,578	\$ 1,623,859	\$ 1,623,859
U.S. states, territories and municipalities	121,697	124,587	124,587
Non-U.S. sovereign government, supranational and government related	2,295,608	2,353,699	2,353,699
Corporate	5,866,991	6,048,663	6,048,663
Asset-backed securities	1,126,812	1,138,231	1,138,231
Residential mortgage-backed securities	2,294,870	2,268,517	2,268,517
Other mortgage-backed securities	34,899	35,747	35,747
Fixed maturities	<u>13,376,455</u>	<u>13,593,303</u>	<u>13,593,303</u>
Equities			
Banks, trust and insurance companies	170,367	282,727	282,727
Public utilities	35,562	37,151	37,151
Industrial, miscellaneous and all other	803,357	901,175	901,175
Equities	<u>1,009,286</u>	<u>1,221,053</u>	<u>1,221,053</u>
Short-term investments	\$ 13,543	13,546	13,546
Other invested assets ⁽³⁾		<u>135,139</u>	<u>135,139</u>
Total		<u>\$14,963,041</u>	<u>\$14,963,041</u>

- (1) Original cost of fixed maturities reduced by repayments and adjusted for amortization of premiums or accrual of discounts. Original cost of equity securities.
- (2) Excludes the investment portfolio underlying the funds held – directly managed account. While the net investment income and net realized and unrealized gains and losses inure to the benefit of the Company, the Company does not legally own the investments.
- (3) Other invested assets excludes the Company's investments accounted for using the cost method of accounting and the equity method of accounting of \$186 million.

SCHEDULE II

PartnerRe Ltd.

Condensed Balance Sheets—Parent Company Only

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

	<u>December 31,</u> 2013	<u>December 31,</u> 2012
Assets		
Cash and cash equivalents, at fair value, which approximates amortized cost	\$ 1,286	\$ 30,372
Investments in subsidiaries	8,170,653	8,533,423
Intercompany loans and balances receivable	730,450	361,408
Other	3,961	4,283
Total assets	<u>\$ 8,906,350</u>	<u>\$ 8,929,486</u>
Liabilities		
Intercompany loans and balances payable ⁽¹⁾	\$ 2,175,401	\$ 1,952,737
Accounts payable, accrued expenses and other	21,417	43,253
Total liabilities	<u>2,196,818</u>	<u>1,995,990</u>
Shareholders' Equity		
Common shares (par value \$1.00; issued: 2013, 86,657,045 shares; 2012, 84,459,905 shares)	86,657	85,460
Preferred shares (par value \$1.00; issued and outstanding: 2013, 34,150,000 shares; 2012, 35,750,000 shares; aggregate liquidation value: 2013, \$853,750; 2012, \$893,750)	34,150	35,750
Additional paid-in capital	3,901,627	3,861,844
Accumulated other comprehensive (loss) income	(12,238)	10,597
Retained earnings	5,406,797	4,952,002
Common shares held in treasury, at cost (2013, 34,213,611 shares; 2012, 26,550,530 shares)	<u>(2,707,461)</u>	<u>(2,012,157)</u>
Total shareholders' equity attributable to PartnerRe Ltd.	<u>6,709,532</u>	<u>6,933,496</u>
Total liabilities and shareholders' equity attributable to PartnerRe Ltd.	<u>\$ 8,906,350</u>	<u>\$ 8,929,486</u>

(1) The parent has fully and unconditionally guaranteed on a subordinated basis all obligations of PartnerRe Finance II Inc., an indirect 100% owned finance subsidiary of the parent, related to the remaining \$63.4 million aggregate principal amount of 6.440% Fixed-to-Floating Rate Junior Subordinated Capital Efficient Notes (CENts). The parent's obligations under this guarantee are unsecured and rank junior in priority of payments to the parent's Senior Notes.

The parent has fully and unconditionally guaranteed all obligations of PartnerRe Finance A and PartnerRe Finance B, indirect 100% owned finance subsidiaries of the parent, related to the issuance of \$250 million aggregate principal amount of 6.875% Senior Notes and \$500 million aggregate principal amount of 5.500% Senior Notes. The parent's obligations under these guarantees are senior and unsecured and rank equally with all other senior unsecured indebtedness of the parent.

SCHEDULE II

PartnerRe Ltd.

Condensed Statements of Operations and Comprehensive Income (Loss)—Parent Company Only
(Expressed in thousands of U.S. dollars)

	For the year ended December 31, 2013	For the year ended December 31, 2012	For the year ended December 31, 2011
Revenues			
Net investment income	\$ 18	\$ 1,152	\$ 2,452
Interest income on intercompany loans	11,039	—	—
Net realized and unrealized investment gains	—	2,208	5,499
Total revenues	11,057	3,360	7,951
Expenses			
Other operating expenses	91,800	82,137	76,690
Interest expense on intercompany loans	1,867	730	739
Net foreign exchange losses (gains)	9,895	1,085	(9,540)
Total expenses	103,562	83,952	67,889
Loss before equity in net income (loss) of subsidiaries	(92,505)	(80,592)	(59,938)
Equity in net income (loss) of subsidiaries	756,513	1,215,106	(460,353)
Net income (loss) attributable to PartnerRe Ltd.	\$664,008	\$1,134,514	\$(520,291)
Comprehensive income (loss)			
Net income (loss) attributable to PartnerRe Ltd.	\$664,008	\$1,134,514	\$(520,291)
Total other comprehensive (loss) income, net of tax	(22,835)	23,241	(16,700)
Comprehensive income (loss) attributable to PartnerRe Ltd.	\$641,173	\$1,157,755	\$(536,991)

SCHEDULE II

PartnerRe Ltd.

**Condensed Statements of Cash Flows—Parent Company Only
(Expressed in thousands of U.S. dollars)**

	For the year ended December 31, 2013	For the year ended December 31, 2012	For the year ended December 31, 2011
Cash flows from operating activities			
Net income (loss) attributable to PartnerRe Ltd.	\$ 664,008	\$ 1,134,514	\$(520,291)
Adjustments to reconcile net income (loss) to net cash used in operating activities:			
Equity in net (income) loss of subsidiaries	(756,513)	(1,215,106)	460,353
Other, net	27,397	30,573	7,663
Net cash used in operating activities	(65,108)	(50,019)	(52,275)
Cash flows from investing activities			
Advances to/from subsidiaries, net	666,444	190,017	3,511
Net issue of intercompany loans receivable and payable	14,473	132,797	379,676
Sales and redemptions of fixed maturities	—	184,516	446,452
Sales and redemptions of short-term investments	—	8,543	154,473
Purchases of short-term investments	—	—	(99,955)
Dividends received from subsidiaries	—	200,000	—
Investments in subsidiaries	—	—	(860,000)
Foreign exchange forward contracts	—	3	(6,750)
Other, net	196	772	2,408
Net cash provided by investing activities	681,113	716,648	19,815
Cash flows from financing activities			
Cash dividends paid to common and preferred shareholders ⁽²⁾	(103,311)	(217,615)	(205,784)
Repurchase of common shares ⁽²⁾	(546,617)	(504,991)	(413,737)
Issuance of common shares	51,111	34,323	16,041
Net proceeds from issuance of preferred shares	241,265	—	361,722
Redemption of preferred shares	(290,000)	—	—
Net cash used in financing activities	(647,552)	(688,283)	(241,758)
Effect of foreign exchange rate changes on cash	2,461	297	(3,107)
Decrease in cash and cash equivalents	(29,086)	(21,357)	(277,325)
Cash and cash equivalents—beginning of year	30,372	51,729	329,054
Cash and cash equivalents—end of year	\$ 1,286	\$ 30,372	\$ 51,729
Supplemental cash flow information:			
Interest paid	\$ 1,528	\$ 579	\$ 743

- (1) The parent received non-cash dividends from its subsidiaries of \$1,100 million, \$200 million and \$274 million for the years ended December 31, 2013, 2012 and 2011, respectively, which have been excluded from the Condensed Statements of Cash Flows—Parent Company Only.
- (2) During the year ended December 31, 2013, dividends paid to common and preferred shareholders of \$97 million and the repurchase of common shares of \$169 million were paid by a subsidiary on behalf of the parent and have been excluded from the Condensed Statements of Cash Flows—Parent Company Only.

SCHEDULE III

PartnerRe Ltd.

Supplementary Insurance Information
For the years ended December 31, 2013, 2012 and 2011
(Expressed in thousands of U.S. dollars)

	Deferred Policy Acquisition Costs	Gross Reserves	Unearned Premiums	Other Benefits Payable	Premium Revenue	Net Investment Income ⁽¹⁾	Losses Incurred	Amortization of DAC	Other Operating Expenses ⁽²⁾	Premiums Written
2013										
Non-life	\$434,109	\$10,646,318	\$1,699,393	\$ —	\$4,234,850	\$ N/A	\$2,399,867	\$ 952,570	\$258,997	\$4,426,719
Life and Health	210,841	—	24,337	1,974,133	957,146	60,897	760,552	124,631	71,092	123,936
Corporate and Other	2	—	37	—	6,214	423,470	(2,611)	427	170,377	6,110
Total	\$644,952	\$10,646,318	\$1,723,767	\$1,974,133	\$5,198,210	\$484,367	\$3,157,808	\$1,077,628	\$500,466	\$4,556,765
2012										
Non-life	\$363,174	\$10,709,371	\$1,517,217	\$ —	\$3,684,069	\$ N/A	\$2,155,147	\$ 820,464	\$257,256	\$3,768,111
Life and Health	205,203	—	17,267	1,813,244	794,598	64,223	646,981	115,887	52,352	N/A
Corporate and Other	14	—	141	—	7,272	507,115	2,482	558	101,766	6,363
Total	\$568,391	\$10,709,371	\$1,534,625	\$1,813,244	\$4,485,939	\$571,338	\$2,804,610	\$ 936,909	\$411,374	\$3,774,474
2011										
Non-life	\$339,010	\$11,273,091	\$1,432,476	\$ —	\$3,844,270	\$ N/A	\$3,717,171	\$ 820,747	\$283,450	\$3,688,185
Life and Health	208,108	—	15,316	1,645,662	792,148	66,069	650,261	116,884	52,905	N/A
Corporate and Other	84	—	1,049	—	11,336	563,079	5,138	730	98,491	12,390
Total	\$547,202	\$11,273,091	\$1,448,841	\$1,645,662	\$4,647,754	\$629,148	\$4,372,570	\$ 938,361	\$434,846	\$3,700,575

(1) Because the Company does not manage its assets by segment, net investment income is not allocated to the Non-life segment of the reinsurance operations. However, because of the interest-sensitive nature of some of the Company's Life products, net investment income is considered in Management's assessment of the profitability of the Life and Health segment.

(2) Other operating expenses are a component of underwriting result for the Non-life and Life and Health segments. Other operating expenses included in Corporate and Other represent corporate expenses and other operating expenses related to the Company's principal finance transactions, insurance-linked securities and strategic investments.

SCHEDULE IV

PartnerRe Ltd.

Reinsurance

For the years ended December 31, 2013, 2012 and 2011
(Expressed in thousands of U.S. dollars)

	Gross amount	Ceded to other companies	Assumed from other companies	Net amount	Percentage of amount assumed to net
2013					
Life reinsurance in force	\$ —	\$1,629,920	\$211,247,212	\$209,617,292	101%
Premiums earned					
Life	—	5,000	821,737	816,737	101%
Accident and health	—	2,912	143,321	140,409	102%
Property and casualty	93,091	167,744	4,315,717	4,241,064	102%
Total premiums	<u>\$93,091</u>	<u>\$ 175,656</u>	<u>\$ 5,280,775</u>	<u>\$ 5,198,210</u>	102%
2012					
Life reinsurance in force	\$ —	\$1,782,549	\$214,006,823	\$212,224,274	101%
Premiums earned					
Life	—	5,400	780,279	774,879	101%
Accident and health	—	—	19,719	19,719	100%
Property and casualty	84,815	149,610	3,756,136	3,691,341	102%
Total premiums	<u>\$84,815</u>	<u>\$ 155,010</u>	<u>\$ 4,556,134</u>	<u>\$ 4,485,939</u>	102%
2011					
Life reinsurance in force	\$ —	\$1,673,196	\$199,347,294	\$197,674,098	101%
Premiums earned					
Life	—	3,470	774,383	770,913	100%
Accident and health	—	—	21,235	21,235	100%
Property and casualty	73,567	138,069	3,920,108	3,855,606	102%
Total premiums	<u>\$73,567</u>	<u>\$ 141,539</u>	<u>\$ 4,715,726</u>	<u>\$ 4,647,754</u>	101%

PartnerRe Ltd.

Supplemental Information
 Concerning Property-Casualty Insurance Operations
 For the years ended December 31, 2013, 2012 and 2011
 (Expressed in thousands of U.S. dollars)

Affiliation with Registrant	Deferred Policy Acquisition Costs	Liability for Unpaid Losses and Loss Expenses	Unearned Premiums	Premiums Earned	Losses and Loss Expenses Incurred	Amortization of Deferred Policy Acquisition Costs	Paid Losses and Loss Expenses	Premiums Written
Consolidated subsidiaries								
2013	\$434,111	\$10,646,318	\$1,699,430	\$4,241,064	\$2,397,256	\$952,997	\$2,401,559	\$4,432,829
2012	363,188	10,709,371	1,517,358	3,691,341	2,157,629	821,022	2,705,062	3,774,474
2011	339,094	11,273,091	1,433,525	3,855,606	3,722,309	821,477	2,990,559	3,700,575

EXHIBIT INDEX

<u>Exhibit Number</u>	<u>Exhibit Description</u>	<u>Incorporated by Reference</u>			<u>SEC File Reference Number</u>	<u>Filed Herewith</u>
		<u>Form</u>	<u>Original Number</u>	<u>Date Filed</u>		
3.1	Amended Memorandum of Association.	F-3	3.1	June 20, 1997	333-7094	
3.2	Amended and Restated Bye-laws of PartnerRe Ltd., dated as of May 22, 2009.	8-K	3.1	May 28, 2009	001-14536 9856453	
4.1	Specimen Common Share Certificate.	10-Q	4.1	December 10, 1993	0-2253	
4.2	Specimen Share Certificate for the 6.50% Series D Cumulative Redeemable Preferred Shares.	8-K	99.3	November 12, 2004	001-14536 41136085	
4.2.1	Certificate of Designation, Preferences and Rights of the Company's 6.50% Series D Cumulative Redeemable Preferred Shares.	8-K	99.4	November 12, 2004	001-14536 41136085	
4.3	Specimen Share Certificate for the 7.25% Series E Cumulative Redeemable Preferred Shares.	8-K	4.1	June 15, 2011	001-14536 11912259	
4.3.1	Certificate of Designation, Preferences and Rights of the Company's 7.25% Series E Cumulative Redeemable Preferred Shares.	8-K	3.1	June 15, 2011	001-14536 11912259	
4.4	Specimen Share Certificate for the 5.875% Series F Non-Cumulative Redeemable Preferred Shares.	8-K	4.1	February 14, 2012	001-14536 13606991	
4.4.1	Certificate of Designation, Preferences and Rights of the Company's 5.875% Series F Non-Cumulative Redeemable Preferred Shares.	8-K	3.1	February 14, 2012	001-14536 13606991	
4.5	Junior Subordinated Indenture dated November 2, 2006 among PartnerRe Finance II Inc., the Company, J.P. Morgan Securities Inc., Lehman Brothers Inc. and the other underwriters named therein.	8-K	4.1	November 7, 2006	001-14536 61194484	
4.5.1	First Supplemental Junior Subordinated Indenture (including the form of the CENts) among PartnerRe Finance II Inc., the Company and The Bank of New York.	8-K	4.2	November 7, 2006	001-14536 61194484	
4.6	Junior Subordinated Debt Securities Guarantee Agreement dated November 7, 2006 between the Company and The Bank of New York.	8-K	4.3	November 7, 2006	001-14536 61194484	

<u>Exhibit Number</u>	<u>Exhibit Description</u>	<u>Incorporated by Reference</u>			<u>SEC File Reference Number</u>	<u>Filed Herewith</u>
		<u>Form</u>	<u>Original Number</u>	<u>Date Filed</u>		
4.6.1	First Supplemental Junior Subordinated Debt Securities Guarantee Agreement dated November 7, 2006 between the Company and The Bank of New York.	8-K	4.4	November 7, 2006	001-14536 61194484	
4.7	Indenture dated May 27, 2008 among PartnerRe Finance A LLC, PartnerRe Ltd. and The Bank of New York.	8-K	4.1	May 27, 2008	001-14536 8860178	
4.7.1	First Supplemental Indenture dated May 27, 2008 among PartnerRe Finance A LLC, PartnerRe Ltd. and The Bank of New York.	8-K	4.2	May 27, 2008	001-14536 8860178	
4.8	Debt Securities Guarantee Agreement dated May 27, 2008 between PartnerRe Ltd. and The Bank of New York.	8-K	4.3	May 27, 2008	001-14356 8860178	
4.8.1	First Supplemental Debt Securities Guarantee Agreement dated May 27, 2008 between PartnerRe Ltd. and The Bank of New York.	8-K	4.4	May 27, 2008	001-14536 8860178	
4.9	Indenture dated March 15, 2010 among PartnerRe Finance B LLC, PartnerRe Ltd. and The Bank of New York Mellon.	8-K	4.1	March 15, 2010	001-14536 10681438	
4.9.1	First Supplemental Indenture dated March 15, 2010 among PartnerRe Finance B LLC, PartnerRe Ltd. and The Bank of New York Mellon.	8-K	4.2	March 15, 2010	001-14536 10681438	
4.10	Senior Debt Securities Guarantee Agreement dated March 15, 2010 between PartnerRe Ltd. and The Bank of New York Mellon.	8-K	4.3	March 15, 2010	001-14536 10681438	
4.10.1	First Supplemental Senior Debt Securities Guarantee Agreement dated March 15, 2010 between PartnerRe Ltd. and The Bank of New York Mellon.	8-K	4.4	March 15, 2010	001-14536 10681438	
10.1	Credit Agreement among PartnerRe Ltd., the Designated Subsidiary Borrowers, the Lenders and JPMorgan Chase Bank, N.A. dated July 16, 2010.	8-K	10.1	July 21, 2010	001-14536 10962355	
10.2	Capital Management Maintenance Agreement, effective February 20, 2004, between PartnerRe Ltd., PartnerRe U.S. Corporation and Partner Reinsurance Company of the U.S.	10-Q	10.2	August 6, 2004	001-14536 4957898	
10.3	Capital Management Maintenance Agreement, effective July 27, 2005, between PartnerRe Ltd., PartnerRe Holdings Ireland Limited and PartnerRe Ireland Insurance Limited.	8-K	10.1	August 1, 2005	001-14536 5988483	

<u>Exhibit Number</u>	<u>Exhibit Description</u>	<u>Incorporated by Reference</u>			<u>SEC File Reference Number</u>	<u>Filed Herewith</u>
		<u>Form</u>	<u>Original Number</u>	<u>Date Filed</u>		
10.4	Capital Management Maintenance Agreement, effective January 1, 2008, between PartnerRe Ltd. and Partner Reinsurance Europe Limited.	10-K	10.5.2	February 29, 2008	001-145368653416	
10.5	PartnerRe Ltd. Amended Employee Incentive Plan, effective February 6, 1996.	10-K	10.9	February 28, 2011	001-1453611644674	
10.5.1	Form of PartnerRe Ltd. Amended Employee Incentive Plan Executive Stock Option Agreement and Notice of Grant.	8-K	10.1	February 16, 2005	001-145365621655	
10.5.2	Form of PartnerRe Ltd. Amended Employee Incentive Plan Executive Restricted Stock Unit Award Agreement and Notice of Restricted Stock Units.	8-K	10.2	February 16, 2005	001-145365621655	
10.6	PartnerRe Ltd. Amended and Restated Employee Equity Plan, effective May 10, 2005.	10-Q	10.2	November 2, 2012	001-14536121176381	
10.6.1	Form of PartnerRe Ltd. Employee Equity Plan Executive Restricted Share Unit Award Agreement and Notice of Restricted Share Units.	10-K	10.6.1	February 26, 2013	001-1453613643787	
10.6.2	Form of PartnerRe Ltd. Employee Equity Plan Executive Share-Settled Share Appreciation Right Agreement and Notice of Share-Settled Share Appreciation Rights.	10-K	10.6.2	February 26, 2013	001-1453613643787	
10.6.3	Form of PartnerRe Ltd. Employee Equity Plan Executive Performance Share Unit Award Agreement and Notice of Performance Share Units.	10-K	10.6.3	February 26, 2013	001-1453613643787	
10.6.4	Form of Executive Stock Option Agreement.	8-K	10.5	May 16, 2005	001-145365835956	
10.7	PartnerRe Ltd. 2009 Employee Share Purchase Plan effective May 22, 2009.	10-Q	10.1	August 10, 2009	001-145369998853	
10.8	PartnerRe Ltd. Swiss Share Purchase Plan.	10-Q	10.4	August 4, 2011	001-14536111010074	
10.9	PartnerRe Ltd. Amended and Restated Non-Employee Directors Share Plan, effective May 16, 2012.	10-Q	10.1	November 2, 2012	001-14536121176381	
10.9.1	Form of PartnerRe Ltd. Non-Employee Director Share Option Agreement.	10-Q	10.2	May 4, 2011	001-1453611810844	
10.9.2	Form of PartnerRe Ltd. Non-Employee Director Restricted Share Unit Award Agreement.	10-Q	10.3	May 4, 2011	001-1453611810844	

<u>Exhibit Number</u>	<u>Exhibit Description</u>	<u>Incorporated by Reference</u>			<u>SEC File Reference Number</u>	<u>Filed Herewith</u>
		<u>Form</u>	<u>Original Number</u>	<u>Date Filed</u>		
10.9.3	Form of PartnerRe Ltd. Non-Employee Directors Stock Plan Restricted Share Unit Award and Notice of Restricted Share Units.	8-K	10.2	September 20, 2004	001-1453641037442	
10.13	PartnerRe Ltd. Change in Control Policy.	10-Q	10.7	May 4, 2012	001-1453612813622	
10.14	Amended Executive Total Compensation Program.	10-Q	10.1	May 4, 2012	001-1453612813622	
10.15	Board of Directors Compensation Program for Non-Executive Directors.					X
10.16	Employment Agreement between PartnerRe Ltd. and Costas Miranthis dated as of January 1, 2011.	10-Q	10.2	May 4, 2012	001-1453612813622	
10.17	Employment Agreement between PartnerRe Holdings Europe Limited, Zurich Branch and Emmanuel Clarke, effective as of September 1, 2010.	10-Q	10.4	May 4, 2012	001-1453612813622	
10.18	Employment Agreement between PartnerRe Ltd. and William Babcock, effective as of October 1, 2010.	10-Q	10.3	May 4, 2012	001-1453612813622	
10.19	Employment Agreement between PartnerRe Capital Markets Corporation and Marvin Pestcoe, effective as of October 1, 2010.	10-Q	10.2	August 2, 2012	001-14536121002288	
10.20	Employment Agreement between PartnerRe Ltd. and Laurie Desmet, dated as of March 27, 2013.	8-K	10.1	April 2, 2013	001-1453613736205	
10.21	Employment Agreement between Partner Reinsurance Company of the U.S and Theodore C. Walker, effective as of January 1, 2011.	10-Q	10.6	May 4, 2012	001-1453612813622	
10.22	Consulting Agreement between PartnerRe Ltd. and Marvin Pestcoe, effective as of April 16, 2014.					X
10.24	Form of Indemnification Agreement between PartnerRe Ltd. and its directors.	10-Q	10.16	November 4, 2009	001-1453691158470	
10.32	Amended and Restated Run Off Services and Management Agreement dated as of December 21, 2006 between AXA Liabilities Managers, AXA RE and PARIS RE.	10-K	10.27.1	March 1, 2010	001-1453610646399	
10.33	Reserve Agreement dated as of December 21, 2006 between AXA, AXA RE and PARIS RE.	10-K	10.27.2	March 1, 2010	001-1453610646399	
10.34	Claims Management and Services Agreement dated as of December 21, 2006 between AXA RE and PARIS RE.	10-K	10.27.3	March 1, 2010	001-1453610646399	

<u>Exhibit Number</u>	<u>Exhibit Description</u>	<u>Incorporated by Reference</u>			<u>SEC File Reference Number</u>	<u>Filed Herewith</u>
		<u>Form</u>	<u>Original Number</u>	<u>Date Filed</u>		
10.35	Canadian Quota Share Retrocession Agreement dated December 21, 2006 and effective January 1, 2006 between AXA RE and PARIS RE.	10-K	10.27.4	March 1, 2010	001-14536 10646399	
10.36	Quota Share Retrocession Agreement dated December 21, 2006 and effective January 1, 2006 between AXA RE and PARIS RE.	10-K	10.27.5	March 1, 2010	001-14536 10646399	
10.36.1	Endorsement to Quota Share Retrocession Agreement dated February 1, 2011 and effective January 1, 2006 between Colisée Re and Partner Reinsurance Europe Limited.	8-K	10.1	February 7, 2011	001-14536 11579242	
14.1	Code of Business Conduct and Ethics.	10-K	14.1	February 24, 2012	001-14536 12636834	
21.1	Subsidiaries of the Company.					X
23.1	Consent of Deloitte & Touche Ltd.					X
31.1	Certification of Constantinos Miranthis, Chief Executive Officer, as required by Rule 13a-14(a) of the Securities Exchange Act of 1934.					X
31.2	Certification of William Babcock, Chief Financial Officer, as required by Rule 13a-14(a) of the Securities Exchange Act of 1934.					X
32	Certifications of Constantinos Miranthis, Chief Executive Officer, and William Babcock, Chief Financial Officer, as required by Rule 13a-14(b) of the Securities Exchange Act of 1934.					X
101.1	The following financial information from PartnerRe Ltd.'s Annual Report on Form 10-K for the year ended December 31, 2013 formatted in XBRL: (i) Consolidated Balance Sheets at December 31, 2013 and 2012; (ii) Consolidated Statements of Operations and Comprehensive Income (Loss) for the years ended December 31, 2013, 2012 and 2011; (iii) Consolidated Statements of Shareholders' Equity for the years ended December 31, 2013, 2012 and 2011; (iv) Consolidated Statements of Cash Flows for the years ended December 31, 2013, 2012 and 2011; (v) Notes to Consolidated Financial Statements and (vi) Financial Statements Schedules.					

PartnerRe



**Board of Directors
Compensation Program
For
Non Executive Directors**

November 2013

PartnerRe Ltd. Board of Directors Compensation Policy

PartnerRe Ltd. (the “Company”) has developed a Board of Directors Compensation Policy for Non-Executive Directors (the “Policy”) to address specific objectives:

- Establish competitive levels of remuneration, benchmarked against an appropriate peer group.
- Align the interests of Directors and shareholders by using equity as a major component of the total compensation package.
- Establish one approach to Directors compensation in recognition of the Company’s strategy to rotate Directors’ committee assignments periodically.
- Demonstrate good governance and corporate responsibility.

As part of this Policy, as approved by the Nominating and Governance Committee, PartnerRe offers a competitive mix of cash and equity compensation for each non-executive director and for the Chairman of the Board (the “Chairman”) (together the “Directors”¹).

The total compensation package for Director’s service on a calendar year period consists of two components:

- Cash compensation; and
- Restricted Share Units (“RSUs”).

<u>Component</u>	<u>Director*</u> <u>Annual Amount</u>	<u>Committee Chair</u> <u>Fee</u> <u>Annual Amount</u>	<u>Chairman of the Board</u> <u>Annual Amount</u>
Cash	\$ 80,000	\$ 15,000	\$ 160,000
RSUs	\$ 150,000		\$ 180,000
Dividend equivalents paid on RSUs	Per actual dividend rate declared by the Board		Per actual dividend rate declared by the Board

* Chairman excluded

Cash Compensation

Directors are entitled to receive cash compensation on an annual basis (as detailed in the table above). Cash compensation is paid once a year on June 15 or the nearest business day thereafter.

Elective Equity Incentive

Deferred Cash Compensation

Directors may elect to defer 50% or 100% of their cash compensation into RSUs (see RSU description).

Company Match

Should a Director elect to defer his or her cash compensation into RSUs, deferred amounts will receive an additional matching award equal to 25% of the deferred dollar amount. The matching award will be granted in RSUs (see RSU description).

Equity Compensation

RSUs

Directors are entitled to receive RSUs (as detailed in the table above). RSUs are granted once a year on June 15 or the nearest business day thereafter.

The number of RSUs awarded is determined by the applicable annual U.S. dollar amount of the award divided by the Fair Market Value of the Shares (both terms as

¹ For the purpose of this document, all references to Directors refer to non-executive directors only and does not include executive directors

defined in the PartnerRe Ltd 2003 Non-Employee Directors Share Plan, as amended or replaced from time to time, the “Plan”) on the grant date. RSUs will cliff vest after 5 years from the grant date and automatic delivery will also occur at this time.

Dividend Equivalents

All RSU awards will accrue dividend equivalents on the same basis as the shares underlying the RSUs, with such dividend equivalents payable annually on June 15 or the nearest business day thereafter, with no accrued interest on the dividend equivalents.

Delivery of RSUs

Prior to the RSU grant, Directors will have the ability to elect to receive 60% of the value of the RSUs in Shares and 40% in cash.

Directors Ownership Guidelines

Directors are required to own a minimum number of shares equal to 4 times his or her annual cash compensation entitlement (excluding Committee Chair Fee) (“Ownership Target”). For the purpose of determining the Ownership Target, both shares owned by the Director as well as RSUs are included in the calculation. Directors who do not meet the Ownership Target are required to receive at least 50% of their cash compensation in RSUs until the Ownership Target is met.

Transfers of equity interests into Trusts or Family Partnerships can only occur if the Director Ownership Targets continue to be met after the transfer has occurred, subject to the approval of the Nominating and Governance Committee and in compliance with certain restrictions.

Maximum Annual Equity Awards

RSU awards made to Directors shall not exceed the maximum annual limit stated in the Plan.

Appointment and Termination of service

Appointment

Any newly appointed Director is entitled to receive:

- an amount equal to the annual amount of cash compensation prorated based on the number of days between the date of appointment and December 31 inclusive (the “Prorated Cash Compensation”); and
- a number of RSUs equal to the applicable annual U.S. dollar amount prorated based on the number of days between the date of appointment and December 31 inclusive (the “Prorated Number of RSUs”).

Should a Director be appointed before June 15, he/she will receive on June 15 or the nearest business day thereafter, of the year of appointment the Prorated Cash Compensation and the Prorated Number of RSUs.

Should the Director be appointed after June 15, the Prorated Cash Compensation and the Prorated Number of RSUs will be paid or granted on June 15 of the following year.

Termination of service

Appendix A will apply to cash compensation/clawback, share options (previously granted) and RSUs in the event of the Director’s termination of service.

Travel

The Company agrees to reimburse all business expenses related to services rendered, including attendance at educational sessions, as a Director.

Partner program

Every two years the Company invites the partners of Directors to attend events at the Board meeting. The cost of providing the program (excluding travel) is covered by the Company. The Board has decided that travel costs for partners to attend these programs shall be paid by the Director and shall not be reimbursed by the Company.

Appendix A

PartnerRe Ltd.

Permissible Termination = Change in control, death, permanent disability, mandatory retirement, voluntary termination due to acceptance of a public service position that would either preclude Board service or make such continued service impractical and failure to be re-elected to the Board by Shareholders.

<u>Pay Component</u>	<u>Payment / Grant Date</u>	<u>Termination Before June 15th</u>		<u>Termination After June 15th</u>	
		<u>Permissible</u>	<u>Non-Permissible</u>	<u>Permissible</u>	<u>Non-Permissible</u>
Cash Fee	Cash fee is paid on June 15th for the calendar year	Pay pro rata Fee	Pay pro rata Fee	Clawback unearned Fee	Clawback unearned Fee
Restricted Share Units	RSUs are granted on June 15th for the calendar year with a five-year cliff vest	Cash payment of equivalent of annual pro rated RSU grant Accelerated vesting of prior unvested awards	Not granted for current year Forfeiture of unvested awards	Accelerated vesting of unvested awards and earned <i>pro rata</i> portion of current year's award Forfeiture of unearned portion of current year's award	Forfeiture of unvested awards
Share Options (prior to Jan 1, 2013)		Accelerated vesting of prior unvested share options. Continued exercisability of outstanding share options for remainder of the term	Forfeiture of unvested share options. Continued exercisability of outstanding share options for remainder of the term	Accelerated vesting of prior year's unvested share options and pro rata portion of current year's share options Continued exercisability of outstanding share options for remainder of the term	Forfeiture of unvested share options Continued exercisability of outstanding share options for remainder of the term

CONSULTING AGREEMENT

This Consulting Agreement (this “**Agreement**”), dated as of [], 2014, by and between PartnerRe Ltd. (the “**Company**”) and Marvin Pestcoe (“**Consultant**”), shall be effective as of April 16, 2014 (the “**Effective Date**”).

RECITALS

WHEREAS, the Company desires that it be able to call upon the experience and knowledge of Consultant for services and advice; and

WHEREAS, Consultant is willing to render such services and advice to the Company on the terms and conditions hereinafter set forth in this Agreement.

STATEMENT OF AGREEMENT

NOW, THEREFORE, in consideration of the above recitals, and for and in consideration of the mutual promises set forth below, the receipt and sufficiency of which are hereby acknowledged, the parties agree as follows:

1. Consulting Period. The Company hereby engages Consultant as a consultant, subject to the terms and provisions of this Agreement, for the period commencing on the Effective Date and ending on April 15, 2015 (the “**Consulting Period**”). Any extension of the Consulting Period shall be subject to mutual written agreement between the parties. Notwithstanding the foregoing, the Consulting Period shall be subject to earlier termination pursuant to Section 8 below.

2. Consulting Services.

2.1 Consultant shall render such consulting and advisory services set forth on Schedule I (the “**Consulting Services**”) during the Consulting Period. It is intended that Consultant shall not be required to provide Consulting Services in an amount greater than twenty percent (20%) of Consultant’s services that he performed when he was an employee of a subsidiary of the Company prior to the Effective Date; provided, however, that, in the event that the amount of Consulting Services exceeds more than twenty percent (20%) of such services, the parties shall cooperate in good faith to modify the Consulting Services or any other provision of this Agreement as mutually agreed and in no event shall the amount of Consulting Services exceed more than thirty percent (30%) of such services.

2.2 Consultant shall not provide services to another person or entity during the Consulting Period without providing prior notification to the Group Chief Executive Officer of the Company (the “**Group CEO**”). In the event that a conflict of interest arises or may reasonably arise as a result of Consultant’s provision of services to another person or entity, notwithstanding Section 14, this Agreement shall be amended to the extent necessary to eliminate any such conflict of interest or, in lieu of such amendment, the Company may in its discretion terminate this Agreement with immediate effect.

3. Status of Consultant. Consultant shall be an independent contractor of the Company, and this Agreement shall not be construed to create any association, partnership, joint venture, employee or agency relationship between Consultant and the Company for any purpose. Consultant shall have no authority (and shall not hold himself out as having authority) to bind the Company and shall not make any agreements or representations on the Company's behalf without the Company's prior written consent.

4. Consulting Fees. As compensation for the Consulting Services, during the Consulting Period, the Company shall pay (or shall cause Consultant to be paid) an aggregate consulting fee of \$480,000 (the "**Consulting Fee**"), which shall be paid in substantially equal monthly installments in arrears.

5. Other Benefits.

5.1 During the Consulting Period, and in furtherance of Consultant's performance of the Consulting Services, the Company shall provide Consultant (or shall cause Consultant to be provided) with an office and secretarial assistance, each at the Company's expense, and shall permit Consultant to use Company property (including computer, phone and corporate credit card) in connection with the performance of the Consulting Services.

5.2 During the Consulting Period, Consultant shall not be eligible to participate in any health, welfare or retirement benefit plans sponsored or maintained by the Company; provided, however, that nothing herein shall adversely affect Consultant's right to receive his vested benefits under any such plan maintained by the Company or any of its subsidiaries in respect of his prior service as an employee.

5.3 Consultant shall not receive any Company perquisites.

6. Travels. Consultant acknowledges that there may be limited travel in connection with the performance of the Consulting Services.

7. Expenses. Upon presentation of documentation reasonably acceptable to the Company, the Company shall promptly reimburse Consultant (or shall cause Consultant to be reimbursed) for all reasonable expenses incurred by Consultant in connection with the performance of the Consulting Services ("**Expenses**") in accordance with the Company's reimbursement policies.

8. Termination of Consulting Period.

8.1 Termination of Consulting Period. Notwithstanding any other provision hereof, the Consulting Period and Consultant's services as a consultant hereunder shall terminate, and, except as otherwise specifically provided herein, this Agreement shall terminate:

- (a) upon the death or disability of Consultant;
- (b) for any reason, by Consultant or by Company with 30 days Notice in writing;
- (c) pursuant to Section 2.2 if elected by the Company; or
- (d) on the expiration date of the Consulting Period.

8.2 Notice of Termination. Other than a termination as a result of Consultant's death, any termination of the Consulting Period by the Company or by Consultant shall be communicated by written notice of termination (the "**Notice of Termination**") to the other party hereto.

8.3 Date of Termination. "**Date of Termination**" shall mean the date on which the Consulting Period terminates, which shall be, if Consultant is terminated (i) by his death, the date of his death, (ii) upon the expiration date of the Consulting Period, the last day of the Consulting Period, (iii) immediately upon a termination pursuant to Section 2.2 or (iv) for any other reason, the date specified in the Notice of Termination, which date shall be at least thirty (30) days after the date on which the Notice of Termination is given.

9. Payments Upon Certain Terminations.

9.1 Termination for Any Reason. Upon the termination of the Consulting Period for any reason, the Company shall pay Consultant (or shall cause Consultant to be paid), within ten (10) days after the Date of Termination (i) any accrued but unpaid Consulting Fee and (ii) any incurred but unpaid or unreimbursed Expenses.

9.2 Section 409A of the Code; Delay of Payments. The terms of this Agreement have been designed to comply with or be exempt from the requirements of Section 409A of the Internal Revenue Code of 1986, as amended (the "**Code**"), where applicable, and shall be interpreted and administered in a manner consistent with such intent. Notwithstanding anything to the contrary in this Agreement, (i) if upon the Date of Termination, Consultant is a "specified employee" within the meaning of Section 409A of the Code, and the deferral of any amounts otherwise payable under this Agreement as a result of Consultant's termination is necessary in order to prevent any accelerated or additional tax to Consultant under Section 409A of the Code, then the Company will defer (or will cause to be deferred) the payment of any such amounts hereunder until the date that is six (6) months following the Date of Termination, at which time any such delayed amounts will be paid to Consultant in a lump sum, with interest from the date otherwise payable at the prime rate as published in The Wall Street Journal on the Date of Termination and (ii) if any other payments of money or other benefits due to Consultant hereunder could cause the application of an accelerated or additional tax under Section 409A of the Code, such payments or other benefits shall be deferred if deferral will make such payment or other benefits compliant under Section 409A of the Code. To the extent required to avoid an accelerated or additional tax under Section 409A of the Code, amounts reimbursable to Consultant under this Agreement shall be paid to Consultant on or before the last day of the year following the year in which the expense was incurred and the amount of expenses eligible for reimbursement (and in-kind benefits provided to Consultant) during any one year may not affect amounts reimbursable or provided in any subsequent year.

10. Confidentiality. The Company may disclose, or Consultant may learn or develop, certain confidential or proprietary information (“**Confidential Information**”) owned by the Company or others in the course of Consultant’s performance of the Consulting Services. Such Confidential Information shall be deemed to include all information of any type, with the exception of information which at the time of disclosure was in the public domain or which, subsequent to disclosure, becomes such, except by reason of a breach of this agreement by Consultant. Consultant shall maintain all Confidential Information in strictest confidence, shall use the Confidential Information solely for the purpose of performing the Consulting Services hereunder, and shall not use the Confidential Information for Consultant’s own benefit or use or disclose the Confidential Information to or for any third party without the express prior written approval of an authorized representative of the Company.

11. Notices. All notices, requests, demands and other communications required or permitted to be given under this Agreement (i) if in writing, shall be deemed to have been duly given on the date of service if served personally on the party to whom notice is to be given and acknowledged by written receipt, or on the seventh (7th) day after mailing if mailed (return receipt requested), postage prepaid and properly addressed as set forth below, or (ii) if delivered by electronic mail (“**e-mail**”) transmission, shall be deemed to have been duly given when a receipt of such e-mail is requested and received.

The Company: PartnerRe Ltd.
Wellesley House South
90 Pitts Bay Road
Pembroke HM 08, Bermuda
Attention: Human Resources
E-mail: philip.martin@partnerre.com

Consultant: At the address and e-mail address contained in the Company’s personnel files.

Any party may change its address (including e-mail address) for purposes of this Section 11 by providing the other party with notice of the new address in the manner set forth above.

12. Successors. No rights or obligations of the Company hereunder may be assigned or transferred by the Company without Consultant’s consent, except pursuant to a merger, consolidation or other combination, or a sale or liquidation of all or substantially all of the business and assets of the Company; provided that such assignee or transferee immediately assumes (to the same extent that the Company would be required to perform it if no such succession had taken place), either expressly or by operation of law, the liabilities, obligations and duties of the Company set forth in this Agreement. As used in this Agreement, the “Company” shall mean the Company as hereinbefore defined and any successor to its business and assets.

13. Assignment; Binding Effect. Consultant may not assign his rights or delegate his duties or obligations hereunder without the written consent of the Company, and, without such consent, any attempted transfer or assignment of such type shall be

null and of no effect. This Agreement shall inure to the benefit of and be enforceable by Consultant's personal or legal representatives, executors, administrators, successors, heirs, distributees, devisees and legatees. If Consultant dies while any amounts are owed to him hereunder as if he had continued to live, all such amounts, unless otherwise provided herein, shall be paid in accordance with the terms of this Agreement to his designee or, if there be no such designee, to his estate.

14. Amendment; Waiver. No provisions of this Agreement may be modified, waived or discharged unless such waiver, modification or discharge is agreed to in writing signed by Consultant or his legal representative and such officer(s) as may be specifically designated by the Company. No waiver by a party hereto at any time of any breach by another party hereto of, or compliance with, any condition or provision of this Agreement to be performed by such other party shall be deemed a waiver of similar or dissimilar provisions or conditions at the same or at any prior or subsequent time.

15. Invalid Provisions. Should any portion of this Agreement be adjudged or held to be invalid, unenforceable or void, such holding shall not have the effect of invalidating or voiding the remainder of this Agreement and the parties hereby agree that the portion so held invalid, unenforceable or void shall, if possible, be deemed amended or reduced in scope, or otherwise be stricken from this Agreement to the extent required for the purposes of validity and enforcement thereof.

16. Counterparts. This Agreement may be executed in one or more counterparts, each of which shall be deemed to be an original but all of which together will constitute one and the same instrument.

17. Governing Law; Enforcement and Disputes; Waiver of Jury Trial. This Agreement will be governed by and construed in accordance with the laws of the State of Connecticut, without reference to conflicts of law rules, and without regard to its location of execution or performance. Jurisdiction and venue for any claim or cause of action arising under this Agreement shall be exclusively in the state or federal courts located in the County of Fairfield, State of Connecticut. EACH PARTY TO THIS AGREEMENT HEREBY WAIVES, TO THE FULLEST EXTENT PERMITTED BY LAW, ANY RIGHT TO TRIAL BY JURY OF ANY CLAIM, DEMAND, ACTION OR CAUSE OF ACTION ARISING UNDER THIS AGREEMENT OR THE CONSULTING RELATIONSHIP HEREUNDER WHETHER NOW EXISTING OR HEREAFTER ARISING, AND WHETHER IN CONTRACT, TORT, EQUITY, OR OTHERWISE. EACH PARTY TO THIS AGREEMENT HEREBY AGREES AND CONSENTS THAT ANY SUCH CLAIM, DEMAND, ACTION OR CAUSE OF ACTION WILL BE DECIDED BY COURT TRIAL WITHOUT A JURY AND THAT THE PARTIES TO THIS AGREEMENT MAY FILE AN ORIGINAL COUNTERPART OR A COPY OF THIS AGREEMENT WITH ANY COURT AS WRITTEN EVIDENCE OF THE CONSENT OF THE PARTIES HERETO TO THE WAIVER OF THEIR RIGHT TO TRIAL BY JURY. For the avoidance of doubt, nothing in this Agreement shall interfere with or adversely affect the existing rights and obligations of the parties hereto.

18. Captions. The use of captions and section headings herein is for purposes of convenience only and shall not affect the interpretation or substance of any provisions contained herein.

19. Tax Matters.

19.1 Consultant shall be issued a tax form 1099-MISC by the Company which reflects the applicable amount of any taxable payments received by Consultant in respect of his consulting services hereunder for the applicable calendar year. There shall be no withholding or deduction from any amounts payable for such services, and Consultant shall be solely responsible for, and indemnify and hold the Company harmless in respect of, the payment of any federal, state, local or other income, payroll and/or employment taxes.

19.2 Consultant agrees, upon the request of the Company, to provide any reasonable assistance to the Company required to demonstrate that Consultant's services under this Agreement qualified as services by an independent contractor and all appropriate taxes with respect to any amounts paid hereunder (including but not limited to self-employment and income tax payments) have been paid.

20. Entire Agreement. Except as otherwise provided herein, this Agreement constitutes the entire agreement between the parties hereto with respect to the subject matter hereof and supersedes any and all prior and contemporaneous promises, agreements and representations not set forth in this Agreement.

21. Survival of Certain Provisions. Notwithstanding any other provision of this Agreement to the contrary, the provisions of Sections 10 through 21 shall survive the termination or expiration of the Consulting Period or this Agreement.

IN WITNESS WHEREOF, the Company and Consultant have executed and delivered this Agreement as of the date written above.

PARTNERRE LTD.:

By: _____
Name:
Title:

CONSULTANT:

By: _____
Name: Marvin Pestcoe



Schedule I

Consulting Services

- Support for senior executives with their new responsibilities
- Participation in the Company's Board of Directors activities as determined by the Group CEO
- Special projects and general support for the Group CEO as required
- Any other matters that the Group CEO shall agree with Consultant

PartnerRe Ltd.
Subsidiaries of the Company

	<u>Jurisdiction of Incorporation</u>
PartnerRe Ltd.	Bermuda
PartnerRe Services Ltd.	Bermuda
Partner Reinsurance Company Ltd.	Bermuda
PartnerRe Servicios Y Compañía Limitada	Chile
Intrinsic Equity Investments Ltd.	Bermuda
Intrinsic Equity Investments, LLC	Delaware, United States
PPF Holdings I Ltd.	Bermuda
Renewal Capital LLC	Delaware, United States
PPF Holdings II Ltd.	Bermuda
PPF Holdings III Ltd.	Bermuda
PartnerRe Capital Investments Corp.	Delaware, United States
LFR Collections LLC	Delaware, United States
NFC Collections LLC	Delaware, United States
Almandine I LLC	Delaware, United States
PartnerRe Catastrophe Fund Holdings Ltd	Bermuda
PartnerRe Catastrophe Fund Ltd	Bermuda
Lorenz Re Ltd.	Bermuda
Raccoon River Re Ltd	Bermuda
PartnerRe Holdings I Switzerland AG	Switzerland
PartnerRe Holdings Europe Limited	Ireland
PartnerRe Holdings Switzerland GmbH	Switzerland
PartnerRe Financing Ltd	Bermuda
PartnerRe Connecticut Inc.	Connecticut, United States
PartnerRe Holdings Ireland Limited	Ireland
PartnerRe Ireland Insurance Limited	Ireland
PartnerRe Courcelles II	France
PartnerRe Holdings B.V.	Netherlands
PartnerRe Europe Services Limited	Ireland
PartnerRe Holdings SA	France
Partner Reinsurance Europe SE	Ireland
PartnerRe Escritório de Representação no Brasil Ltda.	Brazil
PartnerRe Miami Inc.	Florida, United States
PARIS RE Asia Pacific Pte Ltd.	Singapore
PartnerRe Courcelles I	France
PartnerRe U.S. Corporation	Delaware, United States
PartnerRe America Insurance Company.	Delaware, United States
PPF Finance LLC	Delaware, United States
Peninsula Coinvestment II, LLC	Delaware, United States
PartnerRe Finance A LLC	Delaware, United States
PartnerRe Finance B LLC	Delaware, United States
PartnerRe Finance C LLC	Delaware, United States
PartnerRe Capital Markets Corp	Delaware, United States
PartnerRe Principal Finance Inc.	Delaware, United States
PartnerRe New Solutions Inc	Delaware, United States
PartnerRe Asset Management Corporation	Delaware, United States
Beaufort Investment Management Inc.	Delaware, United States
Partner Reinsurance Company of the U.S.	New York, United States
PartnerRe Insurance Company of New York.	New York, United States
PartnerRe Finance I Inc.	Delaware, United States
PartnerRe Finance II Inc	Delaware, United States
PartnerRe Capital Trust II	Delaware, United States
PartnerRe Capital Trust III	Delaware, United States
Presidio Reinsurance Group, Inc.	Delaware, United States
Presidio Excess Insurance Services Inc.	California, United States
PartnerRe Management Ltd.	United Kingdom
Presidio Reinsurance Corporation, Inc.	Montana, United States

CONSENT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

We consent to the incorporation by reference in Registration Statements Nos. 333-11998, 333-107242, 333-129762, 333-157585, 333-161207, 333-163445, 333-163446, 333-176968 and 333-182045 on Form S-8, and in Registration Statement No. 333-180628 on Form S-3 of our reports dated February 27, 2014, relating to the consolidated financial statements and financial statement schedules of PartnerRe Ltd. and subsidiaries and the effectiveness of PartnerRe Ltd.'s internal control over financial reporting, appearing in this Annual Report on Form 10-K of PartnerRe Ltd. and subsidiaries for the year ended December 31, 2013.

/s/ DELOITTE & TOUCHE LTD.

Deloitte & Touche Ltd.

Hamilton, Bermuda
February 27, 2014

CERTIFICATION

I, Constantinos Miranthis, certify that:

1. I have reviewed this Annual Report on Form 10-K of PartnerRe Ltd.;
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;
4. The registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:
 - (a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
 - (b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
 - (c) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
 - (d) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and
5. The registrant's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):
 - (a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and
 - (b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: February 27, 2014

/s/ CONSTANTINOS MIRANTHIS

Constantinos Miranthis
President & Chief Executive Officer

CERTIFICATION

I, William Babcock, certify that:

1. I have reviewed this Annual Report on Form 10-K of PartnerRe Ltd.;
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;
4. The registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:
 - (a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
 - (b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
 - (c) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
 - (d) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and
5. The registrant's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):
 - (a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and
 - (b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: February 27, 2014

/s/ WILLIAM BABCOCK

William Babcock

Executive Vice President & Chief Financial Officer

SECTION 906 CERTIFICATIONS

The certification set forth below is being submitted in connection with the Annual Report on Form 10-K of PartnerRe Ltd. (the “Report”) for the purpose of complying with Rule 13a-14(b) or Rule 15d-14(b) of the Securities Exchange Act of 1934 (the “Exchange Act”) and Section 1350 of Chapter 63 of Title 18 of the United States Code.

Constantinos Miranthis, the Chief Executive Officer, and William Babcock, the Chief Financial Officer, each certifies that, to the best of his knowledge:

1. the Report fully complies with the requirements of Section 13(a) or 15(d) of the Exchange Act; and
2. the information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of PartnerRe Ltd.

Date: February 27, 2014

/s/ CONSTANTINOS MIRANTHIS

Constantinos Miranthis
President & Chief Executive Officer

/s/ WILLIAM BABCOCK

William Babcock
Executive Vice President & Chief Financial Officer

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PARTNERRE ORGANIZATION

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SENIOR MANAGEMENT GROUP

1 **John Adimari**
Chief Administration Officer

2 **Scott Altstadt**
Chief Underwriting Officer,
Global

3 **Patrick Beaudoin**
Chief Actuarial Officer, Group

4 **Hervé Castella**
Group Catastrophe Portfolio
Manager

5 **Patrick Chevrel**
Head of Global Accounts,
Global

6 **Dave Durbin**
Group Risk Officer

7 **Ted Dziurman**
General Manager and Executive
Director, PartnerRe Europe

8 **Markus Frank**
Head of Technical
Accounting and Claims,
Group

9 **Nick Giuntini**
Chief Risk and Financial Officer,
Deputy Head, Investments

10 **Charles Goldie**
Deputy CEO, Global
Head of Specialty Lines,
Global

11 **Dean Graham**
Head of Life

12 **Dennis Heintz**
President,
PartnerRe Health

13 **Dan Hickey**
Head of Standard Lines,
North America

14 **Mandy Noschese**
Chief Information Officer,
Group

15 **Salvatore Orlando**
Head of High Growth
Markets, Global

16 **David Outtrim**
Chief Accounting Officer,
Group

17 **David Phillips**
Head of Investments

18 **Jim Ramsay**
Head of Fixed Income,
Investments

19 **Christophe Renia**
Head of Mature Markets,
Property & Casualty,
Global

20 **Dick Sanford**
Head of Specialty Lines,
North America

21 **Brian Secrett**
Head of Catastrophe,
Global

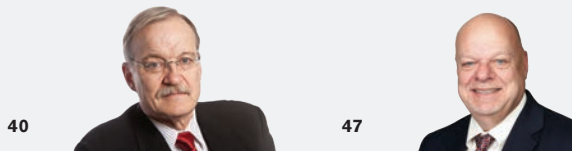
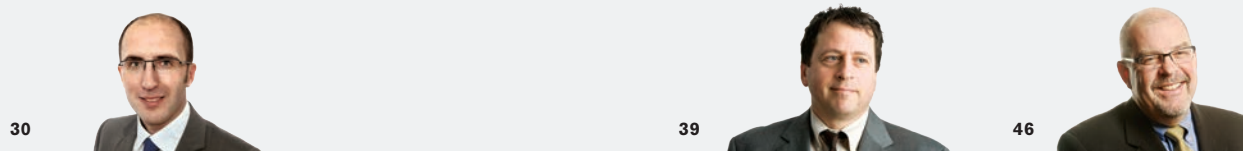
22 **Dom Tobey**
Head of D&F, Global

23 **Andrew Turnbull**
Group Strategy and Business
Development Officer

24 **Ton Van DerMinnen**
Head of Underwriting Operations,
Group

25 **Marc Wetherhill**
Chief Legal Counsel, Group

PARTNERRE ORGANIZATION



BUSINESS UNIT AND SUPPORT MANAGEMENT

GROUP

- 26 **Joe Barbosa**
Group Treasurer
- 27 **Trevor Brookes**
Chief Audit Officer
- 28 **Richard Glaser**
Head of Tax
- 29 **Lindsay Hyland**
Head of Talent Management
- 30 **Francis Kieken**
Head of HR Operations

- 31 **Philip Martin**
Head of HR Group Services
- 32 **Christine Patton**
Secretary and Corporate Counsel to the Board
- 33 **Celia Powell**
Chief Communications Officer
- 34 **Robin Sidders**
Investor Relations Director

NORTH AMERICA

- 35 **Maria Amelio**
Head of Programs, Managed Programs
- 36 **Rob Brian**
Head of Regional/Multiline, Standard Lines
- 37 **Christina Cronin**
Head of Property and General Casualty, Standard Lines
- 38 **Carol Desbiens**
COO and Deputy Head, Canada
- 39 **Jeffrey Englander**
Chief Reserving Actuary
- 40 **Russell Fillers**
Head of Space, Specialty Lines
- 41 **Vincent Forgione**
Human Resources Business Partner

- 42 **Tom Forsyth**
General Counsel
- 43 **Lynn Halper**
Head of Specialty Casualty, Specialty Lines
- 44 **Patrick Li**
Head of Canada
- 45 **Richard Meyerholz**
Head of Surety, Specialty Lines
- 46 **John Peppard**
Head of Managed Programs
- 47 **Mike Zielin**
Head of Agriculture, Managed Programs

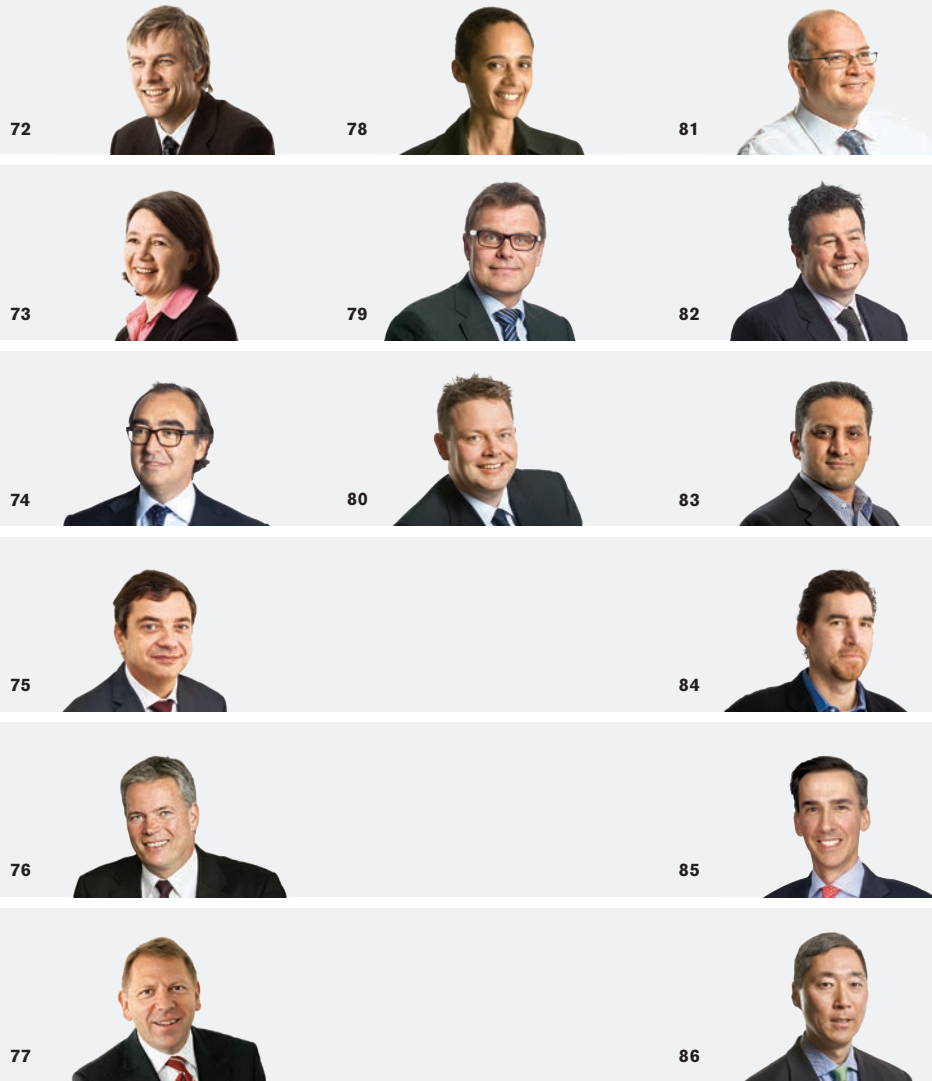


BUSINESS UNIT AND SUPPORT MANAGEMENT (CONTINUED)

GLOBAL

- 48 **Felix Arbenz**
Head of DACH, Italy, Central Europe, Property & Casualty
- 49 **Patrick Bachofen**
Head of Property Wholesale Solutions, D&F
- 50 **Markus Bassler**
Head of Energy Onshore and Special Risks, Specialty Lines
- 51 **Rinat Bektleuov**
Head of Agriculture, Specialty Lines
- 52 **Robert Boghos**
Head of UK, Ireland, Caribbean, Property & Casualty
- 53 **Jürg Buff**
Head of Engineering, Specialty Lines
- 54 **Michel Bükér**
Head of London Market and Broker Relations
- 55 **Juan Calvache**
Head of Miami Office
- 56 **Jacques de Francieu**
Head of Western and Southern Europe, Latin America, Property & Casualty
- 57 **Erick Derotte**
Head of Catastrophe Underwriting, Zurich
- 58 **Alain Flandrin**
Head of Asia Pacific
- 59 **Greg Haft**
Head of Catastrophe Underwriting, Bermuda
- 60 **Paul Hazel**
Head of Energy Onshore, D&F
- 61 **Holger Hillebrand**
Head of Engineering, D&F
- 62 **Christopher Ho**
Chairman of Client Relations, General Manager Singapore
- 63 **Ian Houston**
Chief Underwriting Officer and Deputy Head of Specialty Lines
- 64 **Christope Kägi**
Head of Nordic, Baltic, East Mediterranean, Property & Casualty
- 65 **Clive Kelly**
General Manager PartnerRe Insurance, Ireland
- 66 **Jean-Marie Le Goff**
Human Resources Business Partner
- 67 **Jeremy Lilburn**
Head of Credit & Surety, Specialty Lines
- 68 **Jorge Linero**
Head of Property Americas, D&F
- 69 **Gerd Maxl**
General Counsel
- 70 **Philippe Meyenhofer**
Head of Specialty Casualty, Specialty Lines
- 71 **Philip Nye**
Head of Asia Pacific, Property & Casualty

PARTNERRE ORGANIZATION



BUSINESS UNIT AND SUPPORT MANAGEMENT (CONTINUED)

	LIFE	INVESTMENTS
72 Erik Rüttener Chief Underwriting Officer and Deputy Head of Catastrophe	78 Pascale Gallego Head of Life Market, Southern Europe, Middle East and Latin America	81 Michael Bennis Senior Portfolio Manager, Mortgage-backed Securities
73 Eija Tuulensuu Head of Marketing	79 Markus Lützel Schwab Head of Life Market, Asia, Northern, Central and Eastern Europe	82 Lee Iannarone General Counsel
74 Marc Van Der Veer General Manager, PartnerRe Wholesale	80 Kevin O'Regan Head of Life Market, Longevity	83 Jay Madia Head of Equities
75 Philippe Vivares Head of Energy Offshore, D&F		84 Dave Moran Head of Principal Finance
76 Benjamin Weber Head of Aviation and Space, Specialty Lines		85 Steve Palmer Head of Private Equity
77 Stephen Woodward Head of Property, Europe and Asia, D&F		86 David Yim Senior Portfolio Manager, Credit

SHAREHOLDER INFORMATION

BOARD OF DIRECTORS

CHAIRMAN

Jean-Paul Montupet
Executive Vice President
and Advisory Director (Retired)
Emerson Electric Co.
USA

Judith C. Hanratty, CVO, OBE
Company Secretary and
Counsel to the Board (Retired)
BP plc
United Kingdom

Jan H. Holsboer
Executive Director (Retired)
ING Group
The Netherlands

Roberto G. Mendoza
Senior Managing Director
Atlas Advisors, LLC
USA

Costas Miranthis
President and Chief Executive Officer
PartnerRe Ltd.
Bermuda

Debra Perry
Founder and Managing Member
Perry Consulting
USA

Rémy Sautter
Chairman
RTL Radio
France

Greg F. H. Seow
Director
Wheelock Properties (Singapore) Ltd.
Singapore

Lucio Stanca
Chairman (Retired)
IBM Europe, Middle East,
Africa
Italy

Kevin M. Twomey
President and
Chief Operating Officer (Retired)
The St. Joe Company
USA

Dr. Egbert Willam
Chairman
KEN Investments K.K.
Germany

David K. Zwiener
President and Chief Operating Officer
(Retired)
Hartford Financial Services Group Inc.
USA

SECRETARY AND CORPORATE COUNSEL TO THE BOARD

Christine Patton
PartnerRe Ltd.

INVESTOR RELATIONS DIRECTOR

Robin Sidders
PartnerRe Ltd.

SHAREHOLDERS' MEETING

The 2013 Annual General Meeting will be held on May 13, 2014, in Pembroke, Bermuda.

INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

Deloitte & Touche Ltd.
Corner House
Church & Parliament Streets
Hamilton, Bermuda

OUTSIDE COUNSEL

U.S.
Davis Polk & Wardwell
450 Lexington Avenue
New York, New York 10017
USA

BERMUDA

Appleby
Canon's Court
22 Victoria Street
Hamilton HM 12
Bermuda

MARKET INFORMATION

The following PartnerRe shares (with their related symbols) are traded on the New York Stock Exchange and the Bermuda Stock Exchange:

Common Shares
"PRE"

The following PartnerRe shares (with their related symbols) are traded on the New York Stock Exchange:

6.5% Series D Cumulative
Redeemable Preferred Shares
"PRE PR D"

7.25% Series E Cumulative
Redeemable Preferred Shares
"PRE PR E"

5.875% Series F Non-Cumulative
Redeemable Preferred Shares
"PRE PR F"

As of February 14, 2014, the approximate number of common shareholders was 87,600.

SHARE TRANSFER AND DIVIDEND PAYMENT AGENT

Computershare Trust Company, N.A.
P.O. Box 43078
Providence, RI 02940-3078

ADDITIONAL INFORMATION

PartnerRe's Annual Report on Form 10-K and PartnerRe's 1934 Act filings, as filed with the Securities and Exchange Commission, are available at the corporate headquarters in Bermuda or on the Company website at www.partnerre.com

For contact information visit:
www.partnerre.com/contact

