



PartnerRe Ltd.

Financial Condition Report

December 31, 2017

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**1. SUMMARY**

PartnerRe Ltd. (PartnerRe, the Company or the Group) is an exempt company incorporated under the laws of Bermuda with limited liability and is the holding company for PartnerRe, an international reinsurance group. The Company is a 100% owned subsidiary of EXOR Nederland N.V. 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 Rules 30 to 32 of the Bermuda Monetary Authority's (BMA) Insurance (Group Supervision) Rules 2011 which came into effect on January 1, 2016. These rules specify the requirement for insurance groups to prepare an FCR as outlined in schedule 3 of the aforementioned legislation and requires the FCR be made publicly available on the insurance group'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 Subsequent Events (section 7).

The Company is a leading global reinsurer, with a broadly diversified and balanced portfolio of traditional reinsurance and capital markets risks. The Company has three segments comprising two non-life segments: Property & Casualty (P&C) and Specialty, and the Life & Health segment. The Company's long-term objective is to manage a portfolio of diversified risks that will create shareholder value. The Company's profitability in any particular period can be significantly affected by large catastrophic or other large losses and the impact of changes in interest rates on the fair value of investments. Accordingly, the Company's performance during any particular period is not necessarily indicative of its performance over the longer-term reinsurance cycle.

Net income for the full year 2017 on a U.S. GAAP basis was \$264 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 Available Statutory Economic Capital and Surplus, ECR and BSCR Ratio at December 31, 2017 and 2016 were as follows:

	<b>2017</b>	<b>2016</b>
<b>Available Statutory Capital and Surplus</b> .....	<b>\$ 8,784</b>	<b>\$ 8,252</b>
<b>ECR</b> .....	<b>2,476</b>	<b>2,484</b>
<b>BSCR Ratio</b> .....	<b>355%</b>	<b>332%</b>

The Company's eligible capital by tier at December 31, 2017 and 2016 was as follows (in millions of U.S. dollars):

	<b>2017</b>	<b>2016</b>
<b>Tier 1</b> .....	<b>\$ 6,624</b>	<b>\$ 6,203</b>
<b>Tier 2</b> .....	<b>1,589</b>	<b>1,478</b>
<b>Tier 3</b> .....	<b>571</b>	<b>571</b>
<b>Total</b> .....	<b>\$ 8,784</b>	<b>\$ 8,252</b>

This report is primarily based on the Company's Economic Balance Sheet (EBS) as at December 31, 2017. In addition, certain sections include information based on the Company's December 31, 2017 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 on a worldwide basis through its principal wholly-owned subsidiaries, including Partner Reinsurance Company Ltd. (PartnerRe Bermuda), Partner Reinsurance Europe SE (PartnerRe Europe), Partner Reinsurance Company of the U.S. (PartnerRe U.S.) and, effective April 1, 2015, Partner Reinsurance Asia Pte. Ltd. (PartnerRe Asia). The Company provides reinsurance of risks to ceding companies (cedants or reinsureds). Risks reinsured include, but are not limited to, agriculture, aviation/space, casualty, catastrophe, energy, engineering, financial risks, marine, motor, multiline and property as well as mortality, longevity, accident and health and alternative risk products. The Company's alternative risk products include weather and credit protection to financial, industrial and service companies on a worldwide basis.

The Company was incorporated in August 1993 under the laws of Bermuda. The Company commenced operations in November 1993 upon completion of the sale of common shares and warrants pursuant to subscription agreements and an initial public offering.

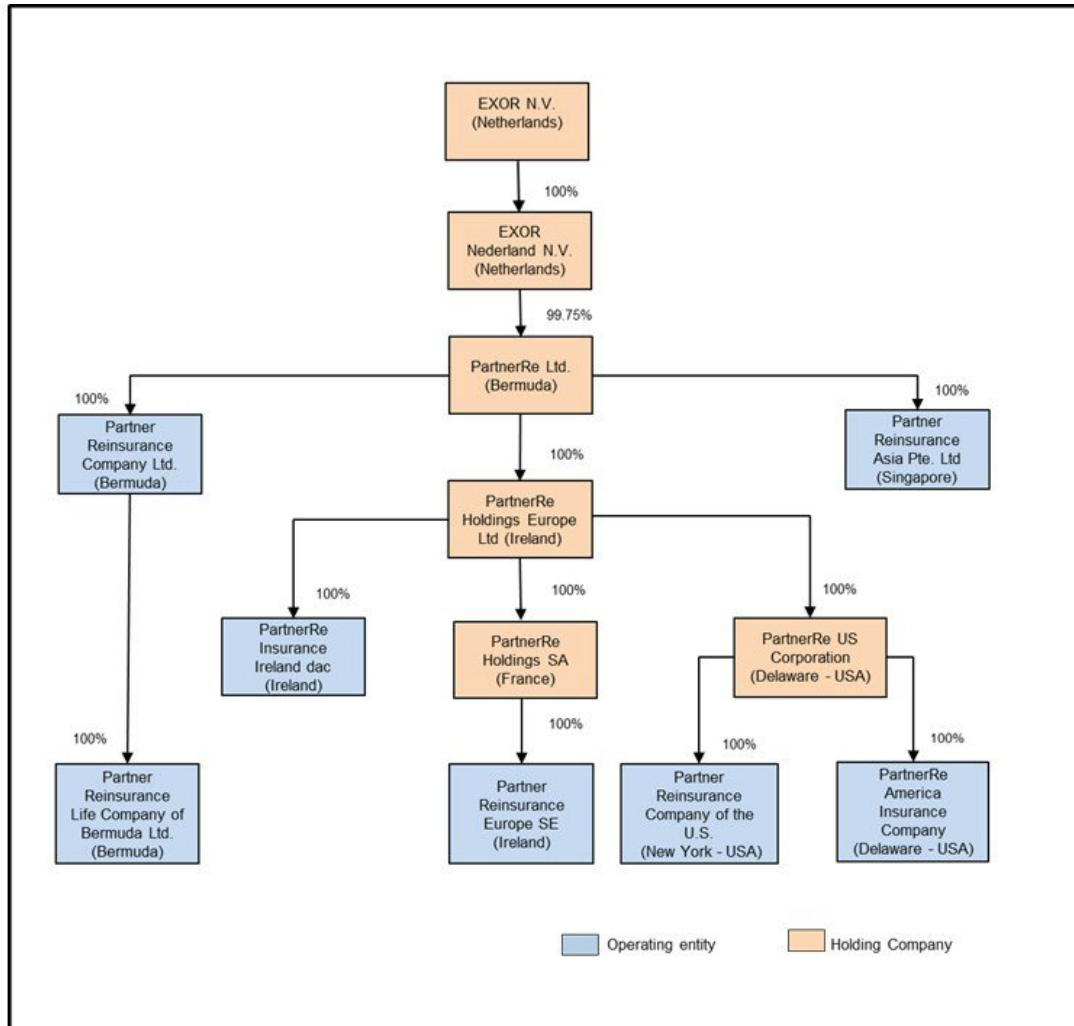
The Company completed the acquisition of Societe Anonyme Francaise de Reassurances (SAFR, subsequently renamed PartnerRe SA) in 1997, the acquisition of Winterthur Re in 1998, the acquisition of PARIS RE Holdings Limited (Paris Re) in 2009 and the acquisition of Presidio Reinsurance Group, Inc. (Presidio) in 2012. In addition, the Company completed the acquisition of Aurigen Capital Limited (Aurigen) on April 3, 2017, after receiving all necessary regulatory approvals, by purchasing 100% of the outstanding ordinary shares for CAD 370 million (or approximately \$278 million). Aurigen is a North American life reinsurance company and this acquisition enables the Company to expand its life reinsurance footprint in Canada and the U.S. with limited overlap in market coverage.

On March 18, 2016, following receipt of regulatory approvals, the Company's publicly held common shares were acquired by Exor N.V., a subsidiary of EXOR S.p.A., one of Europe's leading investment companies controlled by the Agnelli family. In October 2016, Exor N.V. changed its name to EXOR Nederland N.V. In December 2016, EXOR S.p.A. merged with and into EXOR HOLDING N.V., a newly formed entity organized in the Netherlands and, in conjunction with the merger, EXOR HOLDING N.V. changed its name to EXOR N.V. EXOR N.V. is listed on the Milan Stock Exchange. As a result of the acquisition, PartnerRe's publicly issued common shares were cancelled and are no longer traded on the NYSE. The Company's preferred shares continue to be traded on the NYSE.

At December 31, 2017 and 2016, the Company's Class A shares included in Shareholders' Equity on the Consolidated Balance Sheets are owned by EXOR Nederland N.V.

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



See Appendix I for a detailed PartnerRe Ltd. structure chart.

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 Company or any of its subsidiaries, including the power to impose restrictions on the ability of the relevant subsidiaries to declare dividends to the Company. In addition, the Company is required to maintain the Group 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, 2017 Consolidated Financial Statements prepared using United States Generally Accepted Accounting Principles (U.S. GAAP).

### **2.2.1 UNDERWRITING RESULT**

The Company monitors the performance of its operations in three segments: P&C, Specialty and Life and Health. This organizational structure aligns PartnerRe's global expertise with the needs of its client base.

#### **2.2.1.1 REINSURANCE BUSINESS WRITTEN**

##### **Premium Distribution**

The following table provides the geographic distribution of gross premiums written based on the location of the underlying risk for the years ended December 31, 2017 and 2016:

	2017	2016
Asia, Australia and New Zealand .....	13%	12%
Europe .....	34	36
Latin America, Caribbean and Africa .....	9	8
North America .....	44	44
<b>Total .....</b>	<b>100%</b>	<b>100%</b>

The Company's gross premiums written by segment for the years ended December 31, 2017 and 2016 are as follows (in millions of U.S. dollars):

	2017	2016
Non-life business: .....		
P&C segment .....	\$ 2,255	\$ 2,269
Specialty segment .....	1,934	1,920
Total Non-life business .....	4,189	4,189
Life and Health segment .....	1,399	1,168
<b>Total .....</b>	<b>\$ 5,588</b>	<b>\$ 5,357</b>

**Overall Segment Results**

The segment results for the years ended December 31, 2017 and 2016 were as follows (in millions of U.S. dollars, except ratios).

**Segment Information**  
**For the year ended December 31, 2017**

	P&C segment	Specialty segment	Total Non-life	Life and Health segment	Corporate and Other	Total
Gross premiums written	\$ 2,255	\$ 1,934	\$ 4,189	\$ 1,399	\$ —	\$ 5,588
Net premiums written	\$ 1,996	\$ 1,780	\$ 3,776	\$ 1,344	\$ —	\$ 5,120
Decrease (increase) in unearned premiums	(33)	(55)	(88)	(7)	—	(95)
Net premiums earned	\$ 1,963	\$ 1,725	\$ 3,688	\$ 1,337	\$ —	\$ 5,025
Losses and loss expenses	(1,620)	(955)	(2,575)	(1,266)	—	(3,841)
Acquisition costs	(495)	(489)	(984)	(136)	—	(1,120)
<b>Technical result</b>	<b>\$ (152)</b>	<b>\$ 281</b>	<b>\$ 129</b>	<b>\$ (65)</b>	<b>\$ —</b>	<b>\$ 64</b>
Other income	—	(1)	(1)	14	2	15
Other expenses	(71)	(33)	(104)	(61)	(183)	(348)
<b>Underwriting result</b>	<b>\$ (223)</b>	<b>\$ 247</b>	<b>\$ 24</b>	<b>\$ (112)</b>	<b>n/a</b>	<b>\$ (269)</b>
Net investment income				60	342	402
<b>Allocated underwriting result</b>				<b>\$ (52)</b>	<b>n/a</b>	<b>n/a</b>
Net realized and unrealized investment gains					232	232
Interest expense					(42)	(42)
Loss on redemption of debt					(2)	(2)
Amortization of intangible assets					(25)	(25)
Net foreign exchange losses					(108)	(108)
Income tax expense					(10)	(10)
Interest in earnings of equity method investments					86	86
<b>Net income</b>					<b>n/a</b>	<b>\$ 264</b>
Loss ratio <sup>(1)</sup>	82.6%	55.4%	69.8%			
Acquisition ratio <sup>(2)</sup>	25.2	28.4	26.7			
Technical ratio <sup>(3)</sup>	107.8%	83.8%	96.5%			
Other expense ratio <sup>(4)</sup>	3.6	1.9	2.8			
Combined ratio <sup>(5)</sup>	111.4%	85.7%	99.3%			

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

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

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

(4) Other expense ratio is obtained by dividing other expenses by net premiums earned.

(5) Combined ratio is defined as the sum of the technical ratio and the other expense ratio.

n/a: Not applicable



**Segment Information**  
**For the year ended December 31, 2016**

	P&C segment	Specialty segment	Total Non-life	Life and Health segment	Corporate and Other	Total
Gross premiums written	\$ 2,269	\$ 1,920	\$ 4,189	\$ 1,168	\$ —	\$ 5,357
Net premiums written	\$ 2,061	\$ 1,776	\$ 3,837	\$ 1,117	\$ —	\$ 4,954
Decrease (increase) in unearned premiums	25	(9)	16	—	—	16
Net premiums earned	\$ 2,086	\$ 1,767	\$ 3,853	\$ 1,117	\$ —	\$ 4,970
Losses and loss expenses	(1,248)	(1,073)	(2,321)	(927)	—	(3,248)
Acquisition costs	(556)	(500)	(1,056)	(131)	—	(1,187)
<b>Technical result</b>	<b>\$ 282</b>	<b>\$ 194</b>	<b>\$ 476</b>	<b>\$ 59</b>	<b>\$ —</b>	<b>\$ 535</b>
Other income	3	(1)	2	10	3	15
Other expenses	(141)	(88)	(229)	(66)	(177)	(472)
<b>Underwriting result</b>	<b>\$ 144</b>	<b>\$ 105</b>	<b>\$ 249</b>	<b>\$ 3</b>	<b>n/a</b>	<b>\$ 78</b>
Net investment income				58	353	411
<b>Allocated underwriting result</b>				<b>\$ 61</b>	<b>n/a</b>	<b>n/a</b>
Net realized and unrealized investment gains					26	26
Interest expense					(49)	(49)
Loss on redemption of senior notes					(22)	(22)
Amortization of intangible assets					(26)	(26)
Net foreign exchange gains					78	78
Income tax expense					(26)	(26)
Interest in losses of equity method investments					(23)	(23)
<b>Net income</b>					<b>n/a</b>	<b>\$ 447</b>
Loss ratio	59.8%	60.8%	60.3%			
Acquisition ratio	26.7	28.3	27.4			
Technical ratio	86.5%	89.1%	87.7%			
Other expense ratio	6.7	4.9	5.9			
Combined ratio	93.2%	94.0%	93.6%			

**Underwriting Result**

Underwriting result consists of net premiums earned and other income less losses and loss expenses, acquisition costs and other expenses. Underwriting result is a primary measure of underlying profitability for the Company's core reinsurance operations, separate from the investment results, and is used to manage and evaluate the Company's Non-life segments (P&C and Specialty) and Life and Health segment. The Company believes that in order to enhance the understanding of its profitability, it is useful for our shareholders and other users of this report to evaluate the components of net income or loss separately and in the aggregate. Underwriting result should not be considered a substitute for net income or loss and does not reflect the overall profitability of the business, which is also impacted by investment results and other items.

***Non-life segments***

The Non-life underwriting result and combined ratio for 2017 primarily reflected large catastrophic losses related to the 2017 Hurricanes and California Wildfires. The Non-life combined ratio benefited from net favorable prior year development of \$448 million (12.2 points on the combined ratio) with both the P&C and Specialty segments experiencing net favorable development.

The Non-life underwriting result and combined ratio for 2016 primarily reflected losses from the Canadian wildfires, hurricane Matthew and an energy loss. The Non-life combined ratio benefited from net favorable prior year development of \$677 million (17.6 points on the combined ratio) for 2016, with both the P&C and Specialty segments experiencing net favorable development.

***Life and Health segment***

The underwriting loss in the Life and Health segment in 2017 was primarily due to losses in Health, partially offset by gains in Life.

The underwriting gain in 2016 was due to positive contribution from both Life and Health business, driven by favorable prior year development.

**2.2.1.2 PROPERTY AND CASUALTY (P&C) SEGMENT**

The components of the technical result, which is calculated as net premiums earned less losses and loss expenses and acquisition costs, and the corresponding ratios, which are calculated as a percentage of net premiums earned, for the P&C segment for the years ended December 31, 2017 and 2016 were as follows (in millions of U.S. dollars, except ratios): :

	2017	2016
Gross premiums written .....	2,255	2,269
Net premiums written .....	1,996	2,061
Net premiums earned .....	1,963	2,086
Losses and loss expenses .....	(1,620)	(1,248)
Acquisition costs .....	(495)	(556)
Technical result .....	(152)	282
Other income .....	—	3.0
Other expenses .....	(71)	(141)
	<b>(223)</b>	144
Loss ratio .....	<b>82.6%</b>	59.8%
Acquisition ratio .....	<b>25.2</b>	26.7
Technical ratio .....	<b>107.8%</b>	86.5%
Other expense ratio	<b>3.6%</b>	6.7%
Combined ratio	<b>111.4%</b>	93.2%

**Premiums**

The P&C segment represented 39% and 42% of total net premiums written in 2017 and 2016, respectively. Business reported in this segment is, to a significant extent, originally denominated in foreign currencies and is reported in U.S.

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dollars. The U.S. dollar can fluctuate significantly against other currencies and this should be considered when making year to year comparisons.

The decrease in gross premiums written in 2017 compared to 2016 resulted primarily from cancellations and renewal changes in all lines, which were partially offset by new business written and a higher level of gross reinstatement premiums related to the large catastrophic losses. Net premiums written and earned decreased due to the same factors driving the decrease in gross premiums written, in addition to higher premiums ceded in the catastrophe portfolio.

**Technical result and related ratios**

The decrease in the technical result (and the corresponding increase in the technical ratio) in 2017 compared to 2016 was primarily driven by a higher level of large catastrophic losses related to the 2017 Hurricanes and the California Wildfires compared to large catastrophic losses related to the Canadian Wildfires and Hurricane Matthew during 2016, and a lower level of favorable prior year loss development. The increase in the underwriting loss (and a corresponding increase in the combined ratio) was driven by the decrease in the technical result, partially offset by a decrease in other expenses allocated to the P&C segment as a result of the efficiency actions undertaken following the closing of the acquisition by Exor N.V.

**2.2.1.3 SPECIALTY SEGMENT**

The components of the technical result, which is calculated as net premiums earned less losses and loss expenses and acquisition costs, and the corresponding ratios, which are calculated as a percentage of net premiums earned, for the Specialty segment for the years ended December 31, 2017 and 2016 were as follows (in millions of U.S. dollars, except ratios):

	2017	2016
Gross premiums written .....	\$ 1,934	\$ 1,920
Net premiums written .....	\$ 1,780	\$ 1,776
Net premiums earned .....	\$ 1,725	\$ 1,767
Losses and loss expenses .....	(955)	(1,073)
Acquisition costs .....	(489)	(500)
Technical result .....	\$ 281	\$ 194
Other income .....	(1)	(1.0)
Other expenses .....	(33)	(88)
	<b>247</b>	<b>105</b>
Loss ratio .....	<b>55.4%</b>	60.8%
Acquisition ratio .....	<b>28.4</b>	28.3
Technical ratio .....	<b>83.8%</b>	89.1%
Other expense ratio	<b>1.9%</b>	4.9%
Combined ratio	<b>85.7%</b>	94.0%

**Premiums**

The Specialty segment represented 35% and 36% of total net premiums written in 2017 and 2016, respectively. Business reported in this segment is, to a significant extent, originally denominated in foreign currencies and is reported in U.S. dollars.

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The increase in gross premiums written in 2017 compared to 2016 was driven primarily by new business written and renewal changes. These increases were largely offset by cancellations and the impact of foreign exchange. Net premiums written increased due to the same factors driving the increase in gross premiums written, partially offset by higher premiums ceded in 2017 under new and existing contracts.

**Technical result and related ratios**

The increase in the technical result (and the corresponding decrease in the technical ratio) in 2017 compared to 2016 was primarily attributable to lower mid-sized and attritional losses in the current accident year, partially offset by large catastrophic losses related to the 2017 Hurricanes and the California Wildfires, and lower prior year loss development in 2017. The increase in the underwriting result (and a corresponding decrease in the combined ratio) was driven by the increase in the technical result, partially offset by a decrease in other expenses allocated to the Specialty segment as a result of the efficiency actions undertaken following the closing of the acquisition by Exor N.V.

**2.2.1.4 LIFE AND HEALTH SEGMENT**

The components of the allocated underwriting result for the Life and Health segment for the years ended December 31, 2017 and 2016 were as follows (in millions of U.S. dollars):

	2017	2016
Gross premiums written .....	\$ 1,399	\$ 1,168
Net premiums written .....	\$ 1,344	\$ 1,117
Net premiums earned .....	\$ 1,337	\$ 1,117
Losses and loss expenses .....	(1,266)	(927)
Acquisition costs .....	(136)	(131)
Technical result .....	\$ (65)	\$ 59
Other income <sup>(1)</sup> .....	14	10
Other expenses .....	(61)	(66)
Underwriting result .....	\$ (112)	\$ 3
Net investment income .....	60	58
Allocated underwriting result .....	\$ (52)	\$ 61

*(1) Other income represents fee income on deposit accounted contracts and longevity swaps.*

**Premiums**

The Life and Health segment represented 26% and 23% of total net premiums written in 2017 and 2016, respectively. Business reported in this segment is, to a significant extent, originally denominated in foreign currencies and is reported in U.S. dollars.

The increases in gross and net premiums written and net premiums earned in 2017 compared to 2016 were driven by the inclusion of Aurigen premiums and growth in the health line of business.

**Allocated underwriting result**

The allocated underwriting result decreased in 2017 compared to 2016 primarily due to losses in the health lines of business which were partially offset by gains from the Life business. The loss in the Health business resulted from an increase in frequency of large claims activity in underwriting years 2015 to 2017, primarily in Affordable Care Act related programs.

**2.2.2 INVESTMENT RESULT**

Investment result consists of net investment income, net realized and unrealized investment gains or losses and interest in earnings or losses of equity method investments.

**Net Investment Income**

Net investment income includes interest, dividends and amortization of premiums and discounts on fixed maturities and short-term investments, rental income on investments in real estate as well as investment income on funds held and funds held—directly managed, and is net of investment expenses, generated by the Company’s investment activities, and withholding taxes. Net investment income by asset source for the years ended December 31, 2017 and 2016 was as follows (in millions of U.S. dollars):

	2017	2016
Fixed maturities, short-term investments and cash and cash equivalents.....	\$ 388	\$ 398
Equities .....	—	4
Funds held and other .....	29	34
Funds held—directly managed .....	8	10
Investment expenses .....	(23)	(35)
Net investment income .....	\$ 402	\$ 411

Net investment income decreased in 2017 compared to 2016 due to the partial sale of the principal finance portfolio in the fourth quarter of 2016 (which was partially offset by the inclusion of Aurigen's portfolio), increases in reinvestment rates in the U.S. and Canada, a higher allocation to investment grade corporate bonds and lower investment expenses during the year.

**Net Realized and Unrealized Investment Gains**

Net realized and unrealized investment gains or losses include sales of the Company’s fixed income, equity and other invested assets and investments underlying the funds held—directly managed account and changes in net unrealized gains or losses.

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 recognized changes in fair value for substantially all of its investments as changes in unrealized investment gains or losses in its Consolidated Statements of Operations. Realized and unrealized investment gains and losses are generally a function of multiple factors, with the most significant being prevailing interest rates, credit spreads and equity market conditions.

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The components of net realized and unrealized investment gains for the years ended December 31, 2017 and 2016 were as follows (in millions of U.S. dollars):

	2017	2016
Net realized investment gains on fixed maturities and short-term investments .....	\$ 29	\$ 97
Net realized investment losses on equities .....	(4)	—
Net realized investment (losses) gains on other invested assets .....	(3)	5
Net realized investment gains on funds held—directly managed .....	—	1
Net realized investment gains .....	22	103
Change in net unrealized investment gains or losses on fixed maturities and short-term investments .....	124	(90)
Change in net unrealized investment gains or losses on equities .....	60	(15)
Change in net unrealized investment gains or losses on other invested assets .....	33	25
Change in net unrealized investment gains or losses on funds held—directly managed .....	(6)	—
Net other realized and unrealized investment gains or losses .....	(1)	3
Change in net unrealized investment gains or losses .....	210	(77)
Net realized and unrealized investment gains .....	\$ 232	\$ 26

The net realized and unrealized investment gains of \$232 million in 2017 were primarily due to narrowing of corporate bond spreads and increases in equity markets, partially offset by increases in U.S. risk-free interest rates. Net realized investment gains were primarily driven by gains on fixed maturities and short-term investments and net unrealized gains were primarily driven by fixed maturities and short-term investments, equities and other invested assets.

The net realized and unrealized investment gains of \$26 million in 2016 were primarily due to narrowing of credit spreads, partially offset by increases in U.S. risk-free interest rates at the end of the year. Net realized investment gains in 2016 were primarily driven by gains on fixed maturities and short-term investments and net unrealized losses were primarily driven by fixed maturities and short-term investments.

**Interest in (Losses) Earnings of Equity Method Investments**

Interest in earnings or 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 earnings of \$86 million and losses of \$23 million related to equity method investments for the years ended December 31, 2017 and 2016, respectively.

**Total Return**

The Company's investment portfolio generated a total return (calculated based on the carrying value of all investments in local currency) of 4.2% in 2017 compared to 2.4% in 2016. The total accounting return in 2017 reflected overall mark-to-market gains driven by equities and compression in corporate bonds spreads, notwithstanding increases in U.S. and European risk-free interest rates. The total accounting return in 2016 reflected overall mark to market gains, notwithstanding increases in U.S. and European risk-free interest rates. The company's total accounting return by asset class as at December 31, 2017 and 2016 was as follows:

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	2017	2016
Fixed maturities, short-term investments and cash and cash equivalents.....	3.7%	2.7 %
Equities .....	11.3%	(9.2)%
Other invested assets .....	8.7%	4.0 %
Funds held–directly managed .....	0.7%	2.4 %
<b>Total .....</b>	<b>4.2%</b>	<b>2.4 %</b>

**2.2.3 OTHER INCOME AND EXPENSES**

Management analyzes the Company’s net income in three parts: underwriting result (see section 2.2.1), investment result (see section 2.2.2) and other components of net income or loss not allocated to the Company’s Non-life (P&C and Specialty) and Life and Health segments.

**Corporate and Other**

The following are components of net income (in millions of U.S. dollars) that the Company does not allocate to segments:

	2017	2016
<b>Other components of net income not allocated to segments:</b>		
Other income .....	\$ 2	\$ 3
Other expenses .....	\$ (183)	\$ (177)
Interest expense .....	\$ (42)	\$ (49)
Loss on redemption of debt .....	\$ (2)	\$ (22)
Amortization of intangible assets .....	\$ (25)	\$ (26)
Net foreign exchange (losses) gains .....	\$ (108)	\$ 78
Income tax expense .....	\$ (10)	\$ (26)
<b>Corporate and Other .....</b>	<b>\$ (368)</b>	<b>\$ (219)</b>

**Other Income**

Other income primarily relates to income on insurance-linked securities and principal finance transactions.

**Other Expenses**

The Company allocates direct expenses and certain other expenses that vary with the volume of business to its operating segments. These expenses are included in underwriting result in section 2.2.1. The indirect fixed costs are not allocated to segments and are presented in Corporate and Other. The Company’s total other expenses for the years ended December 31, 2017 and 2016 were as follows (in millions of U.S. dollars, except ratios):

	2017	2016
Other expenses, as reported .....	\$ 348	\$ 472
Other transaction and severance related costs .....	(33)	(128)
Other expenses, as adjusted for various transaction and Presidio related costs .....	\$ 315	\$ 344
Other expenses, as adjusted, as a % of total net premiums earned .....	6.3%	6.9%

Other expenses, as reported, decreased by \$124 million, or 26%, in 2017 compared to 2016 primarily due to the efficiency actions undertaken following the closing of the acquisition by Exor N.V. and lower reorganization and transaction costs, partially offset by the inclusion of Aurigen expenses. In 2017, other expenses include \$33 million of transaction costs primarily related to the reorganization costs and the acquisition of Aurigen.

### ***Interest Expense***

Interest expense in 2017 decreased compared to 2016 due to the optimization of the Company's capital structure through the issuance of a 750 million Euro-denominated bond in September 2016 and the redemption of certain high coupon senior notes and preferred shares during the fourth quarter of 2016.

### ***Loss on Redemption of Debt***

The loss on redemption of debt in 2017 and 2016 relates to debt settled by Aurigen in 2017 and redemption of the \$250 million 2008 senior notes in 2016, representing a make whole provision related to future interest foregone as a result of the early retirement.

### ***Amortization of Intangible Assets***

Amortization of intangible assets relates to intangible assets acquired upon acquisition of Paris Re in 2009, Presidio in 2012 and Aurigen in 2017.

### ***Net Foreign Exchange Gains (Losses)***

The Company hedges a significant portion of its currency risk exposure. The net foreign exchange losses in 2017 resulted primarily from the impact of the weakening of the U.S. dollar on certain unhedged non-U.S. denominated liabilities and the cost of hedging activities.

The net foreign exchange gains in 2016 resulted primarily from the impact of the strengthening of the U.S. dollar on certain unhedged non-U.S. denominated liabilities, partially offset by the cost of hedging activities.

### ***Income Taxes***

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



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The Company's income tax expense and effective income tax rate for the years ended December 31, 2017 and 2016 were as follows (in millions of U.S. dollars):

	2017	2016
Income tax expense .....	\$ 10	\$ 26
Effective income tax rate .....	3.8%	5.5%

Income tax expense and the effective income tax rate during 2017, 2016 and 2015 were primarily driven by the geographic distribution of the Company's pre-tax net income between its various jurisdictions.

The recent enactment of the Tax Cuts and Jobs Act in the U.S. resulted in a charge of \$5 million in the fourth quarter of 2017.

In 2016, the income tax expense included a tax benefit of \$29 million recorded following the favorable outcome of certain tax litigation and favorable adjustments related to certain tax-exempt bonds.

### **3. GOVERNANCE STRUCTURE**

#### **3.1 PARENT BOARD AND SENIOR EXECUTIVE**

##### **3.1.1 CORPORATE GOVERNANCE FRAMEWORK**

The Board considers that good corporate governance is critical to achieving business success and aligning the interests of management and shareholders. In addition to the requirements codified in legislation (including the Bermuda Companies Act 1981), common law and the Company's Bye-Laws, PartnerRe has established a corporate governance framework. This includes Corporate Governance Principles and Application Guidelines (which defines how the Board operates and reflects PartnerRe's global business practices) and a Code of Business Conduct and Ethics (which defines standards of ethics, integrity, honesty, fairness and professionalism expected of the Board, officers and employees of PartnerRe), each of which are reviewed regularly against current best practices.

##### **Board Leadership Structure**

Since its inception in 1993 PartnerRe has always separated the role of the Chief Executive Officer from that of the Chairman of the Board. The role of Chairman is filled by a non-executive director and as a result, we have not appointed a lead director. The separation of these two roles is an important component of our corporate governance structure. The Chairman provides leadership to the Board, presides at the Board meetings which are scheduled at least twice a year plus informational meetings held at least twice a year and calls additional meetings of the directors as he deems appropriate. The Chairman advises on the selection of committee chairmen, leads the performance evaluation of the Chief Executive Officer and advises on and determines, with the input from the Chief Executive Officer and the Board, the agenda for Board meetings. With input from the Chief Executive Officer, the Chairman determines the nature and extent of information that should be provided to the Board in advance of Board meetings, acts as a liaison between the shareholder and the Board where appropriate and performs such other functions as the Board may direct. The Chairman also presides at all executive sessions of the Board which are held each time a physical Board meeting occurs.

##### **Meetings and Committees of the Board**

The Board has established an Audit Committee comprised of Messers. Thiele and Dowd who are independent in accordance with the definition of the applicable New York Stock Exchange and U.S. Securities and Exchange Commission (SEC) Rules.

##### **Audit Committee**

The Board has established an Audit Committee which is governed by an Audit Committee charter.

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

- the integrity of PartnerRe's financial statements;
- PartnerRe's compliance with legal and regulatory requirements, including the receipt of reports arising in respect of the Code of Business Conduct and Ethics;
- 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, the Chief Audit Officer and our independent 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. In addition, the Audit Committee discusses PartnerRe's policies with respect to risk assessment and risk management processes.

Mr. Patrick Thiele, an independent director of the Company and member of the Audit Committee meets the definition of an "audit committee financial expert" as adopted by the SEC, and is independent under New York Stock Exchange Rules. Mr. Brian Dowd acts as chairman of the Audit Committee and meets the financial literacy requirements of the New York Stock Exchange Rules. They each have a broad range of experience in senior executive positions in their respective industries. The Board has determined that each member of the Audit Committee has appropriate accounting and financial management expertise.

### **The Board's Role in Risk Oversight**

Due to its business of reinsurance, PartnerRe must assume 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. The Board sets both the risk appetite and return goals by considering the following:

- establishment of a minimum capital level expressed as a fixed percentile of a modeled financial loss exceedance curve plus a margin;
- setting our risk appetite as a percentage of capital, with loss tolerances for the ten largest financial or reputational risks being set with a specific fixed dollar amount; and
- approving key risk management principles and policies utilized by PartnerRe to drive individual decision making throughout the organization.

In addition the Board also:

- allocates responsibilities for risk oversight among the Board and its committees;
- facilitates open communication between management and directors about the risks which the PartnerRe assumes; and
- fosters an appropriate culture of integrity and risk awareness.

While the Board oversees risk management, it is the responsibility of management to manage risk. PartnerRe has robust internal policies and procedures as well as a strong internal control environment to identify and manage risks which ensures communication with the Board and its committees. PartnerRe's enterprise risk management framework includes policies and procedures, an enterprise risk management committee chaired by the Chief Executive Officer, regular internal management disclosure committee meetings, a comprehensive internal and external audit process and the Code of Business Conduct and Ethics. The Board and the Audit Committee monitor the effectiveness of the internal controls and the Board has oversight over the risk management framework. Management communicates routinely with the Board on the significant risks identified and how they are being managed and mitigated. Much of the work is delegated to the Audit Committee, which meets regularly and report back to the Board. For instance, the Audit Committee oversees and focuses on risks related to PartnerRe's financial statements, the financial reporting process, accounting and legal matters. The Audit Committee oversees the internal audit function and PartnerRe's ethics programs, including the Code of Business Conduct and Ethics. The Audit Committee members meet separately with PartnerRe's Chief Audit Officer and representatives of the independent auditing firm.

## **Code of Business Conduct and Ethics**

The Board of PartnerRe has adopted the Code of Business Conduct and Ethics, which applies to all directors, officers and employees of PartnerRe. Any specific waiver of its provisions requires the approval of the Audit Committee of PartnerRe. 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 the Audit Committee of the Company as relevant and appropriate.

### **3.1.2 REMUNERATION POLICY**

#### **Employee Compensation**

The Company's compensation program is designed to provide a combination of fixed annual compensation, short-term incentive compensation, and long-term incentive (LTI compensation). The realization of the Company's short-term incentive compensation and LTI compensation depends upon the attainment of a range of performance (individual and group) metrics.

#### **Executive Compensation**

The Company has entered into employment agreements with its executive officers. These agreements provide for annual compensation in the form of salary, benefits, annual incentive payments, the reimbursement of certain expenses, retention incentive payments, and certain severance and change in control provisions.

Executive compensation is comprised of salary, annual incentives and other benefits. During 2017, PartnerRe's executive officers earned \$20.7 million in compensation. LTI compensation is excluded from this total and is described in more detail below.

#### **Long-term incentive (LTI) Program**

The 2017 LTI Program consisted of awards either in a form of cash or class B shares (see below) with a three-year cliff vest issued to certain executives.

During 2017, an executive officer had target LTI values in local currencies and were awarded an aggregate of \$1.3 million in LTI cash compensation. Upon vesting, target awards will be adjusted based on the Company's performance measure which is a three-year compound Return on Capital (ROC) metric.

#### **Class B Shares**

In May 2017, the Company designated a new class of common shares (Class B shares) that may be granted to or purchased by certain executives of the Company at the discretion of the Company. The LTI Committee of the Board approved the related Certificate of Designation which stipulated that the granted shares are restricted from sale for three years from date of grant and grants can be made by the Company twice a year as of March 1 or September 1. In addition, the Class B shares can be redeemed, subject to certain restrictions, at the option of the employee with respect to Class B purchased shares, and after the three-year restriction period for granted shares. However, per the notice of grant provided to the employee, once the restriction period has expired, the employee can only sell or transfer the restricted shares back to the Company provided the employee, continues to hold an agreed minimum of four times (4X) their gross LTI target value, unless otherwise agreed in writing. During 2017, certain of PartnerRe's executive officers were awarded an aggregate \$6.3 million in Class B shares. The share capital for this new class of shares is US\$1.00 being 100,000,000

Class B Common Shares of par value US\$0.00000001 each (Class B Shares). The Class B Shares rank junior to the preferred shares of the Company and pari passu with the existing common shares. The Class B Common Shares issued and outstanding represent less than 0.3% of the beneficial ownership and voting rights of the Company.

### **Director Compensation**

On an annual basis, the Board approves director compensation in-line with industry best practices.

During 2017, the directors received approximately \$1.2 million in cash as compensation for their services as directors. Mr. Clarke did not receive any compensation for his services as a director in 2017. All directors are reimbursed for travel and other related expenses personally incurred while attending Board or committee meetings.

### **3.1.3 PENSION OR EARLY RETIREMENT SCHEMES**

For employee retirement benefits, the Company maintains certain defined contributions plans and other active and frozen defined benefit plans.

#### **Defined Contribution Plans**

Contributions are made by the Company, and in some locations, these contributions are supplemented by the local plan participants. Contributions are based on a percentage of the participant's base salary depending upon competitive local market practice and vesting provisions meeting legal compliance standards and market trends. The accumulated benefits for the majority of these plans vest immediately or over a four year period. As required by law, certain retirement plans also provide for death and disability benefits and lump sum indemnities to employees upon retirement.

### **3.1.4 AGREEMENTS WITH RELATED PARTIES**

As at December 31, 2017 and 2016 EXOR Nederland N.V. held 100% of the Class A shares and more than 99% of the total voting shares (Class A and Class B) of the Company and therefore has the power to make decisions that impact the Company.

#### **Related Party Transactions**

The Audit Committee reviews material related party transactions. The Company has disclosed in its Annual Report on Form 20-F all material transactions it entered into with related parties during the years ended December 31, 2017 and 2016. See Note 19 to the Consolidated Financial Statements in Item 18 of the Company's 2017 Annual Report on Form 20-F which is available on our website at [www.partnerre.com](http://www.partnerre.com).

#### **Intercompany Loan Agreements**

The company's material intra-group exposures as at December 31, 2017 were as follows (in thousands of U.S. dollars):

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Issuer/Borrower/ Debtor	Jurisdiction	Investor/Lender/ Creditor	Jurisdiction	Summary Details of the Transactions	Amount
PartnerRe Ltd.	Bermuda	PartnerRe Financing Ltd.	Bermuda	Financing of group restructuring under revolving credit facility; 0% interest; Due on demand, otherwise amounts mature on July 31, 2020.	1,495,018
PartnerRe Holdings SA	France	PartnerRe Holdings B.V.	Netherlands	Combination of two previous notes due to PartnerRe Financing Ltd. from PartnerRe Holdings SA and reassignment of these amounts to PartnerRe Holdings BV, effective April 1, 2013; 5% fixed interest; Matures April 1, 2043.	791,578
PartnerRe Ltd.	Bermuda	PartnerRe Ireland Finance DAC	Ireland	Promissory note to repay principal in August 2026, unless previously paid, and 1.25% interest until August 31, 2026.	584,712
PartnerRe U.S. Holdings	USA	PartnerRe Finance B LLC	USA	Promissory note to repay principal on June 1, 2020, unless previously paid; 5.5% fixed interest.	500,000
PartnerRe Holdings Europe Limited	Ireland	PartnerRe Ltd.	Bermuda	Further restructuring of internal notes, effective April 1, 2013; Non-interest bearing, due April 1, 2043.	395,090
PartnerRe Ltd.	Bermuda	Partner Reinsurance Europe SE (PRSE)	Ireland	Revolving Credit	344,671
PartnerRe U.S. Corporation	USA	PartnerRe Ireland Finance DAC	Ireland	Interest bearing loan at 3.75% until August 31, 2026.	272,000
PartnerRe Holdings B.V.	Netherlands	PartnerRe Ltd.	Bermuda	Further restructuring of internal notes, effective April 1, 2013; 5.5% interest, due April 1, 2033.	436,199
Paris Re America Insurance Company	USA	PartnerRe Ltd	Bermuda	Capital Maintenance Agreement	200,000
PartnerRe Ltd.	Bermuda	PartnerRe U.S. Corporation	USA	Repay part of capital and interest on prior loan with PartnerRe Services Ltd.; 5.5% fixed interest; Matures June 30, 2017.	100,000
Partner Reinsurance Asia Pte Ltd	Singapore	PartnerRe Ltd	Bermuda	To provide a loan to PartnerRe SA under a separate agreement; 5.4% fixed interest; Matures June 30, 2017.	100,000
PartnerRe U.S. Corporation	USA	PartnerRe Finance II	USA	Revolving Credit Loan; Due on demand, interest at 1.25% plus 3-mth libor.	63,384
PartnerRe Holdings Switzerland GmbH	Switzerland	PartnerRe Financing Ltd.	Bermuda	Capital Maintenance Agreement	3,610
Aurigen Capital Limited	Canada	PartnerRe Ltd.	Bermuda	Promissory note to repay principal in December 2066, unless previously paid. 6.44% interest until December 1, 2016, and 3-mth libor + 2.325% thereafter.	263,531
Aurigen Capital Limited	Canada	Partner Reinsurance Company Ltd.	Bermuda	Loan	39,400
PartnerRe Ltd.	Bermuda	PartnerRe Ireland Finance DAC	Ireland	Capital Maintenance Agreement	100,000

**Other Agreements**

In the normal course of its investment operations, the Company bought or held securities of companies affiliated with the Company. All transactions entered into as part of the investment portfolio were completed on market terms.

## **3.2 FITNESS AND PROPRIETY REQUIREMENTS**

### **3.2.1 FIT AND PROPER PROCESS IN ASSESSING THE PARENT 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.

##### ***Mandatory Retirement Age***

The current mandatory retirement age for directors, as determined by the Board, is 73. A director must resign from the Company in May of the year that he or she turns 73, unless the Board waives the mandatory retirement age for a specific director in exceptional circumstances. Such waiver is renewed annually and will be disclosed.

See also Sections 3.1.1 - *Corporate Governance Framework*, 3.1.2 - *Remuneration Policy* and 3.1.4 *Agreements with Related Parties* above.

### **3.2.2 PROFESSIONAL QUALIFICATIONS, SKILLS AND EXPERTISE OF PARENT BOARD AND SENIOR EXECUTIVES**

The following are the directors and executive officers of the Company as of May 24, 2018:

<b>Name</b>	<b>Position with the Company</b>	<b>Date Appointed</b>
John Elkann	Director, Chairman of the Board	March 18, 2016
Brian Dowd	Director, Chairman of the Audit Committee	March 18, 2016
Patrick A. Thiele	Director, Member of the Audit Committee	March 18, 2016
Bilge Ogut	Director	July 28, 2016
Nikhil Srinivasan	Director	August 5, 2016
Emmanuel Clarke	Director, President and CEO, PartnerRe Ltd. and CEO Specialty	March 24, 2016
Mario Bonaccorso	Executive Vice President and CFO, PartnerRe Ltd.	April 4, 2016
Charles Goldie	CEO Property and Casualty	July 1, 2016
Scott Altstadt	Chief Underwriting Officer	July 1, 2016
Marc Archambault	CEO Life & Health	April 1, 2017
Dorothee Burkel	Chief Corporate and People Operations Officer	October 2, 2017
Turab Hussain	Chief Risk and Actuarial Officer	December 2, 2017

#### **Biographical information - Directors**

##### **John Elkann, Director, Chairman of the Board**

John Elkann is also Chairman and CEO of EXOR and Chairman of Fiat Chrysler Automobiles N.V. Mr. Elkann obtained a scientific baccalaureate from the Lycée Victor Duruy in Paris, and graduated in Engineering from Politecnico, the Engineering University of Turin. While at university, he gained work experience in manufacturing, sales and marketing at various companies within the Fiat Group in the U.K., Poland and France. He started his professional career in 2001 at General Electric as a member of the Corporate Audit Staff, with assignments in Asia, the U.S. and Europe. Mr. Elkann is Chairman of Giovanni Agnelli e C. Sapaz. and Italiana Editrice. He is a board member of The Economist Group, News Corporation and Ferrari S.p.A. Mr. Elkann is a member of Museum of Modern Art as well as Vice Chairman of the Italian Aspen Institute and the Giovanni Agnelli Foundation.

##### **Brian Dowd, Director, Chairman of the Audit Committee**

Previously, Mr. Dowd was a member of the Office of the Chairman of ACE Group, focusing on underwriting-related matters, including oversight of the ACE Group's product boards, the general underwriting disciplines of the company's profit centers, outward reinsurance placements and run-off operations and special strategic projects. Mr. Dowd also held relevant positions at ACE Group from 1997 until his appointment as Chairman of ACE's Insurance – North America business segment in 2006. He also held the role of Vice Chairman of ACE Limited from 2009 until his retirement in 2015. Prior to that, Mr. Dowd held underwriting positions of increasing responsibility at Arkwright Mutual Insurance Company over a seven-year period. He holds a Bachelor of Science (B.S.) in Finance from Northern Illinois University, as well as the Chartered Property Casualty Underwriter professional designation.

##### **Patrick A. Thiele, Director, Member of the Audit Committee**

Mr. Thiele served as CEO of PartnerRe from 2000 until his retirement in 2010. In February 2014, Mr. Thiele joined the board of One Beacon Insurance Group, and in February 2015, he joined the boards of the investment companies in the Mairs and Power family of mutual funds. Mr. Thiele previously held executive roles at CGU plc (now Aviva plc) and at



The St. Paul Companies, where he spent the first 20 years of his insurance career, culminating in his appointment as its CEO of Worldwide Insurance Operations. Mr. Thiele began his career in 1975, working as a securities analyst with the National Bank of Detroit. He holds both a B.S. in Finance and a Master in Business Administration from the University of Wisconsin, Madison, as well as the Chartered Financial Analyst designation.

**Enrico Vellano, Director - resigned effective March 8, 2018**

Mr. Vellano is a Director of PartnerRe. Mr. Vellano is also the Chief Financial Officer (CFO) of EXOR. In 1992, Mr. Vellano started his professional career at Arthur Andersen LLP. In 1995, he joined SAI Assicurazioni where he specialized in the management of equity and bond portfolios. In 1997, he began working at Istituto Finanziario Italiano Laniero (IFIL), the investment company controlled by the Agnelli Family. In 2006 he was named CFO of IFIL, which was merged with Istituto Finanziario Italiano in 2009 to create EXOR. He is also a board member of Juventus Football Club, Almacantar S.A. and Emittenti Titoli. Mr. Vellano holds a Bachelor of Arts in Economics at the University of Torino. Mr. Vellano resigned as Director of the Company effective March 8, 2018.

**Bilge Ogut, Director**

Ms. Ogut is Head of Private Equity in Europe at Partners Group, the global private markets investment manager firm, and is a member of Partners Group's Private Equity Directs Investment Committee and Private Equity Primaries Europe Investment Committee. Prior to joining Partners Group she was Deputy Head of Private Equity at Standard Bank International from 2010 to 2011 and was with Warburg Pincus from 1998 to 2009.

**Nikhil Srinivasan, Director**

Mr. Srinivasan is the former Group Chief Investment Officer and a member of the Group Management Committee of Generali and Chairman of Generali Real Estate. Prior to joining Generali, he was at Allianz SE for ten years based in Singapore and Munich, where he was Group Chief Investment Officer and a member of Allianz SE's International Executive Committee responsible for the firm's investment strategy.

**Emmanuel Clarke, Director, Director, President and CEO, PartnerRe Ltd. and CEO Specialty**

Mr. Clarke is responsible for leading and managing the Company's operations. He is also a member of the Company's Executive Committee. Mr. Clarke has 20 years of professional experience in the reinsurance industry. He joined PartnerRe in 1997 and was appointed as Head of Credit & Surety, PartnerRe Global in 2002 and Head of P&C, PartnerRe Global in 2006. In 2008, Mr. Clarke was appointed as Head of Specialty Lines, PartnerRe Global and Deputy CEO of PartnerRe Global. Effective September 1, 2010, Mr. Clarke was appointed as CEO of PartnerRe Global. On September 8, 2015, Mr. Clarke was appointed President of PartnerRe and on 24 March, 2016, Mr. Clarke was appointed CEO of PartnerRe. Mr. Clarke has a MBA from the University Paris, IX - Dauphine, specializing in Finance and Controlling and a MBA in International Business from Baruch College of CUNY.

## **Biographical information - Executive Management**

### **Emmanuel Clarke, Director, President and CEO, PartnerRe Ltd. and CEO Specialty**

See above.

### **Mario Bonaccorso, Executive Vice President and CFO, PartnerRe Ltd.**

Mr. Bonaccorso is a member of PartnerRe's Group Executive Committee and is responsible for the Company's financial operations. Prior to joining PartnerRe, Mr. Bonaccorso served as Managing Director of EXOR for nine years where he was responsible for investments and 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. Mr. Bonaccorso has a Master of Science cum laude in Telecommunications Engineering at Politecnico di Torino University and a MBA with honors from INSEAD. Mr. Bonaccorso has served on behalf of EXOR on the board of directors of Cushman & Wakefield, Banijay Holding, Banca Leonardo and EXOR SA.

### **Charles Goldie, CEO Property & Casualty**

Charles Goldie is a member of PartnerRe's Group Executive Committee and is responsible for the executive management of PartnerRe's Property and Casualty worldwide business segment. Mr. Goldie has over 25 years of experience both as an actuary and as a reinsurance underwriting manager. He joined PartnerRe in 2002 as head of the U.S. Specialty Lines portfolio and in 2009 was named Head of Risk Management and Reserving for PartnerRe Global. Prior to joining PartnerRe, he worked for Gerling Global Reinsurance Corp of America as Head of Casualty Underwriting and for Milliman as a consulting actuary. Mr. Goldie has a BSc in Economics from the State University of New York at Binghamton and is a fellow of the Casualty Actuarial Society.

### **Scott Altstadt, Chief Underwriting Officer**

Scott Altstadt is a member of PartnerRe's Group Executive Committee and is responsible for the Company's underwriting function. Mr. Altstadt has over 27 years of professional experience in the insurance and reinsurance industries. He joined PartnerRe in 2001, as Senior Pricing Actuary of P&C and was appointed as Chief Pricing Actuary for Specialty Lines in 2002, becoming Deputy Head of P&C in 2008. He was appointed to the position of Chief Underwriting Officer PartnerRe Global in 2013. Prior to joining PartnerRe, Mr. Altstadt worked in the U.S. and Europe with Zurich Financial Services and CNARe. Mr. Altstadt has a B.S. in Mathematics and Statistics from Purdue University.

### **Theodore C. Walker, formerly Member of Executive Committee (Retired March 31, 2018)**

Theodore (Tad) Walker was a member of PartnerRe Group's Executive Committee and was responsible for the executive management of PartnerRe's P&C worldwide business segment. Mr. Walker has over 25 years' experience in the reinsurance and insurance industries and has been with the Company since 2002. He has held the positions of CEO P&C Worldwide, President and CEO of North America, with executive responsibility for North America, and Executive Vice President and Chief Underwriting Officer for PartnerRe U.S. with responsibility for all underwriting activities in the U.S. business units. Previously, he was responsible for PartnerRe's worldwide book of catastrophe business, in the role of Head of Catastrophe. Prior to joining PartnerRe, Mr. Walker was Senior Vice President at American Re, where he was responsible for the company's Latin American operations. Mr. Walker then worked for ten years at Bacardi International as Risk Manager, and then as Vice President of Bacardi Capital, the Group's treasury arm. He began his career as an insurance and reinsurance broker for Sedgwick in London and Boston. Mr. Walker holds a B.S. from Georgetown University's School of Foreign Service. He currently serves on the Board of Overseers at St. John's School of Risk Management, as a Board Member of Bacardi Limited and as a Board Member of Crane & Co., an international paper and currency manufacturer. Mr. Walker is a past Chairman of the Reinsurance Association of America and is a current member of their board of directors.

**Marvin Pestcoe, formerly Chief Risk & Actuarial Officer (Retired effective March 31, 2018)**

Marvin Pestcoe was a member of PartnerRe's Group Executive Committee. Mr. Pestcoe has 30 years of experience in property and casualty insurance, reinsurance and investments. He joined PartnerRe in 2001 as head of the Company's Alternative Risk Operations, and in 2008 was appointed Deputy Head of Capital Markets Group and Head of Capital Assets. In 2010 he assumed responsibility for all Investment Operations and executive responsibility for the worldwide Life Operations. Following the acquisition of Presidio in 2012 these responsibilities were expanded to include health insurance and reinsurance. Prior to joining PartnerRe, Mr. Pestcoe was Chief Actuary of Swiss Re New Markets. Mr. Pestcoe is a fellow of the Casualty Actuarial Society and a member of the American Academy of Actuaries.

**Marc Archambault, CEO Life & Health, effective April 1, 2017**

Marc Archambault is a member of PartnerRe's Group Executive Committee and is responsible for its worldwide Life and Health business segment. Mr. Archambault has more than 26 years of experience in Life reinsurance, most recently as CEO of SCOR Global Life Asia-Pacific, where he led the company's regional growth strategy in those markets, and as a member of the senior management team for Global Life. Prior to that, Mr. Archambault held a number of senior management positions at SCOR where he implemented growth strategies and product development initiatives across multiple international markets in Europe, North America, Asia and Africa. Mr. Archambault holds a Bachelor of Actuarial Science from Laval University in Quebec, Canada and is an Associate with the Canadian Institute of Actuaries.

**Dorothee Burkel Chief Corporate and People Operations Officer**

Dorothee Burkel is a member of the Company's Executive Committee and is responsible for strategies related to attracting, developing and retaining the best talent, aligning culture and strategy, and ensuring governance and operational effectiveness. Ms. Burkel specializes in Human Resources & Communications and has experience across a number of international companies. Prior to joining PartnerRe, Ms. Burkel was formerly the Human Resources Director for Google Southern Europe from 2008 – 2012. In 2012, this role was extended to include the Middle East and Africa and in 2015, to the entire EMEA region where she supported Google's Business and G&A functions. Ms. Burkel worked for AOL France from 2001 to 2005 as the Human Resources Director and was promoted to Vice President for Human Resources and Corporate Communications for AOL France in 2005. Before leaving in 2008, she also took on the responsibility for Branding and Communications for AOL Europe. Ms. Burkel holds a Master's degree in French Modern Literature and graduated with honors in Political Sciences from the Institut d'Etudes Politiques in Paris.

**Turab Hussain Chief Risk and Actuarial Officer**

Mr. Hussain is a member of the Company's Executive Committee and is responsible for the risk management, capital modeling and reserving functions. Mr. Hussain has more than 20 years' experience in the insurance and reinsurance industries. Prior to joining PartnerRe, Mr. Hussain held several senior actuarial and underwriting roles with responsibility for reserving, risk assessment, capital allocation and analysis at the Hartford as well as Arch Insurance Group and American Reinsurance. Mr. Hussain is an Associate of the Casualty Actuarial Society (ACAS), a Member of the American Academy of Actuaries (MAAA) and a Chartered Enterprise Risk Analyst (CERA). He earned his bachelor's degree in economics and statistics from Rutgers University.

**Biographical information - Officers**

In addition to the Executive Leadership Team, PartnerRe also has senior management staff who serve as Officers of the Company and have responsibility for Group matters. The Officers of the Company, as at May 24, 2017, are further identified below:

Chief Accounting Officer:	Wanda Mwaura
Group Treasurer:	Ryan Lipschutz
Group Non-life Actuary:	Terry Kuruvilla
Group Life Actuary:	Romain Bridet
Chief Audit Officer:	Trevor Brookes

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Secretary, Chief Legal Counsel and Chief Ethics Officer:	Gerd Maxl
Associate General Counsel:	Lee Iannarone
Assistant Secretary:	Seth Darrell
Group Risk Officer:	Peter Antal
Group Tax Director:	Michael Cooze

**Wanda Mwaura** - External Reporting Director, Chief Accounting Officer

Ms. Mwaura is the Chief Accounting Officer for the PartnerRe Group and is responsible for external reporting and accounting policy for SEC, US GAAP and IFRS reporting. 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 insurance captives, SEC registrants and 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), the Atlantic School of Chartered Accountants and on boards of various subsidiaries of the Company. 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).

**Ryan Lipschutz** - Group Treasurer

Mr. Lipschutz is responsible for PartnerRe Group's treasury and cash management function, foreign currency and collateral management functions as well as acting as Treasurer of the Company. Mr. Lipschutz joined PartnerRe in April 2003 and has held various positions within the Treasury function including Assistant Treasurer and Investment & Treasury Analyst. He was appointed as Treasury Director in 2010 and was appointed as Group Treasurer as of March 24, 2016. Prior to joining the Company, 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.

**Terry Kuruvilla** - Group Non-life Actuary

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 20 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. Kuruvilla 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.

**Romain Bridet** - Group Life Actuary

Mr. Bridet is responsible for Life reserving activities within PartnerRe. He has over 10 years of experience in the Life actuarial field. He started as a Life reserving actuary at GPA, a subsidiary of the Generali Group. He joined PartnerRe in 2004 and he worked as an actuary in both pricing and reserving roles for Life risks. He is a member of the French Institute of Actuaries and he holds the Certified Enterprise Risk Actuary (CERA) qualification.

**Trevor Brookes** - Chief Audit Officer

Mr. Brookes is responsible for the internal audit function of PartnerRe Group. He joined the Company in February 2011 and prior to that held the role of Head of Internal Audit of RenaissanceRe Holdings Ltd. from 2005 through 2011. Prior to joining Renaissance Re he served as Head of Internal Audit for XL Capital Ltd. for the period from 2000 through 2005. In his early career Mr. Brookes worked for various public accounting firms including KPMG, Ernst & Young and PwC. He

holds a B.Comm from the University of Manitoba and is a Chartered Accountant, Certified Internal Auditor and has a Certification in Risk Management Assurance.

**Gerd Maxl** - Secretary, Chief Legal Counsel & Chief Ethics Officer

Gerd Maxl has overall responsibility for the Legal and Compliance functions of the PartnerRe Group. Mr. Maxl joined the Company in November 2012 as General Counsel Global looking after PartnerRe's legal and compliance matters outside Bermuda and North America and was promoted to Chief Legal Counsel in August 2017. Mr. Maxl has more than 14 years of experience in life and non-life (re)insurance and prior to joining PartnerRe Mr. Maxl was an associate in a law firm in Switzerland and thereafter held a number of positions at Zurich Insurance in Switzerland and the US. Mr. Maxl has a law degree from the University of Basel, Switzerland, and was admitted to the bar in Switzerland in 2001.

**Lee Iannarone** - Associate General Counsel

Mr. Iannarone joined PartnerRe in January 2011 as the General Counsel and CCO of the PartnerRe Investments Group. Mr. Iannarone assumed the additional responsibility of General Counsel of PartnerRe Bermuda in October 2017. Mr. Iannarone began his legal career at the law firm O'Melveny and Myers in their NY and London offices from 1999 to 2005 as an Associate and was promoted to Counsel in 2004. Mr. Iannarone practiced law at the firm Mandel Katz & Brosnan in London from 2005 to 2008 prior to working as Associate General Counsel and CCO of Sandell Asset Management, a multi-strategy hedge fund, in their London and NY offices from 2008 to 2011. Mr. Iannarone holds a BA in Accounting and Finance from Gettysburg College and a JD from Georgetown University Law Center and has been a member of the NY State Bar Association since 2000.

**Gemma Carreiro** - Assistant Secretary - Resigned effective October 31, 2017

Mrs. Carreiro joined PartnerRe in March 2014 as Associate General Counsel of Partner Reinsurance Company Ltd. ("PRCL"). In August 2017, she was promoted to General Counsel of PRCL and Secretary to the Board of PartnerRe. Mrs. Carreiro started her legal career with Cox Hallett Wilkinson in 2004 where she completed her pupillage 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.

**Seth Darrell** - Assistant Secretary - Appointed March 13, 2018

Mr. Darrell is the Assistant Secretary of the Company and joined PartnerRe in March 2018. Mr. Darrell joined PartnerRe from Appleby (Bermuda) Limited where he practised corporate and commercial law with an emphasis on non-contentious (re)insurance transactional work, debt and equity securities, cross-border mergers and acquisitions and other structured finance transactions from September 2011 - March 2018. Mr. Darrell received his LLB (Hons) from Queen Mary, University of London, England and completed the Legal Practice Course at BPP Law School, Birmingham. He is a practicing member in good standing of the Bermuda Bar Association.

**Peter Antal** - Chief Risk Officer

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.

**Michael Cooze** - Group Tax Director

Mr. Cooze is the Tax Director for the PartnerRe Group and is responsible for the management and coordination of PartnerRe's worldwide tax function relating to tax planning, accounting, and compliance. Mr. Cooze joined PartnerRe in August 2008 as Assistant Group Controller and was promoted to Group Controller in March 2010. Prior to joining

PartnerRe, Mr. Cooze was the financial controller for XL Life Ltd, a subsidiary of XL Group Ltd, from August 2003 to August 2008; and, held manager and senior accountant positions at PricewaterhouseCoopers Bermuda from November 1998 to August 2003. Mr. Cooze holds a Bachelor of Commerce degree, major in Accounting, from Saint Mary's University, is a Canadian CPA and member of CPA Bermuda (formerly ICAB).

### **3.3 RISK MANAGEMENT AND SOLVENCY ASSESSMENT**

#### **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 economic value through the intelligent and optimal assumption and management of reinsurance, capital market and investment risks while limiting and mitigating those risks that can destroy 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.

The Group defines 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 deliver to shareholders an adequate risk adjusted return, while ensuring appropriate margins exists to pay policyholders' claims.

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 its goals and objectives. These include strategic, financial and operational risks that are common to all industries, 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. The Group has established an Enterprise Risk Committee (ERC) which, in junction with 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 through ERC 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. Risk management policies and processes are coordinated by the Capital & Risk department and compliance is verified by Internal Audit on a periodic basis. The audit results are monitored by the Audit Committee of the Group's Board.

The Group utilizes a multi-level risk management structure where the Executive Management and Board are responsible for the establishment of the critical exposure limits, capital at risk and key policies. Nevertheless, the execution of Business

activities and related risk mitigation strategies are delegated to the Business Units (“BU”). These activities are represented in risk control practices embedded in the BUs which support the high level policies. 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, current 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 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 company 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.

The SSA quantitative framework is based on the following key principles:

#### **Consistency with the Group Capital Model**

The Group Capital Model (GCM) provides PartnerRe's view on the sensitivity of the financial position to the main risks faced by the Group.

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 and Foreign Exchange risk).

Results are reported to the Executive Management, Enterprise Risk Committee and the 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 and risk tolerance framework that defines how much and how often the Company will tolerate economic losses during an annual period.

In 2017, a revised Risk Tolerance Framework was approved by the Board as the basis to manage the Company's Assumed Risks in order to drive consistency in the application of Company limits. The overall risk tolerance is 35% of the loss of available economic capital based on the internal model 1-in-100 Value at Risk or 1-in-100 cross pillar scenarios. Available Economic Capital is the economic assessment by the Company of its capital and includes senior 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 reflects the Group's aim to 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 (linked to a return period of 100 years) to only 35% of our Available Economic Capital.

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 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 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.

### **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 Capital and Risk.

### **3.3.4 SOLVENCY SELF ASSESSMENT 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.

In addition, annually, or more frequently if requested by the Enterprise Risk Committee, the Head of Capital & Risk is reviewing and assess:

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

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 tower;
- 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 Board, in its commitment to high standards of business conduct, has adopted various Codes and Guidelines to address key risk areas. These Codes and Guidelines are supported by detailed procedures as necessary.

The Company's internal control system covers a wide range of processes across the Company 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 Company's existing robust internal control framework as well as to provide enhanced reporting and a mechanism to enhance the collaboration between the Company'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 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 Company's internal control system.

In addition to the Company's Board, the Company'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.

See also Section 3.5 - *Group Internal Audit* below.

### **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 Company's compliance function (which is headed by the Head of Legal & Compliance) comprises the Legal & 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 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 Company'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 Company'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 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 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 Board with an overall opinion on the Company'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 Company's fraud risk assessment and test the controls annually.

### **3.6 CAPITAL & RISK AND ACTUARIAL FUNCTION**

The Chief Risk and Actuarial Officer ("CRAO") oversees the Capital & Risk and Actuarial functions to ensure proper risk oversight, that the capital model meets business needs and regulatory requirements as well as appropriate reserve estimation. The CRAO reports risk and reserving topics to the Board on a quarterly basis.

The Capital & Risk function provides a link between operations within the business units through the overall PartnerRe risk governance framework which includes reporting on risk exposures through risk scorecards.

**Capital & Risk:**

- Provides a properly functioning ERM framework including risk policies which appropriately address risks in alignment with evolving regulatory and market (investor, rating agency) standards.
- Establishes methodology to support the mitigation of risks such as risk identification and assessment processes
- Performs risk monitoring and reporting including risk correlation, concentration and aggregation.
- Ensures deployed capacity is monitored and remain within the defined risk appetite expressed at Group or at the Legal Entity level.
- 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.
- Discusses and challenges internal stakeholders on all risk issues in relation to the Risk Universe and ERM Framework through the ERC and Risk Committee at the Legal Entity level.
- Oversight of Group Security Committee to set guidelines for counterparty credit risks.

**Actuarial:**

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.

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**

Where appropriate, operating subsidiaries of the Company have adopted outsourcing principles and guidelines to govern outsourcing and to manage and mitigate the potential risks associated with outsourcing, in accordance with regulatory requirements. In the event of outsourcing, the Company's principles provide that due diligence shall be performed and shall ensure, among other things, the financial stability of the service provider together with their capacity and technical resources to carry out the outsourced activity. The Company's principles also outline the required content for Service Level Agreements which includes an obligation on the parties to the contract to comply with all legal and regulatory obligations. As a multi-national organization, the Company utilizes the expertise from other PartnerRe Group entities and jurisdictions (i.e. subsidiaries and affiliates of the Company) 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**

#### **Risk Universe**

The Group structures its risks within a Risk Universe which is comprised of Industry and Company Risks. Industry Risks are those risks which are external to the Company caused by changes in demand and supply patterns, such as the competitive structure of the industry, as well as macroeconomic and regulatory trends. In contrast, the Company's Risks are those risks which arise as a direct result of business operations. These risks are further structured by the following sub-categories:

#### ***Strategic Risks***

Strategic risks are discussed and agreed to between the CEO and the Group's 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.

#### ***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.

#### ***Assumed Risks***

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 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 and strives to maintain continuity of underwriters within specific geographic markets and areas of specialty.

The Group generally underwrites risks with specified limits per treaty program or facultative contract. 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.

### ***Investment Risk***

The Group defines this risk as the risk of a substantial decline in the value of its holdings in fixed income, equities, equity-like securities, real estate, and other investment categories. 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. Any such investment risks could generate losses in the Group's portfolios. The Group considers such scenarios as part of its evaluation and monitoring of its aggregate exposures to investment risk.

### ***Market Risk***

Financial assets are defined by the Group as comprising of its 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, such as catastrophe bonds, as that risk is aggregated with liability risks). The Group limits its aggregate exposure to financial assets as well as sub-limits the exposures by type of financial assets (public equity, private equity, real estate and alternative credit).

### ***Credit Spread Risk***

The Group defines this risk as the risk of a substantial decline in the market value of its fixed income assets that is not a result of changes in risk-free interest rates. Spread risk also includes migration and default risks (defined as the risk that a given security is downgraded or upgraded before maturity and the risk that recovery is less than the full valuation of the security, respectively). The Group limits its aggregate exposure to spread risk and sub-limits its exposures by sector, by individual issuer and by rating.

### ***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 investment losses to the degree that 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 tolerance are associated with extremely large increases in interest rates over an annual period.

## **Risk Appetite and Risk Tolerance**

Risk appetite is an integral part of an effective risk management system that defines the overall level of risk the Group is prepared to accept in pursuit of its strategic objectives, and which is managed through a robust Risk Tolerance Framework of risk limits. Executive Management regularly reviews the Group's deployment and may decide to adjust the amount of capacity deployed for each risk driver (within the established risk tolerance) based on strategic considerations and changes in market conditions.



The Group's risk tolerance is expressed as the maximum economic loss that the Board is willing to incur based on various modeled probability return periods. To mitigate the chance of economic losses exceeding the risk tolerance, 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 tolerance is reduced.

The Group's risk tolerance is expected to remain stable and changes are to be approved by the Board. 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 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, if any, 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.

### **Risk Tolerance Framework**

The Group establishes key risk limits net of any reinsurance/retrocession for any risk source deemed by Management to have the potential to cause economic losses greater than the Group's risk tolerance.

In 2017, a revised Risk Tolerance framework was approved by the Group's Board in order to drive consistency in the application of Group limits. The overall risk tolerance is 35% of the loss of available economic capital based on the internal model 1-in-100 Value at Risk or 1-in-100 scenarios. Furthermore, limits are applied to Financial Assets and Risk Tiers. The Financial Assets comprise the Group's equity and equity-like securities, as defined above, and have an established tolerance limit of \$1.6 billion based on the internal model 1-in-100 return period. Additionally there are operational sub-limits for certain asset classes. The Risk Tiers consist of a classification of risk drivers which consider the following criteria:

- Materiality
- Risk driver expertise
- Potential for superior risk-adjusted return over the cycle.

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Management monitors Tier 1 Risks on a periodic basis. The approved limits and the actual limits deployed at December 31, 2017 were as follows (in billions of U.S. dollars):

Tier 1 Risks	December 31, 2017		December 31, 2016	
	Approved Limit <sup>(1)</sup>	Actual deployed <sup>(1)</sup>	Approved Limit <sup>(1)</sup>	Actual deployed <sup>(1)</sup>
Natural Catastrophe Risk	\$ 1.6	\$ 0.8	\$ 1.6	\$ 0.8
Longevity Risk <sup>2</sup>	\$ 1.6	\$ 0.9	\$ 1.6	\$ 0.7
Pandemic Risk	\$ 1.6	\$ 0.4	\$ 1.6	\$ 0.4
Casualty Risk	\$ 1.6	\$ 0.7	\$ 1.6	\$ 0.7
Standard Fixed Income Credit	\$ 1.6	\$ 0.8	\$ 1.6	\$ 1.0

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

(2) The longevity risk duration for modelling purposes extends to the full run-off rather than one year.

**Tier 1 Risks**

Tier 1 Risks consists of risk drivers which meet all three criteria of the Risk Tolerance Framework including materiality, risk driver expertise and potential for superior risk-adjusted return over the cycle. Additionally, the risk tolerance limit for this Risk Tier is \$1.6 billion for the Group based on either the internal model 1-in-100 Value at Risk or a 1-in-100 scenario. The Tier 1 Risk Tier encompasses the following risk drivers:

*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. The actual deployed figure shown for Natural Catastrophe Risk in the Tier 1 table above represents the modeled 1-in-100 Value at Risk of the annual aggregate natural catastrophe financial losses (i.e. losses minus premiums and expenses).

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.

*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.

#### *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.

#### *Casualty Risk*

The Group defines this risk as the risk that the estimates of ultimate losses for casualty 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. Particularly in U.S. casualty, actual loss trends may in the future result to be 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.

The Group manages and mitigates the reserving risk for casualty 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.

#### *Standard Fixed Income Credit 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 tolerance 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.

Tier 1 Risks are monitored by the ERC and reported to the Group's Board.

#### ***Tier 2 Risks***

Tier 2 Risks consists of risks drivers which meet two of the three criteria. Additionally, the risk tolerance limit is less than half of the Tier 1 Risk limit based on either the internal model 1-in-100 Value at Risk or a 1-in-100 scenario. The Tier 2 Risks encompasses the following risk drivers:

#### *Mortgage Risk*

PartnerRe 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 tolerance 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 to create material losses exceeding the net premiums collected.

#### *Credit and Surety Risk*

PartnerRe 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 tolerance 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.

Tier 2 Risks are monitored by the ERC.

All other underwriting risks are considered as part of the Tier 3 Risks and are monitored by the Chief Underwriting Officer, Chief Investment Officer and corresponding Business Units.

#### ***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. Any of these risk factors could result in actual losses that are materially different from the Group's PML estimates below.

Natural catastrophe risk is a source of significant aggregate exposure for the Group and is managed by setting risk tolerance 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 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 Company's PMLs represent an estimate of loss for a single event for a given return period. The table below discloses the Group's expected loss, 1-in-50, 1-in-100, and 1-in-250 year return period estimated loss for a single occurrence of a natural catastrophe event in a one-year period.

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).

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The Group's single occurrence estimated net PML exposures (pre-tax and net of retrocession and reinstatement premiums) of the top ten natural catastrophe perils as at December 31, 2017 and 2016 were as follows (in millions of U.S. dollars):

<u>Zone</u>	<u>Peril</u>	<u>December 31, 2017</u>		<u>December 31, 2016</u>	
		<u>1-in-250 year PML</u>	<u>1-in-500 year PML (Earthquake perils Only)</u>	<u>1-in-250 year PML</u>	<u>1-in-500 year PML (Earthquake perils Only)</u>
U.S. Southeast	Hurricane	\$ 481	\$ —	\$ 496	\$ —
U.S. Northeast	Hurricane	\$ 514	\$ —	\$ 560	\$ —
U.S. Gulf Coast	Hurricane	\$ 512	\$ —	\$ 502	\$ —
Caribbean	Hurricane	\$ 162	\$ —	\$ 165	\$ —
Europe	Windstorm	\$ 367	\$ —	\$ 387	\$ —
Japan	Typhoon	\$ 190	\$ —	\$ 190	\$ —
California	Earthquake	\$ 439	\$ 549	\$ 462	\$ 595
British Columbia	Earthquake	\$ 112	\$ 240	\$ 161	\$ 317
Japan	Earthquake	\$ 306	\$ 341	\$ 315	\$ 349
Australia	Earthquake	\$ 140	\$ 205	\$ 187	\$ 258
New Zealand	Earthquake	\$ 130	\$ 188	\$ 147	\$ 211

## 4.2 RISK MITIGATION

### Retrocessional Reinsurance

PartnerRe 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. 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.

See also Section 4.1 - *Material Risks* above.

## 4.3 MATERIAL RISK CONCENTRATIONS

### Business Written through Brokers

We produce our business both through brokers and through direct relationships with insurance company clients. For the year ended December 31, 2017, more than 70% of our gross premiums written were produced through brokers. In 2017,

we had two brokers that accounted for 47% of our gross premiums written. Because broker-produced business is concentrated with a small number of brokers, we are exposed to concentration risk. A significant reduction in the business produced by these brokers could potentially reduce our premium volume and net income.

## **Counterparty Credit Risk**

### *Investments and Cash*

The Company has exposure to credit risk primarily as a holder of fixed maturity securities. The Company controls this exposure by emphasizing investment grade credit quality in the fixed maturity securities it purchases. At December 31, 2017, approximately 52% of the Company's fixed maturity portfolio (including the funds held—directly managed account and funds holding fixed maturity securities) was rated AA (or equivalent rating) or better.

At December 31, 2017, approximately 71% of the Company's fixed maturity and short-term investments (including funds holding fixed maturity securities and excluding the funds held—directly managed account) were rated A- or better and 3% were rated below investment grade or not rated. The Company believes this high quality concentration reduces its exposure to credit risk on fixed maturity investments to an acceptable level. At December 31, 2017, the Company was not exposed to any significant credit concentration risk on its investments, excluding securities issued by the U.S. government which are rated AA+. The single largest corporate issuer and the top 10 corporate issuers accounted for less than 3% and less than 19% of the Company's total corporate fixed maturity securities (excluding the funds held—directly managed account), respectively, at December 31, 2017.

The Company keeps cash and cash equivalents in several banks and ensures that there are no significant concentrations of credit risk in any one bank.

### *Funds held—directly managed account*

The funds held—directly managed account due to the Company is related to one cedant, Colisée Re. The Company is subject to the credit risk of this cedant in the event of insolvency or Colisée Re's failure to honor the value of the funds held balances for any other reason. However, the Company's credit risk is somewhat mitigated by the fact that the Company generally has the right to offset any shortfall in the payment of the funds held balances with amounts owed by the Company to the cedant for losses payable and other amounts contractually due. See also Risk Factors in Item 3 of this report for additional discussion of the Company's exposure if Colisée Re, or its affiliates, breach or do not satisfy their obligations. In addition to exposure to Colisée Re, the Company is also subject to the credit risk of AXA or its affiliates in the event of their insolvency or their failure to honor their obligations under the acquisition agreements.

### *Derivatives*

To a lesser extent, the Company also has credit risk exposure as a party to foreign exchange forward contracts and other derivative contracts. The Company's investment strategy allows the use of derivative investments, subject to strict limitations. The Company imposes a high standard for the credit quality of counterparties in all derivative transactions. To mitigate credit risk, the Company monitors its exposure by counterparty, aims to diversify its counterparty credit risk and ensures that counterparties to these contracts are high credit quality international banks or counterparties. These contracts are generally of short duration (approximately 90 days) and settle on a net basis, which means that the Company is exposed to the movement of one currency against the other, as opposed to the notional amount of the contracts. At December 31, 2017, the Company's net notional exposure of foreign exchange forward contracts was \$2,863 million, while the net fair value of those contracts was a liability position of \$12 million.

### *Underwriting Operations*

The Company is also exposed to credit risk in its underwriting operations, most notably in the credit/surety line. Loss experience in these lines of business is cyclical and is affected by the general economic environment. The Company provides its clients in these lines of business with protection against credit deterioration, defaults or other types of financial non-performance of or by the underlying credits that are the subject of the protection provided and, accordingly, the Company is exposed to the credit risk of those credits. As with all of the Company's business, these risks are subject to rigorous underwriting and pricing standards. In addition, the Company strives to mitigate the risks associated with these credit-sensitive lines of business through the use of risk management techniques such as risk diversification, careful monitoring of risk aggregations and accumulations and, at times, through the use of retrocessional reinsurance protection and the purchase of credit default swaps and total return and interest rate swaps.

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

The Company has exposure to credit risk as it relates to its business written through brokers if any of the Company's brokers are unable to fulfill their contractual obligations with respect to payments to the Company. In addition, in some jurisdictions, if the broker fails to make payments to the insured under the Company's policy, the Company might remain liable to the insured for the deficiency. The Company's exposure to such credit risk is somewhat mitigated in certain jurisdictions by contractual terms.

The Company has exposure to credit risk as it relates to its reinsurance balances receivable and reinsurance recoverable on paid and unpaid losses.

Reinsurance balances receivable from the Company's cedants at December 31, 2017 were \$2,725 million, including balances both currently due and accrued. The Company believes that credit risk related to these balances is mitigated by several factors, including but not limited to, credit checks performed as part of the underwriting process and monitoring of aged receivable balances. In addition, as the majority of its reinsurance agreements permit the Company the right to offset reinsurance balances receivable from clients against losses payable to them, the Company believes that the credit risk in this area is substantially reduced. Provisions are made for amounts considered potentially uncollectible and the allowance for uncollectible premiums receivable was \$5 million at December 31, 2017.

The Company purchases retrocessional reinsurance and requires its reinsurers to have adequate financial strength. The Company evaluates the financial condition of its reinsurers and monitors its concentration of credit risk on an ongoing basis. Provisions are made for amounts considered potentially uncollectible. At December 31, 2017, the balance of reinsurance recoverable on paid and unpaid non-life and life reserves was \$729 million, which is net of the allowance provided for uncollectible reinsurance recoverables of \$0 million. At December 31, 2017, 37% of the Company's reinsurance recoverable on paid and unpaid non-life and life reserves were either due from reinsurers with an A- or better rating from Standard & Poor's, and the remaining 63% was collateralized.

See Section 4.1 - *Material Risks* above.

### **4.4 INVESTMENT PHILOSOPHY**

The Company employs a prudent investment philosophy. It maintains a high quality, well-balanced and liquid portfolio having a total return investment objective, achieved through a combination of optimizing current investment income and

pursuing capital appreciation. The Company's total invested assets of \$16,982 and \$16,887 million at December 31, 2017 and 2016, respectively, are comprised of total investments, cash and cash equivalents, the investment portfolio underlying the funds held—directly managed account (which excludes other asset and liabilities underlying the funds held—directly managed account), and accrued interest. From a risk management perspective, the Company allocates its invested assets into two categories: liability funds and capital funds.

Liability funds (including funds held—directly managed) represent invested assets supporting the net reinsurance liabilities, and are invested primarily in investment-grade fixed maturity securities and cash and cash equivalents. The preservation of liquidity and protection of capital are the primary investment objectives for these assets. The portfolio managers are required to adhere to investment guidelines as to minimum ratings and issuer and sector concentration limitations. Liability funds are invested in a way that generally matches them to the corresponding liabilities (referred to as asset-liability matching) in terms of both duration and major currency composition to provide the Company with a natural hedge against changes in interest and foreign exchange rates. In addition, the Company utilizes certain derivatives to further protect against changes in interest and foreign exchange rates. Liability funds represented approximately 54% of the total invested assets at December 31, 2017 and 2016.

Capital funds represent shareholder capital of the Company and are invested in a diversified portfolio with the objective of maximizing investment return, subject to prudent risk constraints. Capital funds contain most of the asset classes typically viewed as offering a higher risk and higher return profile, subject to risk assumption and portfolio diversification guidelines which include issuer and sector concentration limitations. Capital funds may be invested in investment grade and below investment grade fixed maturity securities, publicly listed and private equities, bond and loan investments, real estate investments, structured credit and certain other specialty asset classes. Capital funds represented approximately 46% of the total invested assets at December 31, 2017 and 2016.

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, 2017, 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 Group. The worst-case annual aggregate loss for PartnerRe Group is evaluated by the company's internal capital model at the 99.6<sup>th</sup> percentile (corresponding to a return period of 250 years). The corresponding possible annual net loss (PML) for the Group is \$2,937 million. This PML includes a buffer for all non-modeled risks.

Based on a Co-VaR analysis, this PML is mainly driven by Financial Market Risks (47%), adverse deviation of reserves (23%) and Non-Life Reinsurance Risks (19%).



**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, 2017.

### **5.1 VALUATION OF ASSETS**

#### **Cash and Cash equivalents**

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

#### **Quoted and Unquoted Investments**

The Company elects the fair value option for its fixed maturities, short-term investments, equities and certain other invested assets (except for those that are accounted for using the cost or equity methods of accounting). All changes in the fair value of investments are recorded in net realized and unrealized investment gains or losses in the Consolidated Statements of Operations. The Company defines fair value as the price received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. The Company measures the fair value of financial instruments according to a fair value hierarchy that prioritizes the information used to measure fair value into three broad levels. The Company's policy is to recognize transfers between the hierarchy levels at the beginning of the period. Short-term investments comprise securities with a maturity greater than three months but less than one year from the date of purchase.

#### **Investment Income Due**

Investment income due and accrued includes interest and dividend income on fixed maturities and short-term investments, rental income on investments in real estate as well as investment income on funds held and is recorded at the U.S. GAAP carrying value, which approximates fair value due to the short-term nature.

#### **Real Estate**

Investments in real estate are recorded at cost less accumulated depreciation, which at December 31, 2017, approximates fair value. Real estate assets held for investment are reviewed for impairment at least annually, or more frequently when events or changes in circumstances indicate the carrying value may not be recoverable and exceeds its estimated fair value.

#### **Reinsurance Balances Receivable**

Reinsurance balances receivable are recorded at amounts expected to be received. Provisions are made for amounts potentially uncollectible.

## **Funds Held By Ceding Reinsurers**

### ***Funds Held by Reinsured Companies***

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. 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). However, 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 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.

### ***Funds Held – Directly Managed***

Following Paris Re's acquisition of substantially all of the reinsurance operations of Colisée Re (previously known as AXA RE) in 2006, a subsidiary of AXA SA (AXA), Paris Re and its subsidiaries entered into an issuance agreement and a quota share retrocession agreement to assume business written by Colisée Re from January 1, 2006 to September 30, 2007 as well as the in-force business at December 31, 2005. The agreements provided that the premium related to the transferred business was retained by Colisée Re and credited to a funds held account. The assets underlying the funds held–directly managed account are maintained by Colisée Re in a segregated investment portfolio and managed by the Company. Realized and unrealized investment gains and losses and net investment income related to this account inure to the benefit of the Company.

The Company elects the fair value option for substantially all of the fixed maturities, short-term investments and certain other invested assets in the segregated investment portfolio underlying the funds held–directly managed account. Accordingly, all changes in the fair value of the segregated investment portfolio underlying the funds held–directly managed account are netted off Statutory Economic Capital and Surplus.

## **Sundry Assets**

### ***Derivative Assets***

Derivative Assets are recorded at fair value, with changes in the fair value netted off Statutory Economic Capital and Surplus.

### ***Deposit Assets***

In the normal course of its operations, the Company writes certain contracts that do not meet the risk transfer provisions of U.S. GAAP. While these contracts do not meet risk transfer provisions for accounting purposes, there is a remote possibility that the Company will suffer a loss. The Company accounts for these contracts using the deposit accounting method, originally recording deposit liabilities for an amount equivalent to the consideration received. The consideration to be retained by the Company, irrespective of the experience of the contracts, is earned over the expected settlement period of the contracts, with any unearned portion recorded as a component of deposit liabilities. Actuarial studies are used to estimate the final liabilities under these contracts and the appropriate accretion rates to increase or decrease the liabilities over the term of the contracts. The change for the period is netted off Statutory Economic Capital and

Surplus. Under some of these contracts, cedants retain the assets on a funds-held basis. In those cases, the Company records those assets as deposit assets and records the related income in net investment income.

### ***Balances receivable on sale of investments***

Balances receivable on sale of investments are recorded at amounts expected to be received, which approximates fair value due to the short-term nature.

### ***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.

### ***Other Miscellaneous Assets***

Other miscellaneous assets include \$93 million of current tax assets and \$22 million of other sundry assets.

## **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 (\$768 million as at December 31, 2017).

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 inflows and outflows 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 10% 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 Bermuda Statutory Capital Requirement (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 (\$496 million as at December 31, 2017).

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 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 Bermuda Statutory Capital Requirement (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**

Insurance and Reinsurance Balances Payable are recorded at amounts expected to be paid. See section 5.1 *Valuation of Assets—Reinsurance Balances Receivable*.

#### **Tax Liabilities**

##### ***Income Taxes Payable***

A liability for current income taxes due is recognised based upon enacted tax laws and rates applicable in the relevant jurisdiction in the period in which the tax becomes accruable or realizable.

***Deferred Tax Liabilities***

See section 5.1 *Valuation of Assets—Sundry Assets—Deferred Tax Assets*.

**Accounts Payable and Accrued Liabilities**

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**

See section 5.1 *Valuation of Assets— Funds Held By Ceding Reinsurers—Funds Held by Reinsured Companies and Section 5.3 Recoverables from Reinsurance Contracts* above.

**Sundry Liabilities**

***Derivative Instruments***

The Company's derivative instruments are recorded at fair value, with changes in the fair value netted off Statutory Economic Capital and Surplus.

***Deposit Liabilities***

See section 5.1 *Valuation of Assets—Sundry Assets—Deposit Assets* above.

***Balances Payable for Purchase of Investments***

Balances payable for Purchase of Investments are recorded at amounts due, which approximates fair value due to the short-term nature.

**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 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 preferred shares, or increase or restructure its capital through the issuance of debt or preferred shares, when opportunities arise.

#### 6.1.2 ELIGIBLE CAPITAL BY TIER

The Company's eligible capital by tier at December 31, 2017 and 2016 was as follows (in millions of U.S. dollars):

	2017	2016
<b>Tier 1</b> .....	<b>\$ 6,624</b>	<b>\$ 6,203</b>
<b>Tier 2</b> .....	<b>1,589</b>	<b>1,478</b>
<b>Tier 3</b> .....	<b>571</b>	<b>571</b>
<b>Total</b> .....	<b>\$ 8,784</b>	<b>\$ 8,252</b>

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

*Tier 2 capital includes redeemable preferred shares and fixed term debt approved by the BMA as other fixed capital.*

*Tier 3 capital includes fixed term debt approved by the BMA as other fixed capital.*

#### 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, 2017 was as follows (in millions of U.S. dollars):



	Applied to MSM	Applied to ECR
<b>Tier 1</b> .....	\$ 6,624	6,624
<b>Tier 2</b> .....	1,589	1,589
<b>Tier 3</b> .....	—	571
<b>Total</b> .....	\$ 8,213	8,784

#### 6.1.4 TRANSITIONAL ARRANGEMENTS

N/A

#### 6.1.5 ENCUMBERANCES ON CAPITAL

At December 31, 2017 and 2016, approximately \$274 million and \$157 million, respectively, of cash and cash equivalents and approximately \$3,422 million and \$2,241 million, respectively, of securities were deposited, pledged or held in escrow accounts in favor of ceding companies and other counterparties or government authorities to comply with reinsurance contract provisions and insurance laws. The increase during the year was a result of the inclusion of Aurigen and collateral required to secure payment for claims related to hurricanes Harvey, Irma and Maria in 2017.

At December 31, 2017 and 2016, the Company had \$1,226 million and \$1,196 million, respectively, of funds held by ceding reinsurers. See section 5.1 *Valuation of Assets—Funds Held By Ceding Reinsurers*.

#### 6.1.6 ANCILLARY CAPITAL

At December 31, 2017 ancillary capital approved by the BMA was as follows:

Capital instrument	Date of issue	Maturity date	Value of capital instrument	Eligible capital tier
PartnerRe Ireland Finance DAC 1.25% Notes (EUR)	September 15, 2016	September 15, 2026	\$ 884,824	Tier 2 Ancillary
PartnerRe Finance B LLC 5.5% Senior Notes	March 15, 2010	June 1, 2020	\$ 500,000	Tier 3 Ancillary
Capital Efficient Notes	November 7, 2006	December 1, 2066	\$ 70,989	Tier 3 Ancillary

#### 6.1.7 RECONCILIATION OF SHAREHOLDERS' EQUITY TO AVAILABLE CAPITAL AND SURPLUS

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

**PARTNERRE LTD.**  
**FINANCIAL CONDITION REPORT DECEMBER 31, 2017**

December 31, (in millions of U.S. dollars)	2017	2016
<b>U.S. GAAP Shareholders' Equity</b>	<b>6,745</b>	<b>\$ 6,688</b>
Non-Admitted Assets <sup>1</sup>	(632)	(570)
Ancillary Capital (see Section 6.1.6)	1,456	1,345
<b>Statutory Capital and Surplus (Form 1)</b>	<b>7,569</b>	<b>\$ 7,463</b>
EBS Adjustments <sup>2</sup>	1,215	789
<b>Statutory Economic Capital and Surplus (Form 1EBS)</b>	<b>\$ 8,784</b>	<b>\$ 8,252</b>

1. Non-admitted assets include goodwill, prepaid expenses and other similar intangible assets, which are not considered admissible for solvency purposes.
2. At December 31, 2017 EBS adjustments include a reduction in Non-life technical provisions of \$1.2 billion (see section 5.2. for a detailed explanation of the valuation of non-life technical provisions) and a reduction in Life technical provisions of \$687 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 \$672 million. (On an EBS basis DAC is implicitly included in premium provisions and is not reflected as an asset.) At December 31, 2016, EBS adjustments include a reduction in Non-life technical provisions of \$1.2 billion and a reduction in Life technical provisions of \$221 million, which were partially offset by a decrease in DAC of \$597 million.

## 6.2 REGULATORY CAPITAL REQUIREMENTS

The Company's ECR and MSM at as December 31, 2017 and 2016 were as follows (in millions of U.S. dollars):

	2017	2016
<b>ECR</b> .....	2,476	2,484
<b>MSM</b> .....	1,999	1,331

As at December 31, 2017 and 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**

On March 13, 2018, the Company's Board of Directors declared the payment of dividends on common shares of \$48 million, which were paid on March 27, 2018.

**8. DECLARATIONS**

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

CHIEF EXECUTIVE OFFICER

\_\_\_\_\_  
/S/ EMMANUEL CLARKE  
Emmanuel Clarke

\_\_\_\_\_  
May 24, 2018  
Date

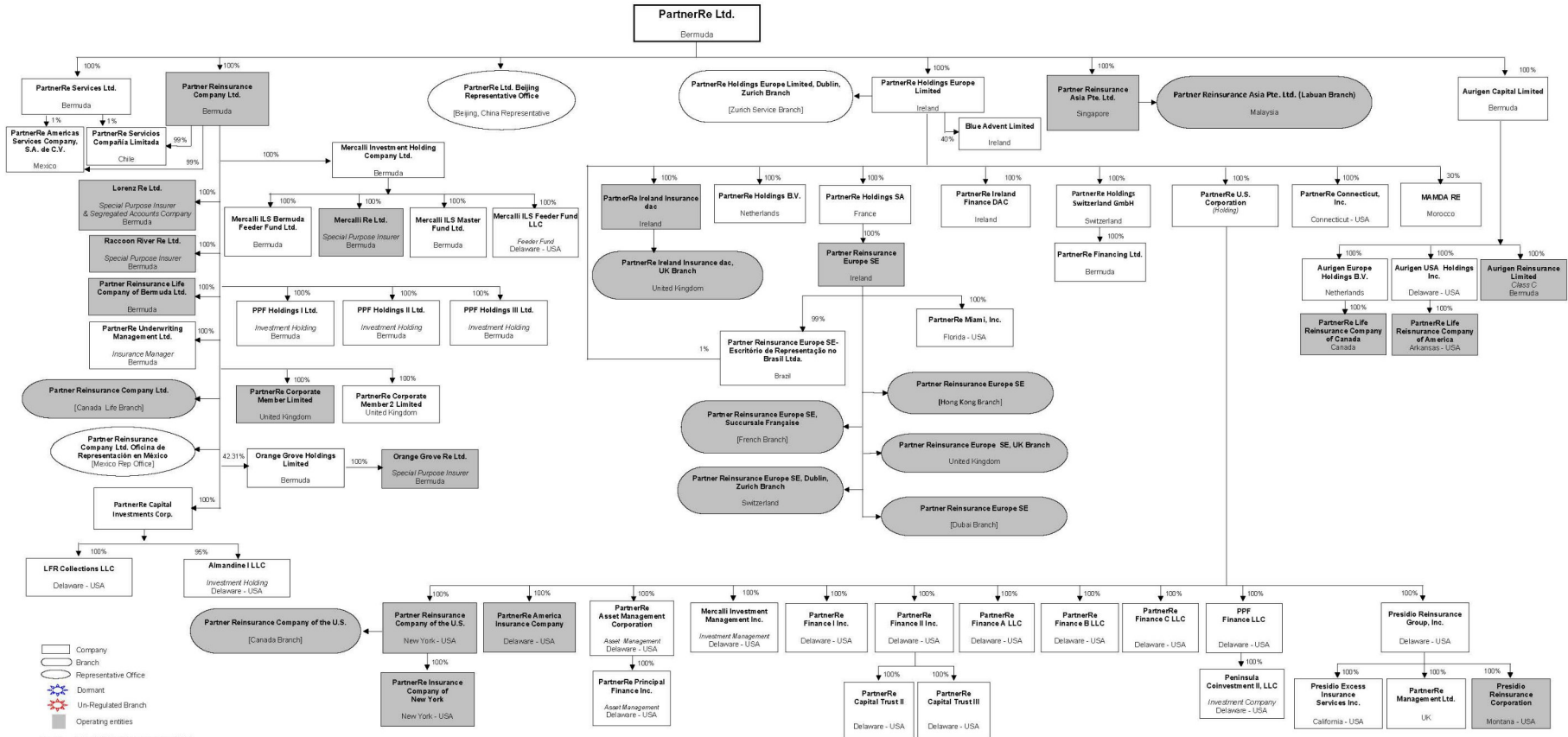
CHIEF FINANCIAL OFFICER

\_\_\_\_\_  
/S/ MARIO BONACCORSO  
Mario Bonaccorso

\_\_\_\_\_  
May 24, 2018  
Date

**PartnerRe Group Structure**

as at March 28, 2018



**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