PartnerRe

Partner Reinsurance Company Ltd.

Financial Condition Report

December 31, 2016

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1. SUMMARY

Partner Reinsurance Company Ltd. (the Company) is an exempt company incorporated under the laws of Bermuda with limited liability and is 100% owned subsidiary of PartnerRe Ltd. (the Parent or PartnerRe), an international reinsurance group. The Parent is a wholly-owned subsidiary of EXOR Nederland N.V. and the ultimate parent company is EXOR N.V. (EXOR), a Dutch public limited liability company which is listed on the Milan stock exchange. The Company's principal office is located at 90 Pitt's Bay Road, Pembroke, Bermuda (telephone number: +1 441-292-0888).

This Financial Condition Report (FCR) is based on the Insurance (Public Disclosure) Rules 2015 which came into effect on January 1, 2016. These rules specify the requirement for commercial insurers to prepare an FCR and requires that it be made publicly available on the insurer's website. This report provides a discussion on the Company's Business and Performance (section 2) Governance Structure (section 3), Risk Profile (section 4), Solvency Valuation (section 5), Capital Management (section 6) and Significant Events (section 7).

PartnerRe Ltd. is a leading global reinsurer, with a broadly diversified and balanced portfolio of traditional reinsurance and capital markets risks. The Company is one of four main operating companies world-wide within the PartnerRe group (the Group) which also includes Partner Reinsurance Europe SE (PartnerRe Europe), Partner Reinsurance Company of the U.S. (PartnerRe U.S.) and Partner Reinsurance Asia Pte. Ltd. (PartnerRe Asia).The Group is organized into business units that may be comprised of business from one or more operating companies.

The Company's long-term objective is to manage a portfolio of diversified risks that will create shareholder value. Given that the Company's profitability in any particular period can be significantly affected by the level of large catastrophic losses or the impact of changes in interest rates on the fair value of investments, the Company's performance during any particular period is not necessarily indicative of its performance over the longer-term reinsurance cycle. Therefore, management assesses progress against this long-term objective over the reinsurance cycle.

Net income for the full year 2016 on a U.S. GAAP basis was $537 million. See section 2 for a discussion of the Company's performance during the year.

The Company uses the standard Bermuda Solvency Capital Requirement (BSCR) model to assess the Enhanced Capital Requirement (ECR) or required statutory capital and surplus. The ECR and the Available Statutory Economic Capital and Surplus were $1,315 million and $4,159 million, at December 31, 2016, respectively. The Bermuda Solvency Capital Requirement Ratio at December 31, 2016 was 316%.

The Company's eligible capital by tier at December 31, 2016 was as follows (in millions of U.S. dollars):

	2016
Tier 1	$ 4,159
Tier 2	—
Tier 3	—
Total	**$ 4,159**

This report is primarily based on the Company's Economic Balance Sheet (EBS) as at December 31, 2016. In addition, certain sections include information based on the Company's December 31, 2016 Consolidated Financial Statements which have been prepared in accordance with accounting principles generally accepted in the United States (U.S. GAAP) and include the accounts of the Company and its subsidiaries.

2. BUSINESS AND PERFORMANCE

2.1 BUSINESS

The Company predominantly provides reinsurance and certain specialty insurance lines on a worldwide basis. 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 commenced operations in November 1993.

Effective January 1, 2004, the Company entered into a 25% quota-share agreement to assume new business from PartnerRe U.S. PartnerRe U.S. is subject to regulation under the insurance statutes and regulations of New York and all states where it is licensed, accredited or approved to underwrite insurance and reinsurance.

Effective January 1, 2008, the Company entered into a 50% quota-share agreement to assume existing and new business from PartnerRe Europe, and the business, assets and liabilities of the Canadian Life branch from PartnerRe SA, a subsidiary of the Parent.

Effective January 1, 2010, the Company entered into a 50% quota-share agreement to assume certain existing and new business from certain subsidiaries of PARIS RE Holdings Limited (Paris Re), a French listed, Swiss-based holding company and its operating subsidiaries, following its acquisition by the Parent in 2009.

Effective January 1, 2012, the business, assets and liabilities of the Company's Canadian Life branch were transferred to the Canadian Life branch of PartnerRe Europe. The Company then entered into a 50% quota share agreement with PartnerRe Europe to re-assume a portion of the Canadian Life business that it transferred. This agreement was commuted effective July 1, 2014.

Effective July 1, 2014, the Company entered into an Assumption Reinsurance Agreement with the Canadian Life branch of PartnerRe Europe. Under this agreement, the Canadian Life branch of PartnerRe Europe transferred all assets and liabilities related to its reinsurance business to the Company's Canadian Life branch. In addition, effective July 1, 2014, under a Business Transfer Agreement, the Canadian Life branch of PartnerRe Europe transferred all other remaining business assets and liabilities to the Company's Canadian Life branch.

Effective January 1, 2015, the Company entered into a 50% Quota Share agreement to assume new and renewal business from PartnerRe Asia. PartnerRe Asia is licensed by the Monetary Authority of Singapore (MAS) to operate as a non-life and life reinsurer in Singapore and is the principal reinsurance carrier for the Parent's business underwritten in the Asia Pacific region. Also effective January 1, 2015, the Company terminated its 50% quota-share agreement with the Singapore branch of PartnerRe Europe.

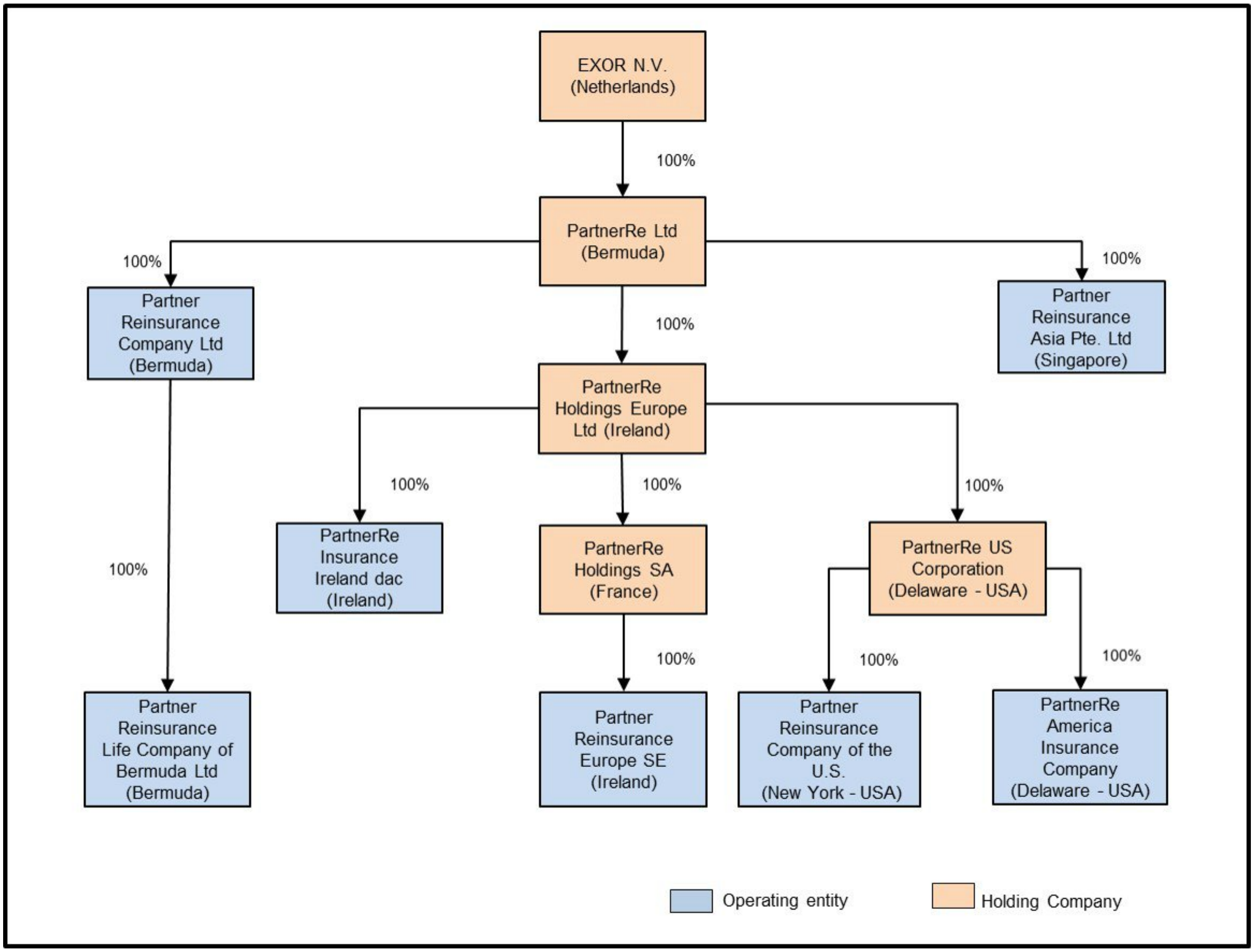
Effective January 1, 2015, the Company entered into a 90% Quota Share agreement to assume new and renewal business from PartnerRe Corporate Member Limited, a wholly-owned subsidiary. PartnerRe Corporate Member Limited writes insurance business in the Lloyd's insurance market as a Lloyd's corporate capital member.

On August 2, 2015, the Parent entered into an Agreement and Plan of Merger (the Merger Agreement) with Exor N.V. (now known as EXOR Nederland N.V.), Pillar Ltd., a wholly-owned subsidiary of Exor N.V., and solely with respect to certain specified sections thereof, EXOR S.p.A. (now known as EXOR N.V.), a European investment company controlled by the Agnelli family, whereby Pillar Ltd. would be merged with and into the Parent, with the Parent continuing as the surviving company and a wholly-owned subsidiary of Exor N.V. (the Merger). On March 18, 2016, the acquisition was completed following receipt of all regulatory approvals. Each of the Parent's common share issued and outstanding immediately prior to the effective time of the Merger was cancelled and one common share at $1.00 par value was issued to Exor N.V., representing 100% common share ownership of the Parent. Pursuant to the terms of the Merger Agreement, PartnerRe common shares are no longer traded on the NYSE. The Parent's preferred shares continue to be traded on the NYSE following the closing of the transaction.

On October 20, 2016, the Parent entered into a definitive agreement to acquire 100% of the outstanding ordinary shares of Aurigen Capital Limited (Aurigen), a North American life reinsurance company. The acquisition was subject to customary closing conditions including the receipt of required regulatory approvals and was completed on April 3, 2017. This acquisition enables the Parent to expand its life reinsurance footprint in Canada and the U.S. with limited overlap in market coverage.

On October 27, 2016, Exor N.V. changed its name to EXOR Nederland N.V. On December 10, 2016, EXOR S.p.A. merged with and into EXOR HOLDING N.V., a newly formed entity organized in the Netherlands. In conjunction with the merger, EXOR HOLDING N.V. was renamed EXOR N.V. EXOR N.V. is listed on the Milan Stock Exchange.

The following diagram is a simplified structure chart and includes the material related reinsurance and insurance entities in the Group:



See Appendix I for a detailed Group structure chart.

The Bermuda Monetary Authority (BMA) has chosen the Company as the designated insurer for the purposes of Group Supervision, and the BMA currently acts as Group supervisor of the Parent and its subsidiaries. As Group Supervisor, the BMA is tasked with assessing the financial condition of the Group and coordinates the dissemination of information to other relevant competent authorities for the purpose of assisting in their regulatory functions and the enforcement of regulatory action against the Parent or any of its subsidiaries, including the power to impose restrictions on the ability of the relevant subsidiaries to declare dividends to the Parent. In addition, the Company is required to maintain the ECR imposed by the BMA under Bermuda law. Please refer to Appendix II for the contact details of the Group Supervisor and the approved auditor.

2.2 PERFORMANCE

The charts and financial information in this section are based on the Company's December 31, 2016 Consolidated Financial Statements prepared using United States Generally Accepted Accounting Principles (U.S. GAAP).

2.2.1 TECHNICAL RESULT

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 inforce.

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.

The Company's gross premiums written for the years ended December 31, 2016 and 2015 are as follows (in millions of U.S. dollars):

	2016	2015
Gross premiums written related to:		
Non-life	**$ 2,028**	$ 2,131
Life and Health	**523**	576
Total gross premiums written	**$ 2,551**	$ 2,707

Losses and Loss Expenses and Non-life and Life and Health Reserves

The liability for non-life reserves 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 liability for life and health reserves 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 non-life and life and health reserves.

The Company's Non-life and Life and Health net incurred losses for the years ended December 31, 2016 and 2015 are as follows (in millions of U.S. dollars):

	2016	2015
Net incurred losses related to:		
Non-life	**$ 1,072**	$ 996
Life and Health	**443**	467
Total net incurred losses	**$ 1,514**	$ 1,462

Technical Result

Technical result consists of net premiums earned less losses and loss expenses and acquisition costs. Technical 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 Company’s Non-life and Life and Health technical result (excluding net investment income) for the years ended December 31, 2016 and 2015 are as follows (in millions of U.S. dollars):

	2016	2015
Technical result:		
Non-life	**223**	393
Life and Health	**(15)**	(14)
Total technical result	**208**	379

The decrease in Non-life technical result for 2016 compared to 2015 primarily reflected a higher level of reported large and mid-sized loss activity and a lower level of net favorable prior year loss development. The most significant losses in 2016, net of any reinsurance and reinstatement premiums, were the Canadian Wildfires, Hurricane Matthew and a Ghana energy loss.

2.2.2 INVESTMENT RESULT

The Company's total accounting return was 3.6% in 2016 and reflected overall mark to market gains, notwithstanding increases in U.S. and European risk-free interest rates. The total accounting return was 0.4% in 2015 and was primarily due to net investment income, partially offset by increases in U.S. risk-free interest rates, the widening of credit spreads and decreases in worldwide equity markets. The company's total accounting return by asset class as at December 31, 2016 and 2015 was as follows:

	2016	2015
Fixed maturities	**4.3 %**	1.7 %
Short-term investments, cash and cash equivalents	**0.5 %**	0.1 %
Equities	**(8.3)%**	(1.5)%
Other invested assets	**4.0 %**	(12.8)%

Net Investment Income

Net investment income includes interest, dividends and amortization, net of investment expenses, generated by the Company’s investment activities, as well as interest income generated on funds held assets. Net investment income by asset source for the years ended December 31, 2016 and 2015 was as follows (in millions of U.S. dollars):

	2016	2015
Fixed maturities	**$ 204**	$ 223
Short-term investments, cash and cash equivalents	**1**	—
Equities	**3**	7
Funds held and other	**24**	17
Investment expenses	**(26)**	(34)
Net investment income	**$ 206**	$ 212
Interest income on intercompany loans	**10**	10
Total investment income	**$ 216**	$ 222

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 business. The following discussion includes net investment income from all investment activities, including the net investment income from Life and Health.

Net investment income decreased in 2016 compared to 2015 due to lower income from fixed income securities and a decrease from equities, primarily due to a change in investment portfolio composition. These decreases were partially offset by lower investment expenses.

Net Realized and Unrealized Investment Gains (Losses)

Net realized and unrealized investment gains or losses include sales of the Company's fixed income securities, equity securities and other invested assets and changes in net unrealized gains or losses.

The Company's portfolio managers have a total return investment objective, achieved through a combination of optimizing current investment income and pursuing capital appreciation. To meet this objective, 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 gains (losses) for the years ended December 31, 2016 and 2015 were as follows (in millions of U.S. dollars):

	2016	2015
Net realized investment gains on fixed maturities and short-term investments	**$ 30**	$ 12
Net realized investment gains on equities	**30**	48
Net realized gains (losses) on other invested assets	**3**	(36)
Change in net unrealized gains on other invested assets	**16**	2
Change in net unrealized investment losses on fixed maturities and short-term investments	**(8)**	(138)
Change in net unrealized investment losses on equities	**(37)**	(59)
Total net realized and unrealized investment gains (losses)	**$ 34**	$ (171)

The net realized and unrealized investment gains of $34 million in 2016 were primarily due to narrowing of credit spreads, partially offset by increases in U.S. risk-free interest rates. The net realized and unrealized investment losses of $171 million in 2015 were primarily due to increases in U.S. risk-free interest rates, the widening of credit spreads, decreases in worldwide equity markets and realized losses on treasury note futures.

Interest in Losses of Equity Method Investments

Interest in losses of equity method investments represents the Company's aggregate share of earnings or losses related to several private placement investments and limited partnership interests. The Company recorded losses of $34 million and $5 million related to equity method investments for the years ended December 31, 2016 and 2015, respectively.

2.2.3 OTHER INCOME AND EXPENSES

The components of net income for the years ended December 31, 2016 and 2015 were as follows (in millions of U.S. dollars):

	2016	2015
Technical result:		
Non-life	**223**	393
Life and Health	**(15)**	(14)
Investment result:		
Net investment income	**216**	222
Net realized and unrealized investment gains (losses)	**34**	(171)
Interest in losses of equity method investments	**(34)**	(5)
Other components of net income		
Other income	**7**	9
Other expenses	**(41)**	(44)
Net foreign exchange gains	**150**	100
Income tax expense	**(3)**	(3)
Net income	**537**	487
Net income attributable to noncontrolling interests	**—**	(3)
Net income attributable to Partner Reinsurance Company Ltd.	**537**	484

The increase in net income in 2016 compared to 2015 was primarily due to the change from net realized and unrealized investment losses in 2015 to gains in 2016, and an increase in foreign exchanges gains which was partially offset by the reduction in the Non-life technical result.

3. GOVERNANCE STRUCTURE

3.1 BOARD AND SENIOR EXECUTIVE

3.1.1 CORPORATE GOVERNANCE FRAMEWORK

The Parent is a Bermuda domiciled company with a listing of its non-voting preferred shares on the New York Stock Exchange (the NYSE). It is a registrant with the Securities and Exchange Commission (the SEC) and is deemed to be a “foreign private issuer” by the SEC. The Group is therefore subject to the requirements of the Sarbanes-Oxley Act of 2002 (“Sarbanes-Oxley”) and related rules enacted by the SEC.

The quarterly reports on Form 6-K and the annual report on Form 20-F filed by the Parent with the SEC include the consolidated results of the Group and its subsidiaries and affiliates. The governance requirements established by Sarbanes-Oxley for the purpose of ensuring appropriate control, oversight and disclosure of matters of interest to all stakeholders are very much aligned with the Insurance Code of Conduct adopted by the Bermuda Monetary Authority. The Company, as a registered (re)insurer under the laws of Bermuda, is regulated by the Bermuda Monetary Authority and subject to the applicable laws and regulations under Bermuda law.

In considering the appropriate level of oversight for the Company we have looked at the overall governance structure of the Group. The Board of the Company has established a comprehensive corporate governance framework which upholds the governance framework established at the Group level in order to ensure consistency of standards. The Company's corporate governance framework includes the following:

- Company's Bye-Laws;
- PartnerRe's Code of Business Conduct and Ethics;
- PartnerRe's Enterprise Risk Management framework;
- PartnerRe's Group Subsidiary Corporate Governance Principles;
- Company's Audit Committee Charter; and
- Company's Risk Committee Charter.

Code of Business Conduct and Ethics

The Board of Directors of the Company (the Board) has adopted PartnerRe's Code of Business Conduct and Ethics, which applies to all directors, officers and employees of the Company. Any specific waiver of its provisions requires the approval of both the Board and of PartnerRe's Board or a Committee of PartnerRe's Board, and any such waiver must be disclosed to PartnerRe's shareholders promptly. There were no waivers of the Code of Business Conduct and Ethics in 2016. Any reported violation to the Code of Business Conduct and Ethics will be investigated and may result in disciplinary action, as appropriate. The outcome of any investigation is shared with the Audit Committee of PartnerRe and may be shared with the Audit Committee of the Company if relevant and appropriate.

Meetings and Committees of the Board

The Board has established two standing committees an Audit and Risk Committee. Each committee has a charter that, among other things, reflects current best practices in corporate governance. Below is a brief description of the role of each committee:

Audit Committee

Pursuant to its charter, the Audit Committee's primary responsibilities are to assist Board oversight of:

- The Company's annual and periodic statutory filings and audited financial statements;
- the effectiveness of internal control and risk management processes and compliance on regulatory and legal matters;
- the independent auditor's qualifications and independence; and
- the performance of PartnerRe's internal audit function and independent auditors. The Audit Committee regularly meets with management, internal audit and the Company's independent registered public accounting firm to review matters relating to the quality of financial reporting and internal accounting controls, including the nature, extent and results of their audits.

Risk Committee

Under the terms of its charter, the Risk Committee oversees the Company's risk management framework policies and practices as well as its capital management policies and processes. The Risk Committee has oversight responsibility for the Company's policies and activities related to:

- overall management of the Company's risks pursuant to the business strategy and risk guidelines established by the Board;

- capital management including issuance and retirement of capital, declaration of dividends and internal capital movements; and
- oversight of the risk management function.

The Risk Committee regularly meets with management and with the Company's Risk Officer to monitor and review the Company's risk management activities in light of the strategies approved by the Board.

The Board's Role in Risk Oversight

As a reinsurance entity the Company assumes risk in order to achieve its strategic objectives and return targets; however, it is necessary that risk be assumed within an enterprise risk management framework in accordance with an established risk appetite. PartnerRe has a risk management framework that operates across the entire group. The framework is approved and monitored by the PartnerRe Board. The framework recognizes the needs and requirements of each operating entity within the group and the risk officer of the Company has a dual reporting role, both to the Risk Committee of the Company and the centralized risk function at PartnerRe Group. The Company's risk officer is responsible for ensuring appropriate risk monitoring and to discuss the Company's risk management framework and risk inventory. The Company's risk officer is subject to annual assessments of fitness.

As described above, PartnerRe has an enterprise risk management framework which looks across the Group. The Company's Risk Committee will link to PartnerRe's Group Enterprise Risk Committee to ensure consistency of practice and due consideration of operating entities within the Group. This linkage is established by having members of the Company's Risk Committee serving as members of PartnerRe's Group Enterprise Risk Committee. In addition, the Board has access to group risk officer's reports prepared for the PartnerRe Board.

PartnerRe's Board sets both the risk appetite and return goals for the Group and the Board is responsible for setting the strategies and policies that both support execution of the PartnerRe Group strategy and are in the best interest of the Company. The Board remains responsible for oversight of the risk management and internal controls framework of the Company and has adopted a delegation of authority policy to manage and execute the day-to-day operations of the Company and its branches.

The Company utilizes the resources of PartnerRe's group internal audit function to ensure an independent review of the Company's internal control framework and risk management practices. The Audit Committee of the Company has access to internal audit activities, reports and findings and to all relevant reports for the Audit Committee of PartnerRe's Board. The Board has adopted an internal audit charter acknowledging that the internal audit function draws its authority from PartnerRe's Board. The Audit Committee of the Company reviews the annual Internal Audit Plan and has input to the Internal Audit planning process to ensure that specific Company needs can be addressed in the context of the Group internal audit plan.

3.1.2 REMUNERATION POLICY

Director Compensation

It was determined that none of the directors of the Company be entitled to receive compensation for his/her services as a director of the Company for the year ended 31 December, 2016.

3.1.3 PENSION OR EARLY RETIREMENT SCHEMES

N/A

3.1.4 AGREEMENTS WITH RELATED PARTIES

Reinsurance Agreements

The Company enters into reinsurance contracts with subsidiaries of the Parent. Effective January 1, 2008, the Company entered into a 50% quota-share agreement to assume existing and new business from PartnerRe Europe. Effective January 1, 2010, the Company entered into a 50% quota-share agreement to assume certain existing and new business from certain subsidiaries of Paris Re.

Effective January 1, 2004, the Company entered into a 25% quota-share agreement to assume new business from PartnerRe U.S. PartnerRe U.S. is subject to regulation under the insurance statutes and regulations of New York and all states where it is licensed, accredited or approved to underwrite insurance and reinsurance.

Effective July 1, 2014, the Company entered into an Assumption Reinsurance Agreement with the Canadian Life branch of PartnerRe Europe. Under this agreement, the Canadian Life branch of PartnerRe Europe transferred all assets and liabilities related to its reinsurance business to the Company's Canadian Life branch. In addition, effective July 1, 2014, under a Business Transfer Agreement, the Canadian Life branch of PartnerRe Europe transferred all other remaining business assets and liabilities to the Company's Canadian Life branch.

Effective January 1, 2015, the Company entered into a 50% Quota Share agreement to assume new and renewal business from PartnerRe Asia, a subsidiary of the Parent. PartnerRe Asia is licensed by the Monetary Authority of Singapore (MAS) to operate as a non-life and life reinsurer in Singapore and is the principal reinsurance carrier for the Parent's business underwritten in the Asia Pacific region. Also Effective January 1, 2015, the Company terminated its 50% quota-share agreement with PartnerRe Europe.

Effective January 1, 2015, the Company entered into a 90% Quota Share agreement to assume new and renewal business from PartnerRe Corporate Member Limited, a wholly-owned subsidiary. PartnerRe Corporate Member Limited writes insurance business in the Lloyd's insurance market as a Lloyd's corporate capital member.

Loan Agreements

During 2007, the Company entered into a loan agreement for €167 million with PartnerRe Holdings B.V., an affiliate. The loan, which accrues interest at 5.4% per annum, is repayable in 2017, with interest receivable semi-annually. At December 31, 2016 and 2015, the balance of the loan was $174.6 million and $182.4 million, respectively. The amount of interest income on the loan during 2016 and 2015 amounted to $10.0 million and $10.2 million, respectively.

The Company has other advances to affiliates, including accrued interest, totaling $162.3 million and $311.4 million at December 31, 2016 and 2015, respectively.

The Company has other liabilities to affiliates totaling $19.4 and $6.4 million at December 31, 2016 and 2015, respectively.

Service Agreements

In the normal course of its operations, the Company entered into service agreements with other subsidiaries of the Parent.

Other

Deferred Gain

The Company has a deferred gain of $84.3 million and $86.9 million, at December 31, 2016 and 2015, respectively, related to the Assumption Reinsurance Agreement with the Canadian Life branch of PartnerRe Europe.

Almacantar Group S.A.

On March 24, 2016, the Parent agreed to purchase from Exor S.A. a 36% shareholding in the privately held United Kingdom real estate investment and development group, Almacantar Group S.A. (Almacantar), as well as certain financial investments, mainly third-party equity funds, based upon the net asset value of these investments. In the second quarter of 2016, the Company paid total cash consideration of approximately $667 million for these investments, $539 million of which was for Almacantar. These transactions between related parties were entered into at arms-length. At December 31, 2016 the total carrying value of these investments of $583 million were comprised of $436 million equity method valuation of Almacantar and $147 million fair value included within Other Unquoted Investments in the economic balance sheet.

3.2 FITNESS AND PROPRIETY REQUIREMENTS

3.2.1 FIT AND PROPER PROCESS IN ASSESSING THE BOARD AND SENIOR EXECUTIVE

Significant Board Practices

Advance Materials

Information and data important to the directors' understanding of the business or matters to be considered at a Board or committee meeting are, to the extent practical, distributed sufficiently in advance of the meeting to allow careful review. The Chairman, in conjunction with the Chief Executive Officer, establishes on an annual basis an agenda of topics for consideration and review by the Board during the following year. This annual schedule of topics is then provided to the full Board for review and comment and is adjusted, as appropriate, during the year. In addition, the Chairman and each committee sets a quarterly agenda in advance of all Board and committee meetings.

Access to Management

Directors have full and unrestricted access to management. In addition, key members of management attend Board meetings to present information about the results, plans and operations of the business within their areas of responsibility.

Access to Outside Advisers

The Board and its committees may retain external counsel or consultants on their own initiative. For example, the Audit Committee has the authority to retain and terminate the independent auditor.

3.2.2 PROFESSIONAL QUALIFICATIONS, SKILLS AND EXPERTISE OF THE BOARD AND SENIOR EXECUTIVES

Biographies of the Board of Directors of the Company:

Emmanuel Clarke
Mr. Clarke is President and Chief Executive Officer of PartnerRe Ltd. and is also a member of PartnerRe Ltd.'s Executive Committee. He joined PartnerRe in 1997, with the acquisition of SAFR, and was appointed Head of Credit and Surety, Global in 2001, additionally Deputy Head of Specialty Lines, Global in 2002, Head of Property and Casualty, Global in 2006 and Head of Specialty Lines, Global in 2008. He was appointed to the position of President of PartnerRe Ltd. in September 2015 and Chief Executive Officer in March 2016. Mr. Clarke has a Master Studies in Business Administration from the Universite Paris, IX - Dauphine, specializing in Finance and Controlling and an MBA in International Business from the City University of New York.

Mario Bonaccorso - Director effective April 4, 2016
Mr. Bonaccorso is Executive Vice President and Chief Financial Officer of PartnerRe Ltd. and a member of PartnerRe Group's Executive Committee and is responsible for the PartnerRe Group's financial operations. Prior to joining PartnerRe, Mr. Bonaccorso served as Managing Director of EXOR for eight years where he was responsible for Investments and for the management of EXOR's portfolio companies. Prior to joining EXOR, Mr. Bonaccorso worked as a Research and Development Telecom Engineer at Qualcomm Inc., as an engagement manager at McKinsey&Co. and as Chief Investment Officer of Jupiter Finance. Born in Italy in 1976, Mr. Bonaccorso has a Master of Science cum laude in Telecommunications Engineering at Politecnico di Torino University and an MBA with honors from INSEAD. Mr. Bonaccorso has served on behalf of EXOR on the Board of Directors of Cushman & Wakefield, Banijay Holding and Banca Leonardo and served as a director of EXOR SA.

Greg Haft
Mr. Haft joined PartnerRe in June 2013 and is responsible for the effective management of the Catastrophe Underwriting function in Bermuda to successfully deliver agreed objectives as identified in the annual Catastrophe Business Unit Plan. He is a member of the Global Business Unit Catastrophe senior management team. Prior to joining PartnerRe, Mr. Haft was a Managing Director, US Cat Reinsurance and Outwards Re with Alterra Bermuda Limited from 2010 through 2013; Senior Vice President US and UK Cat Reinsurance with Harborpoint Re Bermuda from 2005 through 2010; Vice President and Actuary of Chubb Re Bermuda/Chubb Atlantic from 2002 through 2005 and Assistant Vice President and Actuary of Chubb & Son, Inc. from 1993 through 2002. Mr. Haft holds a B.S.c from the University of Michigan, Mathematics & Statistics, is a Fellow of the Casualty Actuarial Society and is a Certified Cat Risk Analyst.

Marc Wetherhill - Resigned as a director effective August 8, 2017
Mr. Wetherhill is responsible for the management of the legal and regulatory compliance function for PartnerRe as well as being Chief Legal Counsel & Chief Ethics Officer of PartnerRe Ltd. Mr. Wetherhill joined PartnerRe in October 2003 as Corporate Counsel, was promoted to Associate General Counsel in 2006 and was seconded to the Capital Markets Group from January 2009 to December 2010 as the Legal & Regulatory Compliance Executive. In September 2012, Mr. Wetherhill was promoted to Chief Legal Counsel. Prior to joining PartnerRe, Mr. Wetherhill was an associate with Appleby from 2000 through 2003 and a trainee solicitor at Berrymans Lace Mawer, London from 1998 through 2000. Mr. Wetherhill has a BA from the University College of Wales and obtained his Legal Practice Certificate from the College of Law, Chester, UK. Mr. Wetherhill entered on the Roll of Solicitors of England & Wales in 2000 and was called to the Bermuda Bar in 2001. Mr. Wetherhill was appointed as a director of PRE Bermuda's board on February 8, 2013.

David Outtrim - Resigned as a director effective February 6, 2017
Mr. Outtrim was responsible for the management of PartnerRe's worldwide finance team, the oversight of all group and legal entity financial reporting, planning and analysis, and the maintenance of accounting policies and controls. He joined PartnerRe in January 2007 as Group Controller and was promoted to Chief Accounting Officer in April 2010. Prior to that he served as Financial Controller of Quanta Capital Holdings Ltd from 2004 through 2006. From 1996 to 2004, Mr.

Outtrim worked for the audit firm of KPMG where he progressed from Auditor to Senior Manager, working both in Europe and Bermuda. From 1993 to 1996, Mr. Outtrim worked for the audit firm of BDO in the United Kingdom. He holds a BA in Accounting and Finance from Nottingham Trent University and is a Fellow of the Institute of Chartered Accountants in England and Wales.

William Babcock - Resigned as a director effective April 4, 2016
Mr. Babcock was responsible for all aspects of PRE Bermuda's financial operations. Mr. Babcock was also Executive Vice President of PartnerRe Ltd., and, prior to his resignation on April 4, 2016, was Chief Financial Officer of PartnerRe Ltd., as well as a member of its Executive Committee. His group responsibilities included financial reporting and control, treasury and capital management, and tax as well as investor relations and IT. Mr. Babcock joined PartnerRe in August 2008. He holds 20 years of professional experience, both in public accounting and the reinsurance industry, including Chief Accounting Officer and Director of Financial Operations at Endurance Specialty Holdings Ltd and Chief Financial Officer of Endurance Reinsurance Corp. of America from 2002 through 2007. Before that, Mr. Babcock was an Underwriter at Converium Reinsurance Corp. of America from 1998 through 2002 and a Senior Manager at KPMG from 1990 through 1998. Mr. Babcock holds a B.S.C. Accounting from Wake Forest University and is a CPA.

Biographies of Executive Management of the Company:

Wanda Mwaura - Principal Representative
Ms. Mwaura is the Chief Accounting Officer for the PartnerRe Group and is responsible for external reporting and accounting policy for SEC reporting, US GAAP and IFRS. Ms. Mwaura joined PartnerRe in October 2013 as the Head of External Reporting and Accounting Policy. Prior to that she was an Audit Partner in the Financial Services practice of Ernst & Young Bermuda, primarily responsible for audits of (re)insurance entities. Ms. Mwaura joined Ernst & Young Bermuda in January 1996 as a Staff Accountant and over the years was promoted to Senior, Supervisor, Manager, Senior Manager and Partner. During her career at EY, Ms. Mwaura led the audits and consulting engagements (including internal audit, internal control compliance and other special projects) for many insurance captives, SEC registrants and many other reinsurance and asset management clients. Ms. Mwaura has participated on numerous boards and committees over the years, including the Bermuda Insurance Institute, The Institute of Chartered Accountants of Bermuda (ICAB) and the Atlantic School of Chartered Accountants. She holds a Bachelor of Commerce degree from Dalhousie University, is a Canadian CPA, CPA (State of Maine), and is a member of CPA Bermuda (formerly ICAB).

Terry Kuruvilla - Chief Actuarial Officer
Mr. Kuruvilla is responsible for the management and oversight of the quarterly reserve processes and peer review of business unit reserve studies. He has over 15 years of experience in the actuarial field and was a Senior Vice President & Chief Actuary with XL Re, Latin America from 2010 to 2012 prior to joining PartnerRe in August 2012. Mr. Kuruvilla was a Vice President & Financial Actuary with XL Re, Bermuda from 2005 -2010. Mr. Kurvuilla joined Saint Paul Companies/Travelers as an Actuarial assistant in 1997, was promoted to Senior Actuarial Assistant in 1999 and was promoted to Actuary in 2001 until 2005. Mr. Kuruvilla is a Fellow of the Casualty Actuarial Society.

David Durbin - Chief Risk Officer - Retired March 31, 2017
Mr. Durbin was responsible for coordinating all risk management practices of the PartnerRe Group including aggregation and exposure control and the monitoring and maintenance of the group's risk management framework. Mr. Durbin joined PartnerRe in July 2006. Prior to joining PartnerRe he worked for Swiss Re Group, Armonk from 1997 through 2006, most recently as Executive Vice President and Global Head of Marine, Engineering, Aviation and Special Lines Products. From 1991 through 1997 Mr. Durbin was Chief Economist and Head of Research and Development for National Council on Compensation Insurance Inc. Prior to 1991 Mr. Durbin was Senior Consultant with Milliman & Robertson Inc, an actuarial and economic consulting firm and was a Faculty Member of Rutgers University. He holds a BA in Economics from Union College, Schenectady, an MA in Economics from City University of New York, and a PhD in Economics from City University of New York.

Peter Antal - Chief Risk Officer - Appointed February 13, 2017
Mr. Antal joined PartnerRe in November 2016 as Head of Capital and Risk. Prior to joining PartnerRe, Mr. Antal worked with Swiss Re for over 20 years as a member of the Actuarial team culminating in his appointment as Chief Actuary of the Financial Services Business Group (Managing Director) and Head of the Actuarial Department. He was then promoted to Head of Product Strategy and finally held the title of Head of Risk Modeling for six years prior to leaving to take up the role at PartnerRe. Mr. Antal has a PhD in Mathematics from ETH (Swiss Federal Institute of Technology, Zurich), is a Chartered Financial Analyst and a Fellow of the Swiss Actuarial Society. He acts as an expert for the IMF and has lead several technical assistance missions in the Caribbean region and is fluent in German, English, French and Hungarian.

Laura Davis - Group Catastrophe Modeling Officer - Resigned July 31, 2016
Mrs. Davis lead a centrally managed Catastrophe Modeling function (incorporating locally based catastrophe modeling teams and catastrophe research) across PartnerRe to ensure a consistent view of catastrophe risk is applied across the catastrophe portfolio. This incorporated the management of the scientific knowledge and interpretation of catastrophe models across PartnerRe. Mrs. Davis joined PartnerRe in August 2001 as an Assistant Underwriter in the Catastrophe Business Unit; she was promoted to Head of Catastrophe Underwriting -Bermuda in 2008 and was promoted to Group Catastrophe Modeling Officer in 2012. Prior to joining PartnerRe, Mrs. Davis was a Catastrophe Analyst with Ace Tempest Re from 2000 through 2001. Before that Mrs. Davis trained as a property surveyor and held various IT related positions in the UK. Mrs. Davis holds a MA (Cantab) Geography, from Cambridge University, U.K.

Greg Haft - Chief Underwriting Officer
See biography details above.

Jose Lopez - Chief Financial Officer
Mr. Lopez is responsible for management and oversight of the financial reporting and control environment for PRE Bermuda. Prior to re-joining PartnerRe in May 2009, Mr. Lopez was Vice President Financial Reporting and Vice President Investor Relations with XL Capital Ltd. from 2004 through 2009. From 2001 through 2004 Mr. Lopez was a Senior Manager of External Reporting at Bacardi Ltd. Before that Mr. Lopez was with PartnerRe from 1996 through 2001 where he progressed from a Senior Financial Accountant to Assistant Controller Investments. Mr. Lopez has a BS in Accounting from Illinois State University and is a CPA.

Joe Barbosa - Treasurer - resigned April 27, 2016
Mr. Barbosa was responsible for PartnerRe Group's treasury and cash management functions as well as acting as Treasurer of PRE Bermuda. Mr. Barbosa joined PartnerRe in October 2001 as Assistant Group Treasurer; he was promoted to Treasurer in 2003. Prior to joining PartnerRe, Mr. Barbosa was with Fidelity International Ltd. from 1996 through 2001 where he was Controller and progressed to Senior Manager. From 1993 through 1996, Mr. Barbosa was an Audit Manager with the Bermuda government, Office of the Auditor General. Before that Mr. Barbosa was a Senior Staff Auditor with Deloitte & Touche from 1990 through 1993. Mr. Barbosa has a BBA (Hons) from York University and is a Chartered Accountant and Chartered Financial Analyst. Mr. Barbosa has resigned from PartnerRe and the role of Treasurer as of April 27, 2016.

Ryan Lipshutz - Treasurer - appointed April 27, 2016
Mr. Lipschutz is responsible for PartnerRe Group's foreign currency, treasury and cash and collateral management functions in his capacity as Treasurer of PartnerRe. Mr. Lipschutz joined PartnerRe in April 2003 and has held various positions within the Treasury function including Assistant Treasurer, Investment & Treasury Analyst and Treasury Director. Prior to joining PartnerRe, Mr. Lipschutz was an accountant with Tewksbury Capital Management (formerly Trout Trading Management Company) from 1998 through 2003. While Mr. Lipschutz was an auditor with Deloitte & Touche from 1993 through 1998, he successfully passed the Certified Public Accounting exam. Mr. Lipschutz holds a B.A from Muhlenberg College and is Chartered Financial Analyst. Mr. Lipschutz was appointed Treasurer of PRE Bermuda as of April 27, 2016.

Nicholas Hughes - VP, Senior Underwriter
Mr. Hughes is responsible for underwriting the inwards retrocession and Cat on D&F portfolio, as well as selected US accounts. Mr. Hughes joined PartnerRe in June 2008 as an Assistant Underwriter in the Catastrophe Business Unit. He was seconded to the Zurich Branch office in August 2012 to underwrite the international catastrophe portfolio and gain underwriting experience in other lines of business. Mr. Hughes returned to the Bermuda office in September 2014 as a VP Senior Underwriter. Prior to joining PartnerRe, Mr. Hughes was a Global Lead Audit Senior with Ernst & Young Ltd., Bermuda, responsible for auditing SEC-registered Reinsurance Companies within the Insurance Practice from 2006 to 2008. Before that Mr. Hughes worked for Ernst & Young LLP., London, obtaining his CA from the Institute of Chartered Accountants of Scotland. Mr. Hughes holds a BA (Hons) in Economics & Management from Oxford University, U.K. and in an Associate in Reinsurance from the Insurance Institute of America.

Joseph Hooks - VP, Senior Underwriter
Mr. Hooks is responsible for underwriting North American property catastrophe risk for Partner Reinsurance Company Ltd. and joined PartnerRe in September 2012 in his current role as VP - Senior Underwriter. Mr. Hooks began his reinsurance career in 1999 as an actuarial analyst for NAC Re which was purchased by XL in that same year. In November 2002, he joined the casualty treaty underwriting team and underwrote all lines of casualty reinsurance. In April 2005, he left XL to join Flagstone Re as the Specialty Underwriter underwriting WC cat, casualty clash, marine, energy, aviation, agricultural, space as well as some property cat, risk and proportional. In August 2011, he assumed the role of CUO - North America at Flagstone with a focus being more on property catastrophe business. Mr. Hooks holds a BS in Physics from Fairfield University with a minor in Mathematics. He also holds the ARe, CPCU and RPLU designations.

Roman Romeo - VP, Senior Underwriter - resigned April 15, 2016
Mr. Romeo was a member of the catastrophe business unit and helped manage PartnerRe's North American property catastrophe treaty portfolio. Roman Romeo joined PartnerRe in 2008 and held the position of Vice President, Senior Underwriter - Catastrophe, North America. Prior to joining PartnerRe, Roman worked in various capacities on the North American underwriting desk, at Flagstone Reinsurance Ltd, shortly after the company's inception in 2005. Roman began his career in 2001 as a Catastrophe Model Analyst at XL Re Ltd. Roman received Bachelor of Science degrees in Biochemistry from St Mary's University in 1997 and Statistics from the University of Western Ontario in 2000.

Marc Wetherhill - General Manager, General Counsel, Group Representative & Compliance Officer
See biography details above.

Samantha Kyme - Secretary & Corporate Counsel - resigned September 30, 2016
Mrs. Kyme was responsible for the legal and regulatory compliance function of PRE Bermuda. Mrs. Kyme joined PartnerRe in February 2008 as Corporate Counsel. Prior to joining PartnerRe, Mrs. Kyme was an associate with Appleby from 2006 through 2008. Mrs. Kyme holds a BA from Dalhousie University, a LLB (Hons) from the University of Kent, UK, and obtained her Legal Practice Certificate from the University of the West of England, Bristol, UK. Mrs. Kyme was called to the Bermuda Bar in October 2006.

Gemma Carreiro - Secretary and Associate General Counsel
Mrs. Carreiro is the Associate General Counsel of PRE Bermuda and joined PartnerRe in March 2014. Mrs. Carreiro started her legal career with Cox Hallett Wilkinson in 2004 where she completed her pupilage and was promoted to Associate in 2005. In 2007, Mrs. Carreiro took up a position with Conyers Dill & Pearman Limited in their Corporate / Insurance department and was promoted to Senior Associate. Mrs. Carreiro holds a BA Law (Scots) from Napier University, a Post-Graduate Degree in Law and a Legal Practice Certificate from the College of Law, York and was called to the Bermuda Bar in August 2005. She is a practicing member in good standing of the Bermuda Bar Association.

3.3 RISK MANAGEMENT AND SOLVENCY ASSESMENT

PartnerRe's Group Enterprise Risk Management framework outlines group-wide policies and procedures applicable to the Group and are cascaded down to its subsidiaries, including the Company. Therefore, the following sections include a description of what occurs at the Group level.

3.3.1 RISK MANAGEMENT PROCESSES AND PROCEDURES

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 Group to achieve its objectives. While many companies start with a return goal, the Group 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 Group to balance the cedants' need for certainty of claims payment with the common shareholder's and preferred shareholders' need for an adequate total return.

All business decisions entail a risk/return trade-off, and these decisions are applicable to the Group'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.

Successful risk management is the foundation of the Group's value proposition, with diversification of risks at the core of its risk management strategy. The Group's ability to succeed in risk assumption and business management 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 Group 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.

The Group's results are primarily determined by how well the Group 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 all factors which can be viewed as either strategic, financial or operational risks that are common to any industry, such as choice of strategy and markets, economic and business cycles, competition, changes in regulation, data quality and security, fraud, business interruption and management continuity.

The Group 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 Group, which include the Group's risk appetite and return expectations. The Group's risk framework, including key risk policies, is recommended by Executive Management and approved by the Board. Each of the Group's risk policies relates to a specific risk and describes the Group'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 (CEO) and operating policies and risk controls at the next level down are established by Business Unit and Support Unit management as appropriate. 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 Parent's Board.

The Group 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 Group'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.

3.3.2 IMPLEMENTATION OF RISK MANAGEMENT AND SOLVENCY SELF ASSESSMENT SYSTEMS

3.3.2.1 Enterprise Risk Management Framework

To be successful and embedded within the organization, the Group's ERM framework integrates the following key components.

People and Skills

- Effective embedding of risk management across the organization and at all levels - recruitment, role profiles, objectives, appraisal, review, reward.
- Risk culture implemented across the entire organization, assessed periodically.
- Alignment of behaviors with risk adjusted performance.
- Flexible risk resources with ability to adapt with changing business priorities.
- Functional expertise and proactive review and challenge.
- Attract and retain qualified and skilled individuals.

Governance

- Comprehensive group wide risk governance framework designed to assess, mitigate and manage risk through a multi line of defense model providing for an effective balance of business control, oversight and assurance.
- Governance principles embedded in the values, behaviors and code of conduct throughout the organization.
- Oversight including insightful analysis and challenge by Group and Subsidiary boards on all key decisions.
- Group board and executive management interact effectively to deliver an agreed Group strategy.
- Organizational structure that encourages clear accountability and ownership aligned with legal entity structure.
- Legal Entity boards oversee execution of strategy consistent with local regulatory and governance requirements.

Risk Appetite

- Risk Preferences clearly articulated and approved by the Group Board.
- Well defined and consistent set of risk appetite statements in place across the Group for all key risk categories.
- Risk appetites at the group level which are set to manage both downside tail risk to large industry events as well as volatility in year to year earnings.
- Risk appetites set from an overall group perspective reflecting geographical and product line diversification and aggregation. These are then cascaded down to business unit and legal entities as appropriate.
- Actual risk positions monitored against risk appetite limits and integrated into risk reporting at Group, business unit and entity level board. Risk appetites updated where required.
- Tolerance limits and clear escalation processes and procedures in place.
- Flexibility to understand and evaluate new and emerging risks.

Risk Operations

- The business risk processes and internal control framework are key elements to the Enterprise Risk Management Framework and demonstrate the following qualities:
- Well documented risk management system and robust risk assessment and financial reporting processes integrated as part of our overall internal control framework.
- Clearly assigned and documented responsibilities for key risk controls within all functions.
- Review and challenge process applied to risk assessment outputs.
- Proactive measures for preventing unexpected future losses.
- Flexible and responsive to new and emerging risks and business change.
- Oversight and assurance of the effectiveness of internal control processes.
- Clear escalation when controls not appropriately followed.
- Clear plans for the remediation of any key control deficiencies.

Risk Monitoring and Management

- Risk based capital analysis supported by stress and scenario testing framework is used in decision making.
- Timely reporting providing for proactive and prospective decision making.
- Tolerance limits, triggers and monitoring tools embedded throughout the organization.
- Robust stress and scenario testing framework used for impact analysis.

Risk Management Information and Reporting

- Integrated reporting approach across performance measurement, strategic planning, risk and finance.
- Integrated processes for reporting all material risks and capital metrics.
- Clear and transparent reporting to external stakeholders including clients, investors, regulators and rating agencies.
- Ability to aggregate risk positions and provide common risk metrics.
- Common data definitions for underwriting performance, risk and investment data.
- Standardized systems and well controlled manual interfaces.
- Flexibility to integrate new reporting and business requirements.

3.3.2.2 SOLVENCY SELF ASSESSMENT (SSA)

Through its annual Risk Assessment process, the Parent identifies all the risks it is exposed to. Some risks are less quantifiable than others such as reputational risk or strategic risk. For the quantifiable risks, PartnerRe uses capital to cover them. For the non-quantifiable risks, PartnerRe qualitatively manages these risks through specific and robust processes, and considers a capital buffer add-on to handle these risks plus modeling uncertainties.

PartnerRe operates an enterprise risk management framework which entails management of risk at a Group level, which is then extended to each operating entity within the Group, including the Company. For purposes of the Company's SSA a legal entity dimension has been introduced which is consistent with the Group Capital Model (GCM) while taking into consideration the composition of the underlying business and risks of the Company on a stand-alone basis. In 2016, the Company has established a legal entity risk appetite statement which will be used together with the legal entity modeling results to finalize our view of own capital needs.

As such, the SSA quantitative framework is based on the key principles that follow. Note, given the basis of the legal entity model, we begin with the Group perspective, followed by the legal entity consideration of the Company.

Consistency with the Group Capital Model

The GCM provides PartnerRe's view on the sensitivity of the financial position to the main risks faced by the Company.

This model focuses on the impact on the Balance Sheet of the different entities of the Group related to the following risks: Non-Life Non Cat Underwriting risk, Nat Cat risk, Reserving risk, Life risk and Asset risk (Interest Rates risk, Spread risk, Market risk, FX risk).

Results are reported to the Executive Management, Enterprise Risk Committee and the Parent's Board of Directors (Board), and model outputs are the basis for the external disclosure of the Nat Cat PML or for internal processes such as the capital allocation framework.

GCM outputs are the core basis of the SSA calculation framework.

Consistency with the Risk Appetite Framework

The Board annually reviews and agrees to a risk appetite framework that defines how much and how often the Company will tolerate economic losses during an annual period.

PartnerRe's Risk Appetite states the Board's tolerance level for the size and frequency of economic financial losses.

Our straightforward framework facilitates the monitoring of Available Economic Capital compared to Required Risk Capital. Available Economic Capital is the economic assessment by the Company of its Capital and includes debt at GAAP carrying value.

Modeled results are monitored and reported quarterly.

Link to the Resilience Strategy

Resilience is a key element in the PartnerRe strategy. Our risk appetite framework, and consequently our SSA framework, looks not only at being solvent after an extreme event or a financial year with extreme losses. The SSA also considers that the company can continue as a going concern over many years. That is the reason why our risk appetite framework aims at limiting, for example, the impact of a year with very adverse losses. This would allow the Company to pay all its outstanding claim liabilities and benefit from the improved pricing environment implied by a scenario with severe losses, with very limited (if any) need to raise additional capital.

PartnerRe's forward-looking view is anchored around its ability to withstand to extreme events and its ability to thrive in the years following the events, with business strategies adjusted appropriately.

Consistency with the Business Planning Process

Annually, PartnerRe defines its business strategy for the next underwriting year. The GCM is intimately connected to the business planning exercise, in an iterative process, with plan data as a major input to the capital model and certain risk/return and capital metrics from the GCM outputs being used to feed and refine the business plan assumptions and directions. Anchoring the SSA process around the GCM guarantees that the SSA is fully connected to the business planning process and to the business decisions that originate from the plan and from its execution.

No Management Actions Predefined

The SSA framework does not take into account any management actions that may be adopted in adverse circumstances, but lends itself to a discussion on possible management actions according to the outcome of the SSA process and to the circumstances prevailing at that time.

This SSA framework with the associated valuation base is considered as appropriate to reflect the risk profile of the company and its resilience to a variety of shocks, while complying with the requirement for a sound and prudent management of the business.

Resilience is a key element in the PartnerRe strategy, and by extension the Company's strategy. With the calibration of the risk tolerance, this creates a buffer above the 120% Target Capital Level as defined by the BMA within the BSCR model. This buffer ensures the ability of the Company to meet its regulatory capital requirements during adverse situations, such as upon the occurrence of a catastrophe event. This coupled with the Group's risk appetite framework, would allow the Company to pay all its outstanding claim liabilities and benefit from the improved pricing environment implied by a scenario with severe losses, with very limited (if any) need to raise additional capital.

3.3.3 RELATIONSHIP BETWEEN SOLVENCY NEEDS AND CAPITAL AND RISK MANAGEMENT SYSTEMS

The SSA framework is directly linked to outputs of the GCM. Embedded within the GCM is a correlation or dependency structure that quantifies the view on diversification within and across risk towers.

This dependency structure is reviewed yearly and discussed between Group Actuarial and Group Risk Management.

3.3.4 SOLVENCY SELF ASSESSEMENT APPROVAL PROCESS

The capital model underpinning the solvency self assessment is subject to a regular cycle of validation. Validation provides evidence that a model works as planned and that it is a robust representation of prospective risk.

Each owner of a risk tower updates at least annually the documentation related to the assumptions and modeling techniques within its risk tower and reports the same to the Group Risk Officer who, in turn, reports to the Chief Risk & Actuarial Officer for review and sign-off.

In addition, annually, or more frequently if requested by the Enterprise Risk Committee, the Group Risk Officer is reviewing and assessing:

- how the CGM consolidates the component parts, and
- overall model results.

The result of these assessments is communicated to Chief Risk & Actuarial Officer for review and sign-off.

This assessment is mainly performed by analyzing:

- the dependencies observed between each pair of risk towers, measured as linear correlations of the entire FLDs of each risk towers;
- the tail correlation between the main risk towers;
- the different components of the expected financial results;
- the difference between modeled outputs and historical results.

3.4 INTERNAL CONTROLS

3.4.1 INTERNAL CONTROL SYSTEM

As stated earlier in the report, the Parent's Board, in its commitment to high standards of business conduct, has adopted various policies and guidelines to address key risk areas. These policies and guidelines are supported by detailed procedures as necessary.

The Group's internal control system covers a wide range of processes across the Group which includes, but is not limited to: underwriting; claims; investments; risk management and operational functions. Also included in the internal control system are the Company's SOX controls necessary to support its ongoing obligations as an SEC registrant to maintain effective internal controls over financial reporting. The internal control system has also been strengthened by the implementation of a software tool to provide enhanced governance over the Group's existing robust internal control framework as well as to provide enhanced reporting and a mechanism to enhance the collaboration between the Group's risk management, compliance and internal audit functions.

Each Group ERM Risk Policy is complemented by associated risk controls which contain the details of the various risk items, processes and controls that are implemented throughout the organisation to allow the mitigation of the risks associated with the Risk Policy.

The Parent's Board oversees the internal control system and is supported in the first instance by the Audit Committee and secondly by Internal Audit through the performance of a risk-based internal audit plan supporting its annual opinion on the Group's internal control system.

In addition to the Parent's Board, the Group's compliance function, finance function, actuarial function, risk management function and internal audit function are all key contributors to the governance and oversight of the Company's internal control system.

Chief Risk and Actuarial Officer ("CRAO")/Risk Management Function

The risk management function delivers the risk oversight within PartnerRe and provides the critical link between the operations within the business units and the overall PartnerRe governance framework.

The risk management function collaborates with the capital modelling team to evaluate, measure and report on the risks inherent in the PartnerRe business model. The Group's CRAO provides relevant feedback concerning risk assessment and measurement on a quarterly basis. The CRAO liaises directly with the Company's Board in this regard on a periodic basis.

Finance Function

The Company's finance function (which is led by the Company's Chief Financial Officer) ensures:

- the accuracy of the Company's U.S. GAAP financial reports;
- the accuracy of the Company's annual statutory financial statements ;
- the Company is compliant with relevant accounting policies and standards;
- the Company is compliant with its regulatory financial reporting obligations to the BMA;
- the Company's maintains sufficient capital to meet business and regulatory requirements;

- monitoring of solvency ratios and calculations; and
- that the Company's capital and liquidity is managed as efficiently and effectively.

3.4.2 COMPLIANCE FUNCTION

The Group's compliance function (which is headed by the Parent's Head of Legal & Compliance) comprises the Group's Legal and Compliance team together with jurisdictional compliance contacts. This function is responsible for ensuring the Company's compliance with regulatory requirements and legal obligations.

The strategic objectives of the Group's compliance function are:

- ensuring effective relationships with key regulators, industry groups and the Group in order to anticipate and manage new regulatory, legislative and industry developments;
- identifying and implementing appropriate policies and procedures to ensure compliance with regulatory and legislative obligations;
- identifying and reviewing existing regulatory and legislative requirements to determine that existing policies and procedures comply with obligations; and
- providing compliance risk management expertise to ensure business initiatives maintain compliance and achieve business objectives.

The Group's compliance framework ensures there is effective oversight of the activities of the Company taking into consideration the nature, scale and complexity of the business being conducted by it. This includes:

- identification of regulatory and legal obligations and requirements. These are identified by monitoring and documenting legal, regulatory and industry developments and liaising with the BMA (and other jurisdictional regulators as appropriate);
- development of an overarching compliance framework underpinned by detailed policies and procedures. The identified regulatory and legal obligations and requirements inform and shape the policies and procedures to be followed; and
- robust monitoring and regular reporting in respect of the Company's compliance with such policies and procedures. Group Internal Audit, the Group's Chief Risk and Actuarial Officer and the Group risk management functions are key contributors to the assessment of the Company's compliance framework.

The Parent's Board receives quarterly updates from the Company's Legal & Compliance function in respect of monitoring the Company's compliance activities. Such reporting is designed to provide the Board with sufficient comfort that the Company has complied with all requisite regulatory and legal requirements and, where necessary, to highlight any occasions on which the Company has deviated (in a material and/or non-material manner) from such requirements.

3.5 GROUP INTERNAL AUDIT

The Corporate Audit Group (CAG) assists Senior Management and the Board of Directors in achieving their corporate objectives and discharging their duties and responsibilities. This is achieved through CAG's systematic and disciplined approach to evaluating and improving the effectiveness of the Company's internal control system. The CAG functions as an independent, objective assurance and advisory activity designed to add value and to assist in improving operations.

Based on testing performed as part of a risk-based internal audit program, the CAG provides the Board (via the Audit Committee) with reasonable assurance that:

- operations are effective and efficient;

- internal control over financial reporting is appropriately designed, reliable and operating effectively;
- there is compliance with laws and regulations;
- employee's actions are in compliance with internal policies, standards, procedures and application laws and regulations;
- the Company's assets are acquired economically, used efficiently and appropriately protected; and
- risks are appropriately identified and managed and the Company's risk management policies are consistently applied as documented.

Annually, CAG provides senior management and the Parent's Board with an overall opinion on the Group's internal control system.

Management is required to maintain an Anti-Fraud Program, which the Audit Committee oversees, as part of the requirements of the Sarbanes–Oxley Act of 2002. CAG conducts this program on behalf of management and reports the results to management and the Audit Committee annually. As part of this program, CAG updates the Group's fraud risk assessment and test the controls annually.

3.6 ACTUARIAL FUNCTION

Reserving

The Group's actuarial function ensures:

- the Company has a robust and structured approach to estimating the Company's reserves and reserving considerations are integrated into key operations and strategic decision making;
- the Company complies with regulatory and financial requirements for the estimation and reporting of reserves within an appropriately controlled framework; and
- capital is appropriately attributed to business units for pricing purposes.

Capital Modeling

The Group's capital modeling function:

- builds, evolves and maintains the capital model to meet business requests and regulatory requirements. A single capital model is used across the group to meet various needs and purposes;
- discusses and challenges assumptions with internal stakeholders and subject matter experts in order to build a common understanding about risk;
- works with the business units to educate stakeholders regarding the capital model's assumptions, interactions, purposes and limitations; and
- attributes capital to business units for pricing purposes.

The actuarial function provides inputs to the risk scorecards produced by the risk management function. It also produces indications for premium and reserve capital factors used in pricing along with asset, reserve and non cat risk distributions.

3.7 OUTSOURCING

3.7.1 OUTSOURCING POLICY

The Company manages both internal and external outsourcing in accordance with all applicable regulatory requirements. Where appropriate, the Company has entered into Service Level Agreements which include an obligation on the parties to the contract to comply with all legal and regulatory obligations. The Company utilizes the expertise from other PartnerRe Group entities and jurisdictions (ie. subsidiaries and affiliates of the Group) for services from the key group functions including, underwriting and claims, actuarial and reserving, risk management, legal and compliance, finance and accounting, internal audit and investments. Third party outsourcings are limited and driven by strategic business decisions and/ or legal and regulatory obligations.

3.7.2 MATERIAL INTRA-GROUP OUTSOURCING

See section 3.7.1 - *Outsourcing Policy* above.

3.8 ANY OTHER MATERIAL INFORMATION

N/A

4. RISK PROFILE

4.1 MATERIAL RISKS

PartnerRe's Group Enterprise Risk Management framework outlines group-wide policies and procedures applicable to the Group and are cascaded down to its subsidiaries, including the Company. Therefore, this section includes a description of what occurs at the Group level.

Strategic Risks

Strategic risks are discussed and agreed to between the Group's CEO and the Parent's Board (the Board), and managed by the CEO, and include the direction and governance of the Group, 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 are appropriate to manage risks related to its reputation and risks related to new initiatives, including acquisitions, new products or markets. The Group 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 Group's assumed risk framework is its risk appetite. The Group's risk appetite is a statement of how much and how often the Group will tolerate economic losses during an annual period. The Group's risk appetite is expressed as the maximum economic loss that the Board is willing to incur based on various modeled probability return periods.

The Group's risk appetite is approved by the Board on an annual basis. The following discussion is a description of what occurs at the Group level.

Definitions for the maximum economic loss and available economic capital are as follows:

Economic Loss. The Group defines an economic loss as a decrease in the Group's economic value, which is defined as common shareholder's 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 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.

Available Economic Capital. The Group defines economic capital as the economic value, as defined above, plus preferred shareholders' equity and the carrying value of debt recognized in the consolidated financial statements in accordance with U.S. GAAP.

The Maximum Economic Loss. The maximum economic loss is a loss expressed as a percentage of economic capital under various modeled probability return periods.

The Group 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 Group utilizes an internal model to evaluate capital at risk levels and compliance with the Group's risk appetite. The results of the Group'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 Group 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 Group'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 Group'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 Group's risk appetite. To reduce the chance of either of these unfavorable outcomes, the Group 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 Group's risk appetite, and embeds correlations within its internal model to capture the possibility of multiple losses from multiple risk sources.

The Group establishes key risk limits net of any reinsurance/retrocession for any risk source deemed by management to have the potential to cause operating losses or economic losses greater than the Group's risk appetite. The Group may also establish risk limits for any risk source deemed to have the possibility of causing reputational damage. The Board approves the key risk limits. Executive, Business and Support Unit Management may set additional specific and aggregate risk limits within the key risk limits approved by the Board. The actual level of risk is dependent on current market conditions and the need for balance in the Group's portfolio of risks. On a periodic basis, management reviews and reports to the Board the actual limits deployed against the approved limits.

Individual Business and Support Units manage assumed risks, subject to the appetite, principles and limits approved by the Board 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 Board for ten risk sources. The approved limits and the actual limits deployed at December 31, 2016 and 2015 were as follows (in billions of U.S. dollars, except interest rate risk data):

	December 31, 2016		December 31, 2015	
	Limit approved	Actual deployed	Limit approved	Actual deployed
Natural Catastrophe Risk	**$ 2.3**	**$ 1.4**	$ 2.3	$ 1.3
Long-Tail Reinsurance Risk	**$ 1.2**	**$ 0.8**	$ 1.2	$ 0.8
Market Risk	**$ 3.4**	**$ 1.4**	$ 3.4	$ 2.0
Equity and equity-like sublimit	**$ 2.8**	**$ 1.1**	$ 2.8	$ 1.4
Interest Rate Risk (duration)—excess fixed income investment portfolio(1)	**6.0 years**	**4.4 years**	6.0 years	3.0 years
Default and Credit Spread Risk	**$ 9.5**	**$ 5.6**	$ 9.5	$ 5.6
Trade Credit Risk	**$ 0.9**	**$ 0.6**	$ 0.9	$ 0.6
Longevity Risk	**$ 2.0**	**$ 1.5**	$ 2.0	$ 1.5
Pandemic Risk	**$ 1.3**	**$ 0.7**	$ 1.3	$ 0.6
Agriculture Risk	**$ 0.3**	**$ 0.1**	$ 0.3	$ 0.1
Mortgage Reinsurance Risk	**$ 1.0**	**$ 0.8**	$ 1.0	$ 0.6
Any one country sub-limit	**$ 0.8**	**$ 0.7**	$ 0.8	$ 0.5

(1) The excess fixed income investment portfolio relates to fixed income securities included in the Group's capital funds, which are in excess of those included in the Group's liability funds and which support the net reinsurance liabilities.

(2) The limits approved and the actual limits deployed in the table above are shown net of retrocession.

The Group limits were further cascaded at the Company level. The approved limits and the actual limits deployed at December 31, 2016 and 2015 were as follows (in billions of U.S. dollars):

	December 31, 2016		December 31, 2015	
	Limit approved	Actual deployed	Limit approved	Actual deployed
Natural Catastrophe Risk	**$ 1.50**	**$ 1.22**	$ 1.50	$ 1.18
Long-Tail Reinsurance Risk	**$ 0.65**	**$ 0.31**	$ 0.65	$ 0.31
Financial Assets Risk	**$ 2.70**	**$ 1.09**	$ 2.70	$ 1.51
Standard Fixed Income Risk	**$ 3.90**	**$ 2.62**	$ 3.85	$ 2.31
Trade Credit Risk	**$ 0.50**	**$ 0.42**	$ 0.50	$ 0.30
Mortgage Reinsurance Risk	**$ 0.50**	**$ 0.36**	$ 0.50	$ 0.29

Natural Catastrophe Risk

The Group 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 Group. The Group 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 Group 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 peril 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 Group imposes a limit to natural catastrophe risk from any single loss through exposure limits, net of retrocession, in each peril zone and to each peril and also utilizes probable maximum loss (PML) 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 Group uses the lesser of any contractually defined limits or the PML 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 PML in a specific peril zone will vary from period to period depending on management's assessment of current market conditions, the results of the Group's exposure modeling, and other analysis. See Natural Catastrophe PML below for a discussion of the Group's estimated exposures for selected peak industry natural catastrophe perils.

Long-Tail Reinsurance Risk

The Group 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 Group. 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 Group'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 Group 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 Group 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 Group establishes prudent reserving policies for determining recorded reserves. These policies are systematic and management endeavors to apply them consistently over time. The Group'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.

Market Risk

The Group defines this risk as the risk of a substantial decline in the value of its risk assets. Risk assets comprise the Group'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 certain insurance-linked securities as that risk is aggregated with liability risks). The Group 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. During 2016, the Group substantially reduced its exposures to equity and equity-like risk assets. The Group moved some of these assets into other investments including real estate.

The Group 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 Group's fully integrated information system provides real-time investment data, allowing for continuous monitoring and decision support. Each portfolio is managed against a predetermined benchmark to enable alignment with appropriate risk parameters and achievement of desired returns.

Interest Rate Risk

The Group defines this risk as the risk of a substantial mismatch of asset and liability durations, which may result in economic losses to the Group. Economically, the Group 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. Nonparallel 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 Group's risk appetite are associated with extremely large increases in interest rates over an annual period. The Group limits and monitors the interest rate exposure on its fixed income assets held in excess of those that are matched against liabilities. The Group both matches assets and liabilities to hedge against changes in interest rates and limits the total amount of interest rate exposure.

Default and Credit Spread Risk

The Group defines this risk as the risk of a substantial increase in defaults in the Group'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 Group. Investment losses of the magnitude that have the potential to exceed the Group's risk appetite are associated with the systemic impacts of severe economic and financial stress. As a result, the Group limits the exposure to the standard fixed income credit securities so that investment losses will be mitigated in an extreme economic or financial crisis.

Trade Credit Risk

The Group 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 Group. Trade credit losses of the magnitude that have the potential to exceed the Group's risk appetite are associated with the systemic impacts of severe economic and financial stress. In these events, with respect to 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 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 limit metric for the purposes of risk accumulation, the Group examines extreme scenarios and measures its exposure to loss under those scenarios. Examples of these scenarios include 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 Group does not rely upon modeled losses to determine the limit metric, but benchmarks the scenario results against existing tests, scenarios and models. For risk accumulation purposes, the Group examines 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 PMLs of the two largest named insureds in the Group's trade credit portfolio.

Longevity Risk

The Group 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 Group. The Group 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 Group's strategy of building a diversified portfolio of risks. While longevity risk is highly diversifying in relation to other risks in the Group'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 Group examines extreme scenarios and measures its exposure to loss under those scenarios. Examples of these scenarios include immediate elimination of major causes of death and an extreme improvement in mortality continuing indefinitely. For risk accumulation purposes, the Group selects the most financially adverse scenario and adds an additional margin for potential deviation. To measure utilization of the longevity limit (accumulation of longevity exposure) the Group accumulates the net present value of adverse losses resulting from the application of the selected most extreme scenario, adds an additional margin to every in-force longevity treaty for potential delays in recognizing that an observed mortality deviation is not short term in nature and, where appropriate, includes the notional value of longevity insurance-linked securities.

Pandemic Risk

The Group 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 Group. The Group 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 Group's strategy of building a diversified portfolio of risks. While mortality risk is highly diversifying in relation to other risks in the Group'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 Group examines extreme scenarios and measures its exposure to loss under those scenarios. Examples of these scenarios include increased mortality associated with past pandemic events (e.g. 1918 Spanish flu) and potential mortality outcomes from transmission scenarios across differing age groups, and across developed and developing countries. For risk accumulation purposes, the Group selects an extreme mortality scenario applied to the insured portfolio in developing and developed countries that would have twice the assumed fatality rate of the 1918 Spanish flu recurring today, combined with an adverse mortality age pattern, and with the same transmissibility characteristics.

Agriculture Risk

The Group 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 Group. Multi-peril crop underwriting losses of the magnitude that have the potential to exceed the Group'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 Group utilizes PML estimates particularly for the U.S., 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 PMLs 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 Group defines this risk as the risk that losses from mortgage reinsurance materially exceed the net premiums that are received to cover such risks, which may result in operating and economic losses to the Group. Mortgage insurance underwriting losses that have the potential to exceed the Group'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, 2016, the majority of the Group's exposure to mortgage risk related to risks in the U.S. The Group's U.S. mortgage portfolio consists of prime mortgages, with most 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 Group 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 PMLs 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 Group seeks to minimize these risks through robust processes and monitoring throughout the organization.

Other Underwriting Risk and Exposure Controls

The Group'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 Group'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 Group trains its underwriters extensively and strives to maintain continuity of underwriters within specific geographic markets and areas of specialty.

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

The Group generally underwrites risks with specified limits per treaty program. Like other reinsurance companies, the Group 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 Group's reinsurance treaties and facultative contracts and in one or more lines of business. The Group considers such event scenarios as part of its evaluation and monitoring of its aggregate exposures to catastrophic events.

Retrocessional Reinsurance

The Group 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 Group's retrocessional reinsurance agreements cover property and specialty lines (e.g. agriculture, aviation, marine, mortgage and certain risks included in the credit/surety line) exposures, predominantly those that are catastrophe exposed. The Group 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 must be pre-approved based on their financial condition and business practices, with stability, solvency and credit ratings being important criteria. Strict limits per retrocessionaire are also put into place and monitored to mitigate counterparty credit risk.

The Group 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 Group 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.

Claims

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

Natural Catastrophe PML

The following discussion of the Group's natural catastrophe PML information contains forward-looking statements based upon assumptions and expectations concerning the potential effect of future events that are subject to uncertainties.

Natural catastrophe risk is a source of significant aggregate exposure for the Group 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 Group 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 Group 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 Group's definitions of peril zones may differ from those of other parties.

The Group has exposures in other peril zones that can potentially generate losses greater than the PML estimates below. The Group's PMLs represent an estimate of loss for a single event for a given return period. The table below discloses the Group'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, engineering, workers' compensation, 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 Group's single occurrence estimated net PML exposures (pre-tax and net of retrocession and reinstatement premiums) for certain selected peak industry natural catastrophe perils as at October 1, 2016 were as follows (in millions of U.S. dollars):

		Single Occurrence Estimated Net PML Exposure	
Zone	**Peril**	**1-in-250 year PML**	**1-in-500 year PML (Earthquake Perils Only)**
U.S. Southeast	Hurricane	$ 496	$ —
U.S. Northeast	Hurricane	$ 560	$ —
U.S. Gulf Coast	Hurricane	$ 502	$ —
Caribbean	Hurricane	$ 165	$ —
Europe	Windstorm	$ 387	$ —
Japan	Typhoon	$ 190	$ —
California	Earthquake	$ 462	$ 595
British Columbia	Earthquake	$ 161	$ 317
Japan	Earthquake	$ 315	$ 349
Australia	Earthquake	$ 187	$ 258
New Zealand	Earthquake	$ 147	$ 211

The Company's single occurrence estimated net PML exposures for certain selected peak industry natural catastrophe perils have been derived from the Group's estimated net PML exposures (pre-tax and net of retrocession and reinstatement premiums) as at July 1, 2016 and are as follows (in millions of U.S. dollars):

		Single Occurrence Estimated Net PML Exposure	
Zone	**Peril**	**1-in-250 year PML**	**1-in-500 year PML (Earthquake Perils Only)**
U.S. Southeast	Hurricane	$ 415	$ —
U.S. Northeast	Hurricane	$ 486	$ —
U.S. Gulf Coast	Hurricane	$ 433	$ —
Caribbean	Hurricane	$ 146	$ —
Europe	Windstorm	$ 352	$ —
Japan	Typhoon	$ 171	$ —
California	Earthquake	$ 387	$ 499
British Columbia	Earthquake	$ 126	$ 247
Japan	Earthquake	$ 291	$ 322
Australia	Earthquake	$ 174	$ 239
New Zealand	Earthquake	$ 139	$ 199

4.2 RISK MITIGATION

See Section 4.1 - *Material Risks* above.

4.3 MATERIAL RISK CONCENTRATIONS

See Section 4.1 - *Material Risks* above.

4.4 INVESTMENT PHILOSOPHY

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. A key challenge for the Company is achieving the right balance between current investment income and total returns (that includes price appreciation or depreciation) in changing market conditions. The Company regularly reviews the allocation of investments to asset classes within its investment portfolio and allocates investments to those asset classes the Company anticipates will outperform in the future, subject to limits and guidelines. Similarly, the Company reduces its exposure to asset classes where returns are deemed unattractive. 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 strategy allows for the use of derivative instruments, subject to strict limitations. The Company may utilize various derivative instruments, such as treasury note and equity futures contracts, credit default swaps, foreign currency option contracts, foreign exchange forward contracts, total return and interest rate swaps, insurance-linked securities and to-be-announced mortgage-backed securities (TBAs) for the purpose of managing and hedging currency risk, market exposure and portfolio duration, hedging certain investments, mitigating the risk associated with underwriting operations, or enhancing investment performance that would be allowed under the Company's investment policy if implemented in other ways. The use of financial leverage, whether achieved through derivatives or margin borrowing, requires approval from the Board. At December 31, 2016, the Company had no financial leverage achieved through derivatives and no margin borrowing has been approved by the Board.

4.5 STRESS TESTING OF MATERIAL RISKS

The Company performs stress testing for its material risks. In addition, some of the risk tolerance criteria set by the Board and monitored on quarterly basis are based on certain predefined extreme scenarios.

BSCR Model Stress Testing

The Company also performs stress-testing as prescribed in the BMA's BSCR model which tests the impact on the BSCR ratio after specified events. In addition, the BMA instructions also require the Company to estimate a worst case scenario. For the purposes of the BSCR model, the worst case scenario is defined as two events: the BMA's 99th percentile asset event (a decrease of 40% in the value of equities, alternative investments and real estate combined with a general widening of credit spreads of 190 to 4,500 basis points) and a U.S. Southeast Windstorm event. For the U.S. Southeast Windstorm event, the return period would be greater than 1-in-50,000 years and the estimated industry insured loss would be significantly in excess $100 billion, based on internal modeling.

4.6 ANY OTHER MATERIAL INFORMATION

N/A

5. SOLVENCY VALUATION

The information in this section is based on the Company's Economic Balance Sheet as at December 31, 2016.

5.1 VALUATION OF ASSETS

Cash and Cash equivalents

Cash equivalents are carried at fair value in line with U.S. GAAP and include fixed income securities that, at purchase, have a maturity of three months or less.

Quoted and Unquoted Investments

Quoted and unquoted investments are recorded in line with U.S. GAAP. 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). All changes in the fair value of investments are netted off statutory economic capital and surplus. 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.

Investments in and Advances to Affiliates

Investments in and advances to affiliates included interest bearing loans to affiliated companies which are recorded in line with U.S. GAAP.

Investment Income Due

Investment income due and accrued are recorded at fair value in line with U.S. GAAP.

Reinsurance Balances Receivable

Reinsurance balances receivable are recorded at fair value in line with U.S. GAAP.

Funds Held By Ceding Reinsurers

Funds Held by Reinsured Companies

Funds Held by Reinsured Companies are recorded in line with U.S. GAAP. 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 in losses and loss expenses 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.

Sundry Assets

Deferred Tax Assets

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 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 Economic Balance Sheet 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 is recognized for any tax benefit (along with any interest and penalty if applicable) claimed in a tax return in excess of the amount recognized in the financial statements. Any changes in amounts recognized are recorded in the period in which they are determined. Deferred Tax Assets and Liabilities are recorded in line with U.S. GAAP and reflect the tax impact of temporary differences between the carrying amounts of assets and liabilities for financial reporting and income tax purposes.

Other Miscellaneous Assets

Other miscellaneous assets are recorded in line with U.S. GAAP.

5.2 VALUATION OF TECHNICAL PROVISIONS

Non-Life Business

Technical provisions on an EBS basis comprise the sum of a best estimate and a risk margin.

The best estimate corresponds to the probability-weighted average of future cash flows, discounted using the relevant risk-free interest rate term structure with an appropriate illiquidity adjustment and does not make any allowance for the company's own credit standing. The cash flow projections used in the calculation of the best estimate takes into account all future cash in- and out-flows required to settle the insurance obligations attributable to the lifetime of the policy. The cash flows is based on unbiased current estimates and include:

- Gross liability for unpaid losses and loss expenses which 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). The best estimate is determined 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;
- Reinsurance recoveries which are based on principles similar to, and consistent with, those underlying the gross liability for unpaid losses and loss expenses;
- Future best-estimate premium payments including premium for business bound but not incepted (BBNI). BBNI premium provision takes into account the expected profits and the time value of money over the period until settlement of the relevant cash out-flows; and
- Expenses that will be incurred servicing existing policies during their lifetime including administrative expenses, claims management expenses, acquisition expenses, investment expenses and overhead expenses.

Reinsurance recoveries represent less than 2% of the gross reserves. Therefore in line with the principle of proportionality, the Company derives the gross best estimate from the net best estimate without an explicit projection of the cash-flows underlying the amounts recoverable from reinsurance contracts. A net-to-gross factor is applied to the net technical provisions and the value of reinsurance recoverables is derived as the excess of the gross over the net estimate. Given the small level of reinsurance recoveries, the expected losses due to counterparty default is considered immaterial and therefore no explicit adjustment has been made for counterparty default.

The risk margin reflects the uncertainty associated with the probability-weighted cash flows. The Cost-of-Capital approach is used under the following guidelines:

- The cost-of-capital rate used is 6% as specified by the BMA;

- The calculation reflects Bermuda regulatory capital requirements calculated using the BSCR capital factors;
- The calculation covers the full period needed to run-off the insurance liabilities and is discounted using the risk-free discount curve (without the illiquidity adjustment);
- The risks taken into account are insurance risk, counterparty credit risk and operational risk; and
- The Company takes credit for diversification between lines of business and risk types consistent with the assumptions underlying the BSCR model.

Life and Health Business

Technical provisions on an EBS basis comprise the sum of a best estimate and a risk margin.

The best estimate corresponds to the probability-weighted average of future cash flows, discounted using the relevant risk-free interest rate term structure. The cash flow projections used in the calculation of the best estimate takes into account all future cash in- and out-flows required to settle the insurance obligations attributable to the lifetime of the policy. The cash flows is based on unbiased current estimates. The methodologies applied to derive the cash flows differ for each of the separate lines of business:

- For the vast majority of long term business projections are performed using proprietary software based on seriatim data and best estimate assumptions are challenged against industry standards adjusted to reflect emerging experience. For the remainder of the long term business and short term business, a simplified approach is followed using the U.S. GAAP reserves as starting point adjusted to remove margins for prudence;
- In practice, a loading on claims is used for Mortality products as an allowance for binary events not included in the data (pandemic event for example);
- Best estimate liabilities include allowance for BBNI taking into account the expected profits and the time value of money over the period until settlement of the relevant cash out-flows; and
- For each class of business, the best estimate includes an allowance for future direct and overhead expenses. The assumptions generally exclude expenses related to the acquisition of new business. The only the exception is the BBNI business which include an allowance for acquisition expenses. Projected expenses also include an allowance for inflation.

The risk margin reflects the uncertainty associated with the probability-weighted cash flows. The Cost-of-Capital approach is used under the following guidelines:

- The cost-of-capital rate used is 6% as specified by the BMA;
- The calculation reflects Bermuda regulatory capital requirements calculated using the BSCR capital factors; the BSCR for longevity risks has been adjusted to reflect an underestimation of the BSCR for longevity swap arrangements;
- The calculation covers the full period needed to run-off the insurance liabilities and is discounted using the risk-free discount curve;
- The risks taken into account are insurance risk, counterparty credit risk and operational risk; and
- The Company takes credit for diversification between lines of business and risk types consistent with the assumptions underlying the BSCR model.

5.3 RECOVERABLES FROM REINSURANCE CONTRACTS

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.

5.4 VALUATION OF OTHER LIABILITIES

Insurance and Reinsurance Balances Payable

Reinsurance Balances Payable

Reinsurance Balances Payable are recorded in line with U.S. GAAP. See section 5.1 *Valuation of Assets—Reinsurance Balances Receivable.*

Ceded Premiums Payable

Ceded premiums payable are recorded in line with U.S. GAAP. See section 5.3 *Recoverables from Reinsurance Contracts.*

Accounts Payable and Accrued Liabilities

Accounts payable are recorded in line with U.S. GAAP. Accounts payable and accrued liabilities includes a liability for the funded status of the Company's defined benefit plans that are underfunded (measured as the difference between the fair value of plan assets and the pension obligation), annual incentive accruals and other trade payables.

Funds Held Under Reinsurance Contracts

Funds Held Under Reinsurance Contracts are recorded in line with U.S. GAAP. See section 5.1 *Valuation of Assets—Funds Held By Ceding Reinsurers—Funds Held by Reinsured Companies* above.

Sundry Liabilities

Derivative Instruments

The Company’s derivative instruments are recorded in line with U.S. GAAP, with changes in the fair value netted off Statutory Economic Capital and Surplus.

Balances Payable for Purchase of Investments

Balances payable for Purchase of Investments are recorded in line with U.S. GAAP and include gross payable balances for securities purchased of $555 million and gross receivable balances for securities sold of $11 million at December 31, 2016.

5.5 ANY OTHER MATERIAL INFORMATION

See section 6.1.7 for a reconciliation of the Company's shareholders' equity as per the Company's financial statements prepared using U.S. GAAP to Statutory Economic Capital and Surplus as calculated under EBS.

6. CAPITAL MANAGEMENT

6.1 ELIGIBLE CAPITAL

6.1.1 CAPITAL MANAGEMENT PROCESS

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. Management closely monitors its capital needs and capital level throughout the reinsurance cycle and in times of volatility and turmoil in global capital markets 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 shareholder by way of dividends.

Capital Resources Management

As part of its long-term strategy, the Company will seek to grow capital resources to support its operations throughout the reinsurance cycle, maintain strong ratings from the major rating agencies and maintain the unquestioned ability to pay claims as they arise. The Company may also seek to 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.

6.1.2 ELIGIBLE CAPITAL BY TIER

The Company's eligible capital by tier at December 31, 2016 was as follows (in millions of U.S. dollars):

	2016
Tier 1	$ 4,159
Tier 2	—
Tier 3	—
Total	$ 4,159

Tier 1 capital includes statutory economic surplus, capital stock and contributed surplus.

6.1.3 ELIGIBLE CAPITAL APPLIED TO ENHANCED CAPITAL REQUIREMENT (ECR) AND MINIMUM SOLVENCY REQUIREMENT (MSM)

The Company's eligible capital applied to the ECR and MSM by tier at December 31, 2016 was as follows (in millions of U.S. dollars):

	Applied to MSM	Applied to ECR
Tier 1	$ 4,159	$ 4,159
Tier 2	—	—
Tier 3	—	—
Total	$ 4,159	$ 4,159

6.1.4 TRANSITIONAL ARRANGEMENTS

N/A

6.1.5 ENCUMBERANCES ON CAPITAL

N/A

6.1.6 ANCILLARY CAPITAL

N/A

6.1.7. RECONCILIATION OF SHAREHOLDER'S EQUITY TO AVAILABLE CAPITAL AND SURPLUS

The following table compares shareholder's equity as per the Company’s financial statements prepared using U.S. GAAP to Statutory Economic Capital and Surplus as calculated under EBS:

December 31, 2016
(in thousands of U.S. dollars)

U.S. GAAP Shareholder's Equity	**$**	**3,830,393**
Non-Admitted Assets[1]		(29,582)
Deferred Gain[2]		84,275
Statutory Capital and Surplus (Form 1)	**$**	**3,885,086**
EBS Adjustments [3]		273,590
Statutory Economic Capital and Surplus (Form 1EBS)	**$**	**4,158,676**

1. *Non-admitted assets include goodwill and other similar intangible assets, which are not considered admissible for solvency purposes.*
2. *In 2014 the Company entered into an Assumption Reinsurance Agreement with an affiliate which resulted in a net gain being recognized in the 2014 statutory financial statements. For U.S GAAP purposes this gain was deferred. A liability of $84 million is recorded in the December 31, 2016 U.S. GAAP balance sheet related to this deferred gain.*
3. *EBS adjustments include a reduction in Non-life technical provisions of $469 million (see section 5.2. for a detailed explanation of the valuation of non-life technical provisions) and a reduction in Life technical provisions of $102 million (see section 5.2 for a detailed explanation of the valuation of life technical provisions), which were partially offset by a decrease in deferred acquisition costs (DAC) of $297 million. (On an EBS basis DAC is implicitly included in premium provisions and is not reflected as an asset.)*

6.2. REGULATORY CAPITAL REQUIREMENTS

The Company's ECR and MSM at as December 31, 2016 were $1,315 million and $927 million, respectively. As at December 31, 2016, the Company's solvency, liquidity and risk-based capital levels were in excess of the minimum levels required.

6.3 APPROVED INTERNAL CAPITAL MODEL

N/A

6.4 ANY OTHER MATERIAL INFORMATION

N/A

7. SUBSEQUENT EVENTS

Investments

On February 28 and March 31, 2017 the Company subscribed $50 million and $100 million, respectively, to funds managed by an entity within the Exor Group which invests in publicly listed equities. The funds are registered in Luxembourg and regulated by the Commission de Surveillance du Secteur Financier, or CSSF.

Aurigen

On April 3, 2017, after receiving all necessary regulatory approvals, the Parent completed the acquisition of 100% of the outstanding ordinary shares of Aurigen Capital Limited for CAD 375 million (or approximately $286 million).

8. DECLARATIONS

We, the Chief Executive Officer and Chief Risk Officer of Partner Reinsurance Company Ltd. do hereby certify that to the best of our knowledge and belief, this financial condition report fairly represents the financial condition of Partner Reinsurance Company Ltd. in all material respects.

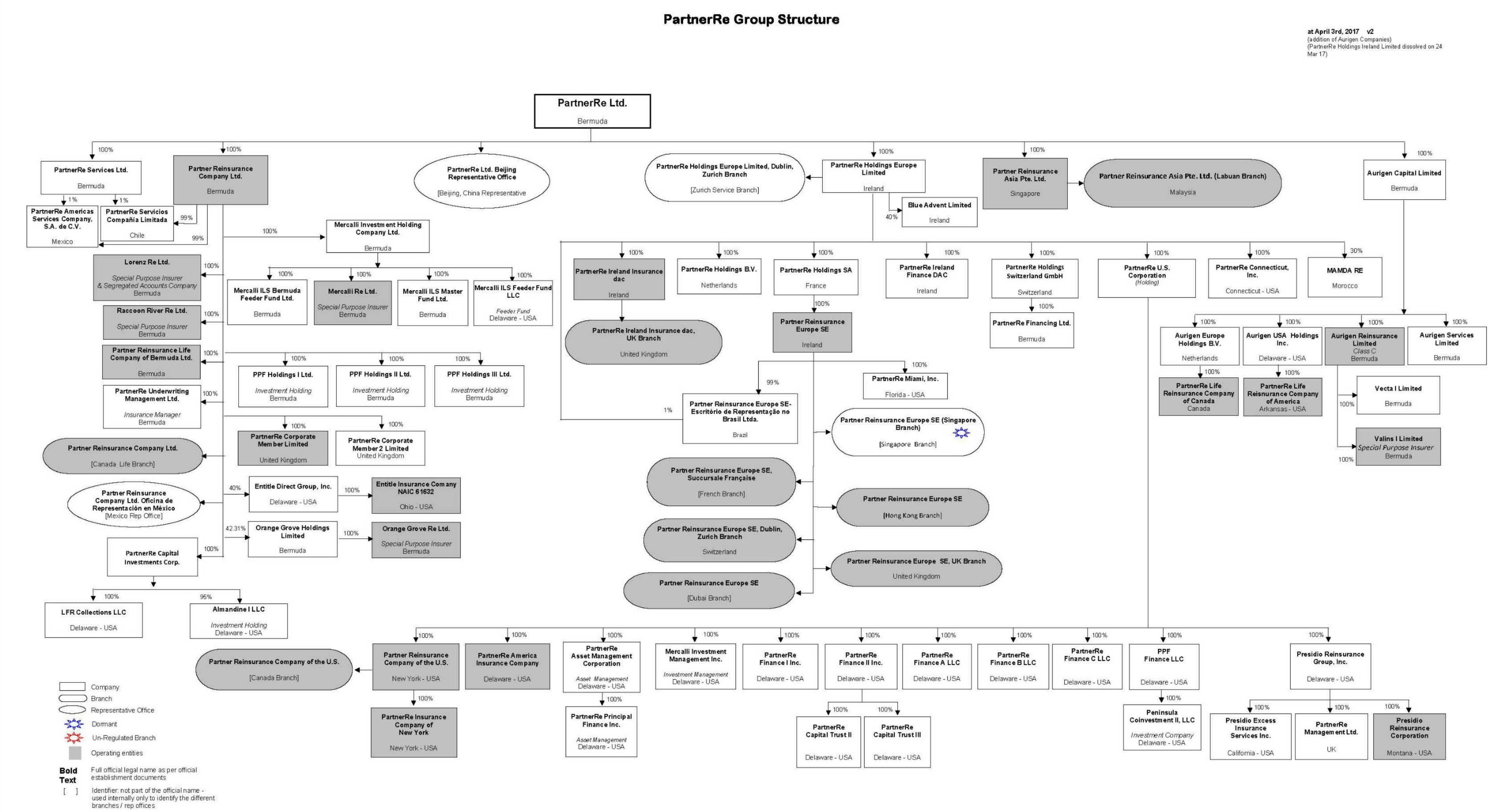
CHIEF EXECUTIVE OFFICER

/S/ EMMANUEL CLARKE	June 22, 2017
Emmanuel Clarke	Date

CHIEF RISK OFFICER

/S/ PETER ANTAL	June 22, 2017
Peter Antal	Date

PARTNER REINSURANCE COMPANY LTD.
FINANCIAL CONDITION REPORT DECEMBER 31, 2016 APPENDIX I



Appendix II

Contact Details

Group supervisor:

Organization:	Bermuda Monetary Authority
Jurisdiction:	Bermuda
Phone Number:	1(441)295 5278

Approved group auditor:

Organization:	Ernst & Young
Jurisdiction:	Bermuda
Phone Number:	1(441)295 7000