PARTNERRE LTD
Form 10-Q
November 03, 2011
Table of Contents

UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 10-Q

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

FOR THE QUARTERLY PERIOD ENDED SEPTEMBER 30, 2011

OR

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

For the transition period from to .

Commission file number 1-14536

PartnerRe Ltd.

(Exact name of registrant as specified in its charter)

Bermuda	**Not Applicable**
(State of incorporation)	**(I.R.S. Employer Identification No.)**

90 Pitts Bay Road, Pembroke, HM08, Bermuda

(Address of principal executive offices) (Zip Code)

(441) 292-0888

(Registrant s telephone number, including area code)

Not Applicable

(Former name, former address and former fiscal year, if changed since last report)

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

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

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

Large accelerated filer	x	Accelerated filer	¨
Non-accelerated filer	¨	Smaller reporting company	¨

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

The number of the registrant s common shares (par value $1.00 per share) outstanding, net of treasury shares, as of November 1, 2011 was 67,750,164

PartnerRe Ltd.

INDEX TO FORM 10-Q

Table of Contents

PART I FINANCIAL INFORMATION

Item 1. Financial Statements

REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

To the Board of Directors and Shareholders of PartnerRe Ltd.

We have reviewed the accompanying condensed consolidated balance sheet of PartnerRe Ltd. and subsidiaries (the Company) as of September 30, 2011, and the related condensed consolidated statements of operations and comprehensive income (loss) for the three-month and nine-month periods ended September 30, 2011 and 2010, and of shareholders equity, and of cash flows for the nine-month periods ended September 30, 2011 and 2010. These interim condensed consolidated financial statements are the responsibility of the Company s management.

We conducted our reviews in accordance with the standards of the Public Company Accounting Oversight Board (United States). A review of interim financial information consists principally of applying analytical procedures and making inquiries of persons responsible for financial and accounting matters. It is substantially less in scope than an audit conducted in accordance with the standards of the Public Company Accounting Oversight Board (United States), the objective of which is the expression of an opinion regarding the financial statements taken as a whole. Accordingly, we do not express such an opinion.

Based on our reviews, we are not aware of any material modifications that should be made to such condensed consolidated interim financial statements for them to be in conformity with accounting principles generally accepted in the United States of America.

We have previously audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), the consolidated balance sheet of PartnerRe Ltd. and subsidiaries as of December 31, 2010 and the related consolidated statements of operations and comprehensive income, shareholders equity, and of cash flows for the year then ended (not presented herein); and in our report dated February 28, 2011, we expressed an unqualified opinion on those consolidated financial statements. In our opinion, the information set forth in the accompanying condensed consolidated balance sheet as of December 31, 2010 is fairly stated, in all material respects, in relation to the consolidated balance sheet from which it has been derived.

/s/ Deloitte & Touche Ltd.
Deloitte & Touche Ltd.

Hamilton, Bermuda

November 3, 2011

Table of Contents

PartnerRe Ltd.

Unaudited Condensed Consolidated Balance Sheets

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

	September 30, 2011	December 31, 2010
Assets		
Investments:		
Fixed maturities, trading securities, at fair value (amortized cost: 2011, $13,754,316; 2010, $12,394,797)	**$ 14,356,056**	$ 12,824,389
Short-term investments, trading securities, at fair value (amortized cost: 2011, $97,628; 2010, $49,132)	**97,661**	49,397
Equities, trading securities, at fair value (cost: 2011, $1,031,364; 2010, $942,745)	**1,001,148**	1,071,676
Other invested assets	**334,991**	352,405
Total investments	**15,789,856**	14,297,867
Funds held directly managed (cost: 2011, $1,294,459; 2010, $1,751,276)	**1,322,761**	1,772,118
Cash and cash equivalents, at fair value, which approximates amortized cost	**1,073,432**	2,111,084
Accrued investment income	**198,503**	201,928
Reinsurance balances receivable	**2,313,538**	2,076,884
Reinsurance recoverable on paid and unpaid losses	**447,015**	382,878
Funds held by reinsured companies	**814,950**	937,032
Deferred acquisition costs	**602,275**	595,557
Deposit assets	**235,470**	256,702
Net tax assets	**38,532**	14,960
Goodwill	**455,533**	455,533
Intangible assets	**142,760**	178,715
Other assets	**184,488**	83,113
Total assets	**$ 23,619,113**	$ 23,364,371
Liabilities		
Unpaid losses and loss expenses	**$ 11,352,599**	$ 10,666,604
Policy benefits for life and annuity contracts	**1,678,201**	1,750,410
Unearned premiums	**1,787,351**	1,599,139
Other reinsurance balances payable	**493,926**	491,194
Deposit liabilities	**244,775**	268,239
Net tax liabilities	**339,031**	316,325
Accounts payable, accrued expenses and other	**194,558**	244,552
Debt related to senior notes	**750,000**	750,000
Debt related to capital efficient notes	**70,989**	70,989
Total liabilities	**16,911,430**	16,157,452
Shareholders Equity		
Common shares (par value $1.00; issued: 2011, 84,580,948 shares; 2010, 84,033,089 shares)	**84,581**	84,033
Preferred shares (par value $1.00; issued and outstanding: 2011, 35,750,000 shares; 2010, 20,800,000 shares; aggregate liquidation value: 2011, $893,750; 2010, $520,000)	**35,750**	20,800
Additional paid-in capital	**3,796,410**	3,419,864
Accumulated other comprehensive (loss) income:		
Currency translation adjustment	**5,227**	16,101
Other accumulated comprehensive loss (net of tax of: 2011, $5,483; 2010, $4,872)	**(13,094)**	(12,045)
Retained earnings	**4,108,524**	4,761,178

Common shares held in treasury, at cost (2011, 16,831,534 shares; 2010, 14,046,895 shares)	**(1,309,715)**	(1,083,012)
Total shareholders equity	**6,707,683**	7,206,919
Total liabilities and shareholders equity	**$ 23,619,113**	$ 23,364,371

See accompanying Notes to Unaudited Condensed Consolidated Financial Statements.

Table of Contents

PartnerRe Ltd.

Unaudited Condensed Consolidated Statements of Operations and Comprehensive Income (Loss)

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

	For the three months ended September 30, 2011	For the three months ended September 30, 2010	For the nine months ended September 30, 2011	For the nine months ended September 30, 2010
Revenues				
Gross premiums written	**$ 1,095,326**	$ 1,008,464	**$ 3,735,091**	$ 4,057,965
Net premiums written	**$ 1,079,557**	$ 987,612	**$ 3,606,444**	$ 3,884,511
Decrease (increase) in unearned premiums	**214,762**	325,802	**(140,091)**	(312,687)
Net premiums earned	**1,294,319**	1,313,414	**3,466,353**	3,571,824
Net investment income	**163,647**	164,402	**473,608**	511,978
Net realized and unrealized investment gains (losses)	**26,139**	293,164	**(7,860)**	484,683
Other income	**1,434**	3,363	**4,843**	5,391
Total revenues	**1,485,539**	1,774,343	**3,936,944**	4,573,876
Expenses				
Losses and loss expenses and life policy benefits	**881,626**	748,879	**3,303,366**	2,465,847
Acquisition costs	**262,489**	261,668	**699,589**	725,919
Other operating expenses	**103,822**	118,221	**321,813**	406,506
Interest expense	**12,216**	12,297	**36,730**	32,232
Amortization of intangible assets	**9,520**	10,003	**27,512**	22,639
Net foreign exchange (gains) losses	**(10,587)**	27,074	**(20,020)**	12,426
Total expenses	**1,259,086**	1,178,142	**4,368,990**	3,665,569
Income (loss) before taxes and interest in (losses) earnings of equity investments	**226,453**	596,201	**(432,046)**	908,307
Income tax expense	**41,803**	72,576	**65,632**	117,892
Interest in (losses) earnings of equity investments	**(4,527)**	1,312	**(4,970)**	5,103
Net income (loss)	**180,123**	524,937	**(502,648)**	795,518
Preferred dividends	**14,352**	8,631	**31,614**	25,894
Net income (loss) available to common shareholders	**$ 165,771**	$ 516,306	**$ (534,262)**	$ 769,624
Comprehensive income (loss)				
Net income (loss)	**$ 180,123**	$ 524,937	**$ (502,648)**	$ 795,518
Change in currency translation adjustment	**(54,958)**	107,572	**(10,874)**	(66,506)
Change in other accumulated comprehensive income (loss), net of tax	**1,106**	(1,260)	**(1,049)**	(6,514)
Comprehensive income (loss)	**$ 126,271**	$ 631,249	**$ (514,571)**	$ 722,498
Per share data				
Net income (loss) per common share:				

Basic net income (loss)	**$**	**2.45**	$	6.86	**$**	**(7.88)**	$	9.86
Diluted net income (loss)	**$**	**2.43**	$	6.76	**$**	**(7.88)**	$	9.68
Weighted average number of common shares outstanding		**67,743,296**		75,238,329		**67,788,427**		78,076,561
Weighted average number of common shares and common share equivalents outstanding		**68,181,982**		76,428,460		**67,788,427**		79,494,247
Dividends declared per common share	**$**	**0.60**	$	0.50	**$**	**1.75**	$	1.50

See accompanying Notes to Unaudited Condensed Consolidated Financial Statements.

Table of Contents

PartnerRe Ltd.

Unaudited Condensed Consolidated Statements of Shareholders Equity

(Expressed in thousands of U.S. dollars)

	For the nine months ended September 30, 2011	For the nine months ended September 30, 2010
Common shares		
Balance at beginning of period	**$ 84,033**	$ 82,586
Issuance of common shares	**548**	953
Balance at end of period	**84,581**	83,539
Preferred shares		
Balance at beginning of period	**20,800**	20,800
Issuance of preferred shares	**14,950**	
Balance at end of period	**35,750**	20,800
Additional paid-in capital		
Balance at beginning of period	**3,419,864**	3,357,004
Issuance of preferred shares	**346,772**	
Issuance of common shares	**29,774**	38,563
Balance at end of period	**3,796,410**	3,395,567
Accumulated other comprehensive (loss) income		
Balance at beginning of period	**4,056**	84,927
Change in currency translation adjustment	**(10,874)**	(66,506)
Change in other accumulated comprehensive loss, net of tax	**(1,049)**	(6,514)
Balance at end of period	**(7,867)**	11,907
Retained earnings		
Balance at beginning of period	**4,761,178**	4,100,782
Net (loss) income	**(502,648)**	795,518
Dividends on common shares	**(118,392)**	(117,078)
Dividends on preferred shares	**(31,614)**	(25,894)
Balance at end of period	**4,108,524**	4,753,328
Common shares held in treasury		
Balance at beginning of period	**(1,083,012)**	(372)
Repurchase of common shares	**(226,703)**	(682,476)
Balance at end of period	**(1,309,715)**	(682,848)
Total shareholders equity	**$ 6,707,683**	$ 7,582,293

See accompanying Notes to Unaudited Condensed Consolidated Financial Statements.

6

Table of Contents

PartnerRe Ltd.

Unaudited Condensed Consolidated Statements of Cash Flows

(Expressed in thousands of U.S. dollars)

	For the nine months ended September 30, 2011	For the nine months ended September 30, 2010
Cash flows from operating activities		
Net (loss) income	**$ (502,648)**	$ 795,518
Adjustments to reconcile net (loss) income to net cash provided by operating activities:		
Amortization of net premium on investments	**63,268**	59,766
Amortization of intangible assets	**27,512**	22,639
Net realized and unrealized investment losses (gains)	**7,860**	(484,683)
Changes in:		
Reinsurance balances, net	**(228,133)**	(165,012)
Reinsurance recoverable on paid and unpaid losses, net of ceded premiums payable	**(1,923)**	(2,061)
Funds held by reinsured companies and funds held directly managed	**573,220**	225,757
Deferred acquisition costs	**8,716**	(31,300)
Net tax assets and liabilities	**(2,893)**	(50,269)
Unpaid losses and loss expenses including life policy benefits	**500,038**	172,974
Unearned premiums	**140,091**	312,687
Other net changes in operating assets and liabilities	**(1,176)**	56,269
Net cash provided by operating activities	**583,932**	912,285
Cash flows from investing activities		
Sales of fixed maturities	**5,049,822**	5,609,630
Redemptions of fixed maturities	**967,020**	962,540
Purchases of fixed maturities	**(7,412,275)**	(5,957,460)
Sales and redemptions of short-term investments	**242,234**	175,733
Purchases of short-term investments	**(292,833)**	(86,252)
Sales of equities	**492,491**	268,625
Purchases of equities	**(513,525)**	(485,455)
Other, net	**(131,989)**	(160,862)
Net cash (used in) provided by investing activities	**(1,599,055)**	326,499
Cash flows from financing activities		
Cash dividends paid to shareholders	**(150,006)**	(142,972)
Net proceeds from issuance of preferred shares	**361,722**	
Repurchase of common shares	**(244,222)**	(682,476)
Issuance of common shares	**13,219**	17,487
Proceeds from issuance of senior notes		500,000
Contract fees on forward sale agreement		(2,638)
Repayment of debt		(200,000)
Net cash used in financing activities	**(19,287)**	(510,599)
Effect of foreign exchange rate changes on cash	**(3,242)**	(28,772)
(Decrease) increase in cash and cash equivalents	**(1,037,652)**	699,413
Cash and cash equivalents beginning of period	**2,111,084**	738,309

Cash and cash equivalents end of period	**$ 1,073,432**	$ 1,437,722
Supplemental cash flow information:		
Taxes paid	**$ 136,188**	$ 182,335
Interest paid	**$ 24,630**	$ 18,365

See accompanying Notes to Unaudited Condensed Consolidated Financial Statements.

Table of Contents

PartnerRe Ltd.

Notes to Unaudited Condensed Consolidated Financial Statements

1. Organization

PartnerRe Ltd. (the Company) provides reinsurance on a worldwide basis through its principal wholly-owned subsidiaries, including Partner Reinsurance Company Ltd., Partner Reinsurance Europe plc and Partner Reinsurance Company of the U.S. Risks reinsured include, but are not limited to, property, casualty, motor, agriculture, aviation/space, catastrophe, credit/surety, engineering, energy, marine, specialty property, specialty casualty, multiline and other lines, mortality, longevity and health and alternative risk products. The Company s alternative risk products include weather and credit protection to financial, industrial and service companies on a worldwide basis.

2. Significant Accounting Policies

The Company s Unaudited Condensed Consolidated Financial Statements have been prepared in accordance with accounting principles generally accepted in the United States (U.S. GAAP) for interim financial information and with the instructions for Form 10-Q and Article 10 of Regulation S-X. The Unaudited Condensed Consolidated Financial Statements include the accounts of the Company and its subsidiaries. Intercompany accounts and transactions have been eliminated. To facilitate comparison of information across periods, certain reclassifications have been made to prior year amounts to conform to the current year s presentation.

The preparation of financial statements in conformity with U.S. GAAP requires Management to make estimates and assumptions that affect the reported amounts of assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. While Management believes that the amounts included in the Unaudited Condensed Consolidated Financial Statements reflect its best estimates and assumptions, actual results could differ from those estimates. The Company s principal estimates include:

- Unpaid losses and loss expenses;
- Policy benefits for life and annuity contracts;
- Gross and net premiums written and net premiums earned;
- Recoverability of deferred acquisition costs;
- Recoverability of deferred tax assets;
- Valuation of goodwill and intangible assets; and
- Valuation of certain assets and derivative financial instruments that are measured using significant unobservable inputs.

In the opinion of Management, all adjustments (which include normal recurring adjustments) necessary for a fair presentation of results for the interim periods have been made. As the Company s reinsurance operations are exposed to low-frequency, high-severity risk events, some of which are seasonal, results for certain interim periods may include unusually low loss experience, while results for other interim periods may include significant catastrophic losses. Consequently, the Company s results for interim periods are not necessarily indicative of results for the full year. These Unaudited Condensed Consolidated Financial Statements should be read in conjunction with the Consolidated Financial Statements and notes thereto included in the Company s Annual Report on Form 10-K for the year ended December 31, 2010.

3. New Accounting Pronouncements

In October 2010, the FASB issued new accounting guidance clarifying that only acquisition costs related directly to the successful acquisition of new or renewal insurance contracts may be capitalized. Those acquisition costs that may be capitalized include incremental direct costs, such as commissions, and a portion of salaries and benefits of certain employees who are involved in underwriting and policy issuance, that are directly related to time spent on an acquired contract. This guidance is effective for interim and annual periods beginning after December 15, 2011. The Company does not expect the adoption of this guidance to have an impact on its consolidated shareholders equity or net income.

In May 2011, the Financial Accounting Standards Board (FASB) issued new accounting guidance, which updates the existing guidance, related to fair value measurement and disclosures. The amendments clarify or change the application of certain existing requirements and also require some additional disclosures. The guidance is effective for interim and annual periods beginning after December 15, 2011. The Company is currently evaluating the impact of the adoption of this guidance on its disclosures.

In September 2011, the FASB issued new accounting guidance, which updates the existing guidance, related to goodwill impairment testing. The amendments revise the application of certain existing requirements to allow the option of performing a qualitative goodwill impairment assessment before calculating the fair value of reporting units, which could, depending on the results of the assessment, eliminate the need for further testing of goodwill for impairment. The guidance is effective for interim and annual periods beginning after December 15, 2011 with early adoption permitted. The Company does not expect the adoption of this guidance to have an impact on its consolidated shareholders equity or net income.

Table of Contents

4. Fair Value

(a) Fair Value of Financial Instrument Assets

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

The Company determines the appropriate level in the hierarchy for each financial instrument that it measures at fair value. In determining fair value, the Company uses various valuation approaches, including market, income and cost approaches. The hierarchy is broken down into three levels based on the observability of inputs as follows:

Level 1 inputs Unadjusted, quoted prices in active markets for identical assets or liabilities that the Company has the ability to access.
The Company s financial instruments that it measures at fair value using Level 1 inputs generally include: equities listed on a major exchange, exchange traded funds and exchange traded derivatives, such as futures and certain weather derivatives that are actively traded.

Level 2 inputs Quoted prices in active markets for similar assets or liabilities, quoted prices for identical or similar assets or liabilities in inactive markets and significant directly or indirectly observable inputs, other than quoted prices, used in industry accepted models.
The Company s financial instruments that it measures at fair value using Level 2 inputs generally include: U.S. Treasury bonds; U.S. Government Sponsored Entities bonds; Organization for Economic Co-operation and Development Sovereign Treasury bonds; U.S. state and municipal entities bonds; investment grade and high yield corporate bonds; catastrophe bonds; mortality bonds; mortgage-backed securities; asset-backed securities; certain fixed income mutual funds; foreign exchange forward contracts and over-the-counter derivatives such as foreign currency option contracts, equity put and call options, credit default swaps, non-exchange traded futures and interest rate swaps.

Level 3 inputs Unobservable inputs.
The Company s financial instruments that it measures at fair value using Level 3 inputs generally include: unlisted equities; inactively traded fixed maturities including U.S. state and municipal entities bonds, privately issued corporate securities and special purpose financing asset-backed bonds; real estate mutual fund investments; inactively traded weather derivatives; notes and loans receivable and longevity and other total return swaps.

Table of Contents

The Company s financial instruments measured at fair value include investments classified as trading securities, certain other invested assets and the segregated investment portfolio underlying the funds held directly managed account. At September 30, 2011 and December 31, 2010, the Company s financial instruments measured at fair value were categorized between Levels 1, 2 and 3 as follows (in thousands of U.S. dollars):

September 30, 2011	Quoted prices in active markets for identical assets (Level 1)	Significant other observable inputs (Level 2)	Significant unobservable inputs (Level 3)	Total
Fixed maturities				
U.S. government and government sponsored entities	$	$ 1,188,082	$	$ 1,188,082
U.S. municipals		12,321	88,845	101,166
Non-U.S. sovereign government, supranational and government related		3,229,597		3,229,597
Corporate		6,008,083	112,047	6,120,130
Asset-backed securities		381,089	249,719	630,808
Residential mortgage-backed securities		2,999,911		2,999,911
Other mortgage-backed securities		86,362		86,362
Fixed maturities	$	$ 13,905,445	$ 450,611	$ 14,356,056
Short-term investments	$	$ 97,661	$	$ 97,661
Equities				
Consumer noncyclical	$ 145,223	$ 222	$	$ 145,445
Energy	89,395	1,214		90,609
Technology	90,119			90,119
Finance	80,072	747	153	80,972
Communications	75,365	39		75,404
Industrials	64,275			64,275
Consumer cyclical	58,789	128		58,917
Insurance	35,328	356		35,684
Other	70,878	4,983		75,861
Mutual funds and exchange traded funds	41,867	235,482	6,513	283,862
Equities	$ 751,311	$ 243,171	$ 6,666	$ 1,001,148
Other invested assets				
Derivative assets				
Foreign exchange forward contracts	$	$ 3,110	$	$ 3,110
Futures contracts		52		52
Credit default swaps (protection purchased)		158		158
Credit default swaps (assumed risks)		181		181
Insurance-linked securities	23		189	212
Total return swaps			6,467	6,467
Other assets			92,043	92,043
Derivative liabilities				
Foreign exchange forward contracts		(11,361)		(11,361)
Foreign currency option contracts		(13,091)		(13,091)
Futures contracts	(9,102)	(2,296)		(11,398)
Credit default swaps (protection purchased)		(1,163)		(1,163)
Credit default swaps (assumed risks)		(1,356)		(1,356)
Insurance-linked securities	(8)		(2,209)	(2,217)
Total return swaps		(478)	(12,017)	(12,495)
Interest rate swaps		(8,064)		(8,064)
Other liabilities		(2,314)		(2,314)
Other invested assets	$ (9,087)	$ (36,622)	$ 84,473	$ 38,764
Funds held directly managed				

U.S. government and government sponsored entities	$		$	267,046	$		$	267,046
U.S. municipals						334		334
Non-U.S. sovereign government, supranational and government related				303,041				303,041
Corporate				530,899				530,899
Short-term investments				34,828				34,828
Other invested assets						17,838		17,838
Funds held directly managed	$		$	1,135,814	$	18,172	$	1,153,986
Total	$	742,224	$	15,345,469	$	559,922	$	16,647,615

December 31, 2010	Quoted prices in active markets for identical assets (Level 1)	Significant other observable inputs (Level 2)	Significant unobservable inputs (Level 3)	Total
Fixed maturities				
U.S. government and government sponsored entities	$	$ 906,032	$	$ 906,032
U.S. municipals		11,568	55,124	66,692
Non-U.S. sovereign government, supranational and government related		2,819,193		2,819,193
Corporate		6,066,865	76,982	6,143,847
Asset-backed securities		343,518	213,139	556,657
Residential mortgage-backed securities		2,305,525		2,305,525
Other mortgage-backed securities		26,153	290	26,443
Fixed maturities	$	$ 12,478,854	$ 345,535	$ 12,824,389
Short-term investments	$	$ 49,397	$	$ 49,397
Equities				
Consumer noncyclical	$ 186,016	$	$	$ 186,016
Technology	119,214			119,214
Energy	118,372			118,372
Finance	112,309		2,486	114,795
Communications	110,982			110,982
Industrials	100,572			100,572
Consumer cyclical	81,595			81,595
Insurance	48,611			48,611
Other	90,220			90,220
Mutual funds and exchange traded funds	60,372		40,927	101,299
Equities	$ 1,028,263	$	$ 43,413	$ 1,071,676
Other invested assets				
Derivative assets				
Foreign exchange forward contracts	$	$ 27,880	$	$ 27,880
Foreign currency option contracts		3,516		3,516
Futures contracts	30,593			30,593
Credit default swaps (protection purchased)		93		93
Credit default swaps (assumed risks)		533		533
Insurance-linked securities	1,320			1,320
Total return swaps		449	5,592	6,041
Interest rate swaps		246		246
Other assets			86,278	86,278
Derivative liabilities				
Foreign exchange forward contracts		(13,647)		(13,647)
Futures contracts	(7,956)			(7,956)
Credit default swaps (protection purchased)		(2,407)		(2,407)
Credit default swaps (assumed risks)		(401)		(401)
Insurance-linked securities	(695)		(698)	(1,393)
Total return swaps			(12,848)	(12,848)
Interest rate swaps		(6,033)		(6,033)
Other liabilities		(441)		(441)
Other invested assets	$ 23,262	$ 9,788	$ 78,324	$ 111,374
Funds held directly managed				
U.S. government and government sponsored entities	$	$ 288,164	$	$ 288,164
U.S. municipals			368	368
Non-U.S. sovereign government, supranational and government related		384,553		384,553

Corporate				798,587			798,587
Mortgage/asset-backed securities						12,118	12,118
Short-term investments				38,613			38,613
Other invested assets						20,528	20,528
Funds held directly managed	$		$	1,509,917	$	33,014	$ 1,542,931
Total	$	1,051,525	$	14,047,956	$	500,286	$ 15,599,767

At September 30, 2011 and December 31, 2010, the aggregate carrying amounts of items included in Other invested assets that the Company did not measure at fair value were $296.2 million and $241.0 million, respectively, which related to the Company s investments that are accounted for using the cost method of accounting, equity method of accounting or investment company accounting.

In addition to the investments underlying the funds held directly managed account held at fair value of $1,154.0 million and $1,542.9 million at September 30, 2011 and December 31, 2010, respectively, the funds held directly managed account also included cash and cash equivalents, carried at fair value, of $135.2 million and $129.2 million, respectively, and accrued investment income of $17.2 million and $19.9 million, respectively. At September 30, 2011 and December 31, 2010, the aggregate carrying amounts of items included in the funds held directly managed account that the Company did not measure at fair value were $16.4 million and $80.1 million, respectively, which primarily related to other assets and liabilities held by Colisée Re related to the underlying business, which are carried at cost (see Note 5 to the Consolidated Financial Statements included in the Company s Annual Report on Form 10-K for the year ended December 31, 2010).

At September 30, 2011 and December 31, 2010, substantially all of the accrued investment income in the Unaudited Condensed Consolidated Balance Sheets related to the Company s investments and the investments underlying the funds held directly managed account for which the fair value option was elected.

During the three months and nine months ended September 30, 2011, there were no significant transfers between Level 1 and Level 2.

Disclosures about the fair value of financial instruments that the Company does not measure at fair value exclude insurance contracts and certain other financial instruments. At September 30, 2011 and December 31, 2010, the fair values of financial instrument assets recorded in the Unaudited Condensed Consolidated Balance Sheets not described above, approximate their carrying values.

Table of Contents

The following tables are reconciliations of the beginning and ending balances for all financial instruments measured at fair value using Level 3 inputs for the three months ended September 30, 2011 and 2010 (in thousands of U.S. dollars):

For the three months ended September 30, 2011	Balance at beginning of period	Realized and unrealized investment gains (losses) included in net income	Purchases and issuances[(a)]	Sales and settlements[(a)]	Net transfers (out of)/into Level 3 [(b)]	Balance at end of period	Change in unrealized investment gains (losses) relating to assets held at end of period
Fixed maturities							
U.S. municipals	$ 86,782	$ 2,100	$	$ (37)	$	$ 88,845	$ 2,100
Corporate	116,428	969	195	(5,545)		112,047	582
Asset-backed securities	261,843	2,005	39,159	(53,288)		249,719	4,627
Other mortgage-backed securities	1	(1)					
Fixed maturities	$ 465,054	$ 5,073	$ 39,354	$ (58,870)	$	$ 450,611	$ 7,309
Short-term investments	$ 2,923	$	$	$ (2,923)	$	$	$
Equities							
Finance	$ 163	$ (10)	$	$	$	$ 153	$ (10)
Mutual funds and exchange traded funds	6,542	(29)				6,513	(29)
Equities	$ 6,705	$ (39)	$	$	$	$ 6,666	$ (39)
Other invested assets							
Derivatives, net	$ (21,535)	$ 3,290	$ 675	$ 10,000	$	$ (7,570)	$ 3,290
Other	74,018	(9,391)	32,808	(5,392)		92,043	(11,988)
Other invested assets	$ 52,483	$ (6,101)	$ 33,483	$ 4,608	$	$ 84,473	$ (8,698)
Funds held directly managed							
U.S. municipals	$ 355	$ (21)	$	$	$	$ 334	$ (21)
Other invested assets	21,720	(3,882)				17,838	(2,954)
Funds held directly managed	$ 22,075	$ (3,903)	$	$	$	$ 18,172	$ (2,975)
Total	$ 549,240	$ (4,970)	$ 72,837	$ (57,185)	$	$ 559,922	$ (4,403)

(a) *Purchases and issuances of derivatives includes issuances of $nil. Sales and settlements of derivatives includes settlements of $10.0 million.*

(b) *The Company s policy is to recognize the transfers between the hierarchy levels at the beginning of the period.*

For the three months ended September 30, 2010	Balance at beginning of period	Realized and unrealized investment gains (losses) included in net income	Net purchases, sales and settlements	Net transfers into Level 3 [(b)]	Balance at end of period	Change in unrealized investment gains (losses) relating to assets held at end of period
Fixed maturities						
U.S. municipals	$ 9,999	$ 533	$	$	$ 10,532	$ 533
Corporate	15,437	109	856	175	16,577	109

Asset-backed securities	225,958	(1,066)	(22,668)		202,224	(3,677)
Other mortgage-backed securities	854	(25)	(275)		554	(25)
Fixed maturities	$ 252,248	$ (449)	$ (22,087)	$ 175	$ 229,887	$ (3,060)
Equities						
Finance	$ 2,115	$ 313	$	$	$ 2,428	$ 313
Mutual funds and exchange traded funds	39,612	643			40,255	643
Equities	$ 41,727	$ 956	$	$	$ 42,683	$ 956
Other invested assets						
Derivatives, net	$ (14,579)	$ 10,011	$ (2,000)	$	$ (6,568)	$ 9,023
Other	50,289	(1,580)	30,162		78,871	(1,580)
Other invested assets	$ 35,710	$ 8,431	$ 28,162	$	$ 72,303	$ 7,443
Funds held directly managed						
U.S. municipals	$ 357	$ 12	$	$	$ 369	$ 12
Mortgage/asset-backed securities	12,577	(319)			12,258	(319)
Other invested assets	26,825	4,063			30,888	4,063
Funds held directly managed	$ 39,759	$ 3,756	$	$	$ 43,515	$ 3,756
Total	$ 369,444	$ 12,694	$ 6,075	$ 175	$ 388,388	$ 9,095

Table of Contents

The following tables are reconciliations of the beginning and ending balances for all financial instruments measured at fair value using Level 3 inputs for the nine months ended September 30, 2011 and 2010 (in thousands of U.S. dollars):

For the nine months ended September 30, 2011	Balance at beginning of period	Realized and unrealized investment gains (losses) included in net loss	Purchases and issuances[(a)]	Sales and settlements[(a)]	Net transfers into Level 3 [(b)]	Balance at end of period	Change in unrealized investment gains (losses) relating to assets held at end of period
Fixed maturities							
U.S. municipals	$ 55,124	$ 3,724	$ 30,064	$ (67)	$	$ 88,845	$ 3,724
Corporate	76,982	(36,097)	41,073	(10,091)	40,180	112,047	2,949
Asset-backed securities	213,139	12,683	140,803	(116,906)		249,719	12,885
Residential mortgage-backed securities		1,385	4,212	(5,597)			
Other mortgage-backed securities	290	(225)	408	(473)			
Fixed maturities	$ 345,535	$ (18,530)	$ 216,560	$ (133,134)	$ 40,180	$ 450,611	$ 19,558
Short-term investments	$	$ (1,069)	$ 3,992	$ (2,923)	$	$	$
Equities							
Finance	$ 2,486	$ 229	$	$ (2,562)	$	$ 153	$ 3
Mutual funds and exchange traded funds	40,927	1,213		(35,627)		6,513	(411)
Equities	$ 43,413	$ 1,442	$	$ (38,189)	$	$ 6,666	$ (408)
Other invested assets							
Derivatives, net	$ (7,954)	$ (5,513)	$ (4,103)	$ 10,000	$	$ (7,570)	$ 3,790
Other	86,278	(12,598)	39,356	(20,993)		92,043	(14,485)
Other invested assets	$ 78,324	$ (18,111)	$ 35,253	$ (10,993)	$	$ 84,473	$ (10,695)
Funds held directly managed							
U.S. municipals	$ 368	$ (34)	$	$	$	$ 334	$ (34)
Mortgage/asset-backed securities	12,118	(150)		(11,968)			
Other invested assets	20,528	(2,690)				17,838	(2,030)
Funds held directly managed	$ 33,014	$ (2,874)	$	$ (11,968)	$	$ 18,172	$ (2,064)
Total	$ 500,286	$ (39,142)	$ 255,805	$ (197,207)	$ 40,180	$ 559,922	$ 6,391

(a) Purchases and issuances of derivatives includes issuances of $5.1 million. Sales and settlements of derivatives includes settlements of $10.0 million.

(b) The Company s policy is to recognize the transfers between the hierarchy levels at the beginning of the period.

Table of Contents

For the nine months ended September 30, 2010	Balance at beginning of period	Realized and unrealized investment gains (losses) included in net income	Net purchases, sales and settlements	Net transfers (out of)/into Level 3 [(b)]	Balance at end of period	Change in unrealized investment gains (losses) relating to assets held at end of period
Fixed maturities						
U.S. municipals	$ 4,286	$ 806	$ 9,726	$ (4,286)	$ 10,532	$ 806
Corporate	15,041	532	11,754	(10,750)	16,577	532
Asset-backed securities	99,952	3,536	101,636	(2,900)	202,224	1,167
Residential mortgage-backed securities	77,440	191	(77,631)			
Other mortgage-backed securities	874	129	(449)		554	129
Fixed maturities	$ 197,593	$ 5,194	$ 45,036	$ (17,936)	$ 229,887	$ 2,634
Equities						
Finance	$ 2,488	$ (754)	$ 694	$	$ 2,428	$ (60)
Industrials	805	(84)	(721)			
Mutual funds and exchange traded funds	34,810	445	5,000		40,255	445
Equities	$ 38,103	$ (393)	$ 4,973	$	$ 42,683	$ 385
Other invested assets						
Derivatives, net	$ (9,361)	$ 14,326	$ (19,699)	$ 8,166	$ (6,568)	$ 10,501
Other	25,815	(1,749)	54,805		78,871	(1,749)
Other invested assets	$ 16,454	$ 12,577	$ 35,106	$ 8,166	$ 72,303	$ 8,752
Funds held directly managed						
U.S. municipals	$ 375	$ (6)	$	$	$ 369	$ (6)
Non-U.S. sovereign government, supranational and government related	3,417	(13)	(3,404)			
Mortgage/asset-backed securities	142	(4,750)		16,866	12,258	(4,744)
Other invested assets	35,685	(4,797)			30,888	(4,797)
Funds held directly managed	$ 39,619	$ (9,566)	$ (3,404)	$ 16,866	$ 43,515	$ (9,547)
Total	$ 291,769	$ 7,812	$ 81,711	$ 7,096	$ 388,388	$ 2,224

During the nine months ended September 30, 2011, a catastrophe bond (included within corporate fixed maturities) with a fair value of $40.2 million was transferred from Level 2 into Level 3. The transfer into Level 3 was due to the lack of observable market inputs at March 31, 2011, leading the Company to apply inputs that were not directly observable. The catastrophe bond matured during the three months ended June 30, 2011.

During the nine months ended September 30, 2010, certain fixed maturities with a fair value of $17.9 million were transferred from Level 3 into Level 2. The reclassifications to Level 2 consisted of U.S. municipals, corporate and student loans (included within asset-backed securities) fixed maturities. The transfers into Level 2 were due to the availability of quoted prices for similar assets in active markets used for valuation as of September 30, 2010, resulting from the continued recovery of the financial markets. In addition, during the nine months ended September 30, 2010, certain derivatives with a fair value in a net liability position of $8.2 million were transferred out of Level 3 into Level 2 due to the availability of observable inputs.

During the nine months ended September 30, 2010, certain fixed maturities within the investments underlying the funds held directly managed account with a fair value of $16.9 million were transferred from Level 2 into Level 3. The reclassification into Level 3 consisted of asset-backed securities and residential and commercial mortgage-backed securities. The transfers into Level 3 were the result of the lack of observable market inputs, leading the Company to apply inputs that were not directly observable.

Changes in the fair value of the Company s financial instruments subject to the fair value option during the three months and nine months ended September 30, 2011 and 2010, respectively, were as follows (in thousands of U.S. dollars):

	For the three months ended September 30, 2011	For the three months ended September 30, 2010	For the nine months ended September 30, 2011	For the nine months ended September 30, 2010
Fixed maturities	**$ 188,716**	$ 134,467	**$ 179,395**	$ 399,229
Short-term investments	**1,240**	324	**794**	(2,093)
Equities	**(145,095)**	79,650	**(159,174)**	(21,549)
Other invested assets	**(10,347)**	486	**(13,680)**	344
Funds held directly managed	**11,921**	24,570	**8,025**	53,809
Total	**$ 46,435**	$ 239,497	**$ 15,360**	$ 429,740

15

Table of Contents

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

The following methods and assumptions were used by the Company in estimating the fair value of each class of financial instrument recorded in the Unaudited Condensed Consolidated Balance Sheets. There have been no material changes in the Company s valuation techniques during the periods presented.

Fixed maturities

U.S. government and government sponsored entities U.S. government and government sponsored entities securities consist primarily of bonds issued by the U.S. Treasury, corporate debt securities issued by the Federal National Mortgage Association, the Federal Home Loan Bank and other U.S. agencies. These securities are generally priced by independent pricing services. The independent pricing services may use actual transaction prices for securities that have been actively traded. For securities that have not been actively traded, each pricing source has its own proprietary method to determine the fair value, which may incorporate option adjusted spreads (OAS), interest rate data and market news. The Company generally classifies these securities in Level 2.

U.S. municipals U.S. municipal securities consist primarily of bonds issued by U.S. state and municipal entities. These securities are generally priced by independent pricing services using the techniques described for U.S. government and government sponsored entities above. The Company generally classifies these securities in Level 2. Certain of the U.S. municipals that are issued by municipal housing authorities are not actively traded and are priced based on internal models using unobservable inputs. Accordingly, the Company classifies these securities in Level 3.

Non-U.S. sovereign government, supranational and government related Non-U.S. sovereign government, supranational and government related securities consist primarily of bonds issued by non-U.S. national governments and their agencies, non-U.S. regional governments and supranational organizations. These securities are generally priced by independent pricing services using the techniques described for U.S. government and government sponsored entities above. The Company generally classifies these securities in Level 2.

Corporate Corporate securities consist primarily of bonds issued by U.S. and foreign corporations covering a variety of industries. These securities are generally priced by independent pricing services and brokers. The pricing provider incorporates information including credit spreads, interest rate data and market news into the valuation of each security. The Company generally classifies these securities in Level 2. When a corporate security is inactively traded or the valuation model uses unobservable inputs, the Company classifies the security in Level 3.

Asset-backed securities Asset-backed securities primarily consist of bonds issued by U.S. and foreign corporations that are backed by student loans, automobile loans, credit card receivables, equipment leases, and special purpose financing. With the exception of special purpose financing, these asset-backed securities are generally priced by independent pricing services and brokers. The pricing provider applies dealer quotes and other available trade information, prepayment speeds, yield curves and credit spreads to the valuation. The Company generally classifies these securities in Level 2. Special purpose financing securities are generally inactively traded and are priced based on valuation models using unobservable inputs, including cash flow assumptions and credit spreads. The Company generally classifies these securities in Level 3.

Residential mortgage-backed securities Residential mortgage-backed securities primarily consist of bonds issued by the Government National Mortgage Association, the Federal National Mortgage Association, the Federal Home Loan Mortgage Corporation, as well as private, non-agency issuers. With the exception of private, non-agency issuers, these residential mortgage-backed securities are generally priced by independent pricing services and brokers. When current market trades are not available, the pricing provider will employ proprietary models with observable inputs including other trade information, prepayment speeds, yield curves and credit spreads. The Company generally classifies these securities in Level 2. Bonds issued by private, non-agency issuers are generally inactively traded and are priced based on valuation models using unobservable inputs, including cash flow assumptions and credit spreads. The Company generally classifies these securities in Level 3.

Other mortgage-backed securities Other mortgage-backed securities primarily consist of commercial mortgage-backed securities. These securities are generally priced by independent pricing services and brokers. The pricing provider applies dealer quotes and other available trade information, prepayment speeds, yield curves and credit spreads to the valuation. The Company generally classifies these securities in Level 2. When a commercial mortgage-backed security is inactively traded or the valuation model uses unobservable inputs, the Company classifies the security in Level 3.

In general, the methods employed by the independent pricing services to determine the fair value of the securities that have not actively traded involve the use of matrix pricing in which the independent pricing source applies the credit spread for a comparable security that has traded recently to the current yield curve to determine a reasonable fair value. The Company uses a pricing service ranking to consistently select the most appropriate pricing service in instances where it receives multiple quotes on the same security.

When fair values are unavailable from these independent pricing sources, quotes are obtained directly from broker-dealers who are active in the corresponding markets. Most of the Company s fixed maturities are priced from the pricing services or dealer quotes. The Company will typically not make adjustments to prices received from pricing services or dealer quotes; however, in instances where the quoted external price for a security uses significant unobservable inputs, the Company will categorize that security as Level 3. The Company s inactively traded fixed maturities are classified as Level 3. For all fixed maturity investments, the bid price is used for estimating fair value.

To validate prices, the Company compares the fair value estimates to its knowledge of the current market and will investigate prices that it considers not to be representative of fair value. The Company also reviews an internally generated fixed maturity price validation report which converts prices received for fixed maturity investments from the independent pricing sources and from broker-dealers quotes and plots OAS and duration on a sector and rating basis. The OAS is calculated using established algorithms developed by an independent risk analytics platform vendor. The OAS on the fixed maturity price validation report are compared for securities in a similar sector and having a similar rating, and outliers are identified and investigated for price reasonableness. In addition, the Company completes quantitative analyses to compare the performance of each fixed maturity investment portfolio to the performance of an appropriate benchmark, with significant differences identified and investigated.

Short term investments

Short term investments are valued in a manner similar to the Company s fixed maturity investments and are generally classified in Level 2. Special purpose financing securities purchased with less than 12 months to maturity are generally inactively traded and are priced based on valuation models using unobservable inputs, including cash flow assumptions and credit spreads. The Company generally classifies these securities in Level 3.

Equities

Equity securities include U.S. and foreign common and preferred stocks, exchange traded funds and mutual funds. Equities and exchange traded funds are generally classified in Level 1 as the Company uses prices received from independent pricing sources based on quoted prices in active markets. Equities categorized as Level 2 are generally mutual funds invested in fixed income securities, where the net asset value of the fund is provided on a daily basis and common stocks traded in inactive markets. Equities categorized as Level 3 are generally mutual funds invested in securities other than the common stock of publicly traded companies, where the net asset value is not provided on a daily basis.

To validate prices, the Company completes quantitative analyses to compare the performance of each equity investment portfolio to the performance of an appropriate benchmark, with significant differences identified and investigated.

Other invested assets

The Company s exchange traded derivatives, such as futures and certain weather derivatives, are generally categorized as Level 1 as their fair values are quoted prices in active markets. The Company s foreign exchange forward contracts, foreign currency option contracts, equity put and call options, interest rate swaps, non-exchange traded futures and credit default swaps are generally categorized as Level 2 within the fair value hierarchy and are priced by independent pricing services.

Included in the Company s Level 3 categorization, in general, are credit linked notes, certain inactively traded weather derivatives, notes and loans receivable and longevity and other total return swaps. For Level 3 instruments, the Company will generally either (i) receive a price based on a manager s or trustee s valuation for the asset; or (ii) develop an internal discounted cash flow model to measure fair value. Where the Company receives prices from the manager or trustee, these prices are based on the manager s or trustee s estimate of fair value for the assets and are generally audited on an annual basis. Where the Company develops its own discounted cash flow models, the inputs will be specific to the asset in question, based on appropriate historical information, adjusted as necessary, and using appropriate discount rates. As part of the Company s modeling to determine the fair value of an investment, the Company considers counterparty credit risk as an input to the model, however, the majority of the Company s counterparties are highly rated institutions and the failure of any one counterparty would not have a significant impact on the Company s consolidated financial statements.

To validate prices, the Company will compare them to benchmarks, where appropriate, or to the business results generally within that asset class and specifically to those particular assets. In addition, the fair value measurements of all Level 3 investments are presented to, and peer reviewed by, an internal valuation committee that the Company has established.

Funds held directly managed

The segregated investment portfolio underlying the funds held directly managed account is comprised of fixed maturities, short-term investments and other invested assets which are fair valued on a basis consistent with the methods described above. Substantially all fixed maturities and short-term investments within the funds held directly managed account are categorized as Level 2 within the fair value hierarchy.

The other invested assets within the segregated investment portfolio underlying the funds held directly managed account, which are categorized as Level 3 investments, are primarily real estate mutual fund investments carried at fair value. For the real estate mutual fund investments, the Company receives a price based on the real estate fund manager s valuation for the asset and further adjusts the price, if necessary, based on appropriate current information on the real estate market.

Table of Contents

To validate prices within the segregated investment portfolio underlying the funds held directly managed account, the Company utilizes the methods described above.

(b) Fair Value of Financial Instrument Liabilities

Disclosures about the fair value of financial instrument liabilities exclude insurance contracts and certain other financial instruments. At September 30, 2011 and December 31, 2010, the fair values of financial instrument liabilities recorded in the Unaudited Condensed Consolidated Balance Sheets approximate their carrying values, with the exception of the debt related to senior notes (Senior Notes) and the debt related to capital efficient notes (CENts). The methods and assumptions used by the Company in estimating the fair value of the Senior Notes and CENts did not change from December 31, 2010.

The carrying values and fair values of the Senior Notes and CENts as of September 30, 2011 and December 31, 2010 were as follows (in thousands of U.S. dollars):

	September 30, 2011		December 31, 2010	
	Carrying Value	Fair Value	Carrying Value	Fair Value
Debt related to senior notes (1)	**750,000**	**780,028**	750,000	781,950
Debt related to capital efficient notes (2)	**63,384**	**56,669**	63,384	59,261

(1) PartnerRe Finance A LLC and PartnerRe Finance B LLC, the issuers of the Senior Notes, do not meet consolidation requirements under U.S. GAAP. Accordingly, the Company shows the related intercompany debt of $750 million in its Unaudited Condensed Consolidated Balance Sheets at September 30, 2011 and December 31, 2010.

(2) PartnerRe Finance II Inc., the issuer of the CENts, does not meet consolidation requirements under U.S. GAAP. Accordingly, the Company shows the related intercompany debt of $71 million in its Unaudited Condensed Consolidated Balance Sheets at September 30, 2011 and December 31, 2010.

5. Derivatives

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

Foreign Exchange Forward Contracts

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

Foreign Currency Option Contracts and Futures Contracts

The Company also utilizes foreign currency option contracts to mitigate foreign currency risk. The Company uses exchange traded treasury note futures contracts to manage portfolio duration and commodity and equity futures to hedge certain investments. The Company also uses commodities futures to replicate the investment return on certain benchmarked commodities.

Credit Default Swaps

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

The Company also assumes credit risk through credit default swaps to replicate investment positions. The original term of these credit default swaps is generally five years or less and there are no recourse provisions associated with these swaps. While the Company would be required to perform under exposure assumed through credit default swaps in the event of a default on the underlying issuer, no issuer was in default at September 30, 2011. The counterparties on the Company s assumed credit default swaps are all highly rated financial institutions.

Insurance-Linked Securities

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

Table of Contents

Total Return and Interest Rate Swaps and Interest Rate Derivatives

The Company has entered into total return swaps referencing various project, investments and principal finance obligations. The Company has also entered into interest rate swaps to mitigate the interest rate risk on certain of the total return swaps. The Company may also use other interest rate derivatives to mitigate exposure to interest rate volatility.

The fair values and the related notional values of derivatives included in the Company s Unaudited Condensed Consolidated Balance Sheets at September 30, 2011 and December 31, 2010 were as follows (in thousands of U.S. dollars):

September 30, 2011	Asset derivatives at fair value	Liability derivatives at fair value	Net derivatives Net notional exposure	Net derivatives Fair value
Derivatives not designated as hedges				
Foreign exchange forward contracts	**$ 3,110**	**$ (11,361)**	**$ 2,832,373**	**$ (8,251)**
Foreign currency option contracts		**(13,091)**	**160,268**	**(13,091)**
Futures contracts	**52**	**(11,398)**	**2,626,637**	**(11,346)**
Credit default swaps (protection purchased)	**158**	**(1,163)**	**100,387**	**(1,005)**
Credit default swaps (assumed risks)	**181**	**(1,356)**	**17,500**	**(1,175)**
Insurance-linked securities (1)	**212**	**(2,217)**	**154,375**	**(2,005)**
Total return swaps	**6,467**	**(12,495)**	**151,777**	**(6,028)**
Interest rate swaps(2)		**(8,064)**		**(8,064)**
Total derivatives	**$ 10,180**	**$ (61,145)**		**$ (50,965)**

December 31, 2010	Asset derivatives at fair value	Liability derivatives at fair value	Net derivatives Net notional exposure	Net derivatives Fair value
Derivatives designated as hedges				
Foreign exchange forward contracts (net investment hedge)	$	$ (1,160)	$ 198,448	$ (1,160)
Total derivatives designated as hedges	$	$ (1,160)		$ (1,160)
Derivatives not designated as hedges				
Foreign exchange forward contracts	$ 27,880	$ (12,487)	$ 1,770,448	$ 15,393
Foreign currency option contracts	3,516		104,386	3,516
Futures contracts	30,593	(7,956)	1,756,811	22,637
Credit default swaps (protection purchased)	93	(2,407)	113,752	(2,314)
Credit default swaps (assumed risks)	533	(401)	27,500	132
Insurance-linked securities	1,320	(1,393)	88,765	(73)
Total return swaps	6,041	(12,848)	161,408	(6,807)
Interest rate swaps(2)	246	(6,033)		(5,787)
Total derivatives not designated as hedges	$ 70,222	$ (43,525)		$ 26,697
Total derivatives	$ 70,222	$ (44,685)		$ 25,537

(1) Insurance-linked securities includes a longevity swap for which the notional amount is not reflective of the overall potential exposure of the swap. As such, the Company has included the probable maximum loss under the swap within the net notional exposure as an estimate of the notional amount.

(2) The Company enters into interest rate swaps to mitigate notional exposures on certain total return swaps. Accordingly, the notional value of interest rate swaps is not presented separately in the table.

The fair value of all derivatives at September 30, 2011 and December 31, 2010 is recorded in Other invested assets in the Company s Unaudited Condensed Consolidated Balance Sheets. At September 30, 2011, none of the Company s derivatives were designated as hedges.

Table of Contents

The gains and losses in the Unaudited Condensed Consolidated Statements of Operations for derivatives not designated as hedges for the three months and nine months ended September 30, 2011 and 2010 were as follows (in thousands of U.S. dollars):

	Amount of gain (loss) on derivatives recognized in income for the three months ended September 30, 2011	Amount of gain (loss) on derivatives recognized in income for the three months ended September 30, 2010	Amount of gain (loss) on derivatives recognized in income for the nine months ended September 30, 2011	Amount of gain (loss) on derivatives recognized in income for the nine months ended September 30, 2010
Foreign exchange forward contracts	**$ 21,221**	$ 33,284	**$ 69,455**	$ 43,825
Foreign currency option contracts	**(13,140)**	4,774	**(10,759)**	5,908
Total included in net foreign exchange gains and losses	**$ 8,081**	$ 38,058	**$ 58,696**	$ 49,733
Futures contracts	**$ (82,227)**	$ (39,092)	**$ (168,741)**	$ (115,207)
Credit default swaps (protection purchased)	**736**	(944)	**185**	(1,285)
Credit default swaps (assumed risks)	**(1,670)**	1,528	**(63)**	149
Insurance-linked securities	**(3,970)**	5,020	**(13,590)**	8,834
Total return swaps	**308**	4,400	**992**	6,809
Interest rate swaps	**(2,913)**	(857)	**(2,272)**	(464)
Interest rate derivatives				(3,848)
Other		(88)		(154)
Total included in net realized and unrealized investment gains and losses	**$ (89,736)**	$ (30,033)	**$ (183,489)**	$ (105,166)
Total derivatives	**$ (81,655)**	$ 8,025	**$ (124,793)**	$ (55,433)

6. Shareholders Equity

Series E Cumulative Redeemable Preferred Shares

In June 2011, the Company issued 14,950,000 of 7.25% Series E cumulative redeemable preferred shares (Series E preferred shares) for a total consideration of $362 million after underwriting discounts, commissions and other related expenses totaling $12 million. The net proceeds were used for general corporate purposes. On or after June 1, 2016, the Company may redeem the Series E preferred shares, in whole at any time or in part from time to time, at $25.00 per share plus accrued and unpaid dividends, if any, without interest. The Series E preferred shares are also redeemable at any time upon certain changes in tax law. Dividends on the Series E preferred shares are cumulative from the date of issuance and are payable quarterly in arrears, commencing September 1, 2011. In the event of liquidation of the Company, the holders of outstanding Series E preferred shares would have preference over the common shareholders and would receive a distribution of $25.00 per share, or an aggregate value of $374 million, plus accrued and unpaid dividends, if any.

7. Net Income (Loss) per Share

The reconciliation of basic and diluted net income (loss) per share for the three months and nine months ended September 30, 2011 and 2010 is as follows (in thousands of U.S. dollars or shares, except per share amounts):

	For the three months ended September 30, 2011	For the three months ended September 30, 2010	For the nine months ended September 30, 2011	For the nine months ended September 30, 2010
Numerator:				

Net income (loss)	**$ 180,123**	$ 524,937	**$ (502,648)**	$ 795,518
Less: preferred dividends	**(14,352)**	(8,631)	**(31,614)**	(25,894)
Net income (loss) available to common shareholders	**$ 165,771**	$ 516,306	**$ (534,262)**	$ 769,624
Denominator:				
Weighted number of common shares outstanding - basic	**67,743.3**	75,238.3	**67,788.4**	78,076.6
Share options and other [(1)]	**438.7**	1,190.2		1,417.6
Weighted average number of common shares and common share equivalents outstanding - diluted	**68,182.0**	76,428.5	**67,788.4**	79,494.2
Basic net income (loss) per share	**$ 2.45**	$ 6.86	**$ (7.88)**	$ 9.86
Diluted net income (loss) per share[(1)]	**$ 2.43**	$ 6.76	**$ (7.88)**	$ 9.68

(1) Dilutive securities, in the form of share options and other, that could potentially dilute basic net loss per share were not included in the computation of diluted net loss per share because to do so would have been anti-dilutive for the nine months

20

ended September 30, 2011. The weighted average number of common and common share equivalents outstanding would have amounted to 68,573.6 thousand shares if these securities had been included for the nine months ended September 30, 2011. In addition, at September 30, 2011 and 2010, share based awards to purchase 2,996.1 and 897.3 thousand common shares, respectively, were excluded from the calculation of diluted weighted average number of common shares and common share equivalents outstanding because their exercise prices were greater than the average market price of the common shares.

8. Commitments and Contingencies

(a) Concentration of Credit Risk

Financing receivables

Included in the Company s Other invested assets are certain notes receivable which meet the definition of financing receivables and are accounted for using the cost method of accounting. Performance of these notes receivable to date has been within expectations. At September 30, 2011 and December 31, 2010, none of the Company s notes receivable are past due or in default and, accordingly, the Company believes that an allowance for credit losses related to these notes receivable is not required.

The Company monitors the performance of the notes receivable based on the type of underlying collateral and by assigning a performing or a non-performing indicator of credit quality to each individual receivable. At September 30, 2011, the Company s notes receivable of $100.2 million were all performing and were collateralized by residential property and commercial property of $56.9 million and $43.3 million, respectively.

The Company purchased financing receivables of $18.5 million and $84.5 million during the three months and nine months ended September 30, 2011, respectively. There were no sales of financing receivables during the three months and nine months ended September 30, 2011, however, the outstanding balance has been reduced by settlements of the underlying debt.

(b) Legal Proceedings

There has been no significant change in legal proceedings at September 30, 2011 compared to December 31, 2010. See Note 18(e) to the Consolidated Financial Statements included in the Company s Annual Report on Form 10-K for the year ended December 31, 2010.

9. Segment Information

The Company monitors the performance of its operations in three segments, Non-life, Life and Corporate and Other as described in Note 22 to the Consolidated Financial Statements included in the Company s Annual Report on Form 10-K for the year ended December 31, 2010. The Non-life segment is further divided into four sub-segments: North America, Global (Non-U.S.) Property and Casualty (Global (Non-U.S.) P&C), Global (Non-U.S.) Specialty and Catastrophe. Following the completion of the Company s integration of PARIS RE Holdings Limited into its other Non-life sub-segments, and to reflect other changes in management responsibilities for certain lines of business and treaties, the Company redefined its financial reporting segments. The comparative data that was previously presented in the Company s Form 10-Q for the three months and nine months ended September 30, 2010 has been recast to conform to the current period presentation.

Because the Company does not manage its assets by segment, net investment income is not allocated to the Non-life segment. However, because of the interest-sensitive nature of some of the Company s Life products, net investment income is considered in Management s assessment of the profitability of the Life segment. The following items are not considered in evaluating the results of the Non-life and Life segments: net realized and unrealized investment gains and losses, interest expense, amortization of intangible assets, net foreign exchange gains and losses, income tax expense or benefit and interest in earnings and losses of equity investments. Segment results are shown before consideration of intercompany transactions.

Management measures results for the Non-life segment on the basis of the loss ratio, acquisition ratio, technical ratio, other operating expense ratio and combined ratio (all defined below). Management measures results for the Non-life sub-segments on the basis of the loss ratio, acquisition ratio and technical ratio. Management measures results for the Life segment on the basis of the allocated underwriting result, which includes revenues from net premiums earned, other income or loss and allocated net investment income for Life, and expenses from life policy benefits, acquisition costs and other operating expenses.

Table of Contents

The following tables provide a summary of the segment revenues and results for the three months and nine months ended September 30, 2011 and 2010 (in millions of U.S. dollars, except ratios):

Segment Information

For the three months ended September 30, 2011

	North America	Global (Non-U.S.) P&C	Global (Non-U.S.) Specialty	Catastrophe	Total Non-life Segment	Life Segment	Corporate and Other	Total
Gross premiums written	$ 288	$ 144	$ 368	$ 95	$ 895	$ 194	$ 6	$ 1,095
Net premiums written	$ 287	$ 144	$ 360	$ 89	$ 880	$ 194	$ 6	$ 1,080
Decrease in unearned premiums	42	49	2	110	203	9	2	214
Net premiums earned	$ 329	$ 193	$ 362	$ 199	$ 1,083	$ 203	$ 8	$ 1,294
Losses and loss expenses and life policy benefits	(192)	(102)	(247)	(169)	(710)	(168)	(4)	(882)
Acquisition costs	(80)	(52)	(82)	(15)	(229)	(33)		(262)
Technical result	**$ 57**	**$ 39**	**$ 33**	**$ 15**	**$ 144**	**$ 2**	**$ 4**	**$ 150**
Other income					1			1
Other operating expenses					(69)	(12)	(23)	(104)
Underwriting result					**$ 76**	**$ (10)**	**n/a**	**$ 47**
Net investment income						19	145	164
Allocated underwriting result (1)						**$ 9**	**n/a**	**n/a**
Net realized and unrealized investment gains							26	26
Interest expense							(12)	(12)
Amortization of intangible assets							(9)	(9)
Net foreign exchange gains							11	11
Income tax expense							(42)	(42)
Interest in losses of equity investments							(5)	(5)
Net income							**n/a**	**$ 180**
Loss ratio (2)	58.4%	52.9%	68.3%	85.0%	65.6%			
Acquisition ratio (3)	24.3	26.9	22.7	7.4	21.1			
Technical ratio (4)	82.7%	79.8%	91.0%	92.4%	86.7%			
Other operating expense ratio (5)					6.4			
Combined ratio (6)					93.1%			

(1) Allocated underwriting result is defined as net premiums earned, other income or loss and allocated net investment income less life policy benefits, acquisition costs and other operating expenses.
(2) Loss ratio is obtained by dividing losses and loss expenses by net premiums earned.
(3) Acquisition ratio is obtained by dividing acquisition costs by net premiums earned.
(4) Technical ratio is defined as the sum of the loss ratio and the acquisition ratio.

(5) Other operating expense ratio is obtained by dividing other operating expenses by net premiums earned.
(6) Combined ratio is defined as the sum of the technical ratio and the other operating expense ratio.

Table of Contents

Segment Information

For the three months ended September 30, 2010

	North America	Global (Non-U.S.) P&C	Global (Non-U.S.) Specialty	Catastrophe	Total Non-life Segment	Life Segment	Corporate and Other	Total
Gross premiums written	$ 267	$ 158	$ 303	$ 96	$ 824	$ 183	$ 1	$ 1,008
Net premiums written	$ 267	$ 158	$ 292	$ 87	$ 804	$ 183	$ 1	$ 988
Decrease in unearned premiums	21	67	72	164	324	1		325
Net premiums earned	$ 288	$ 225	$ 364	$ 251	$ 1,128	$ 184	$ 1	$ 1,313
Losses and loss expenses and life policy benefits	(137)	(174)	(199)	(91)	(601)	(147)	(1)	(749)
Acquisition costs	(80)	(56)	(74)	(18)	(228)	(33)		(261)
Technical result	**$ 71**	**$ (5)**	**$ 91**	**$ 142**	**$ 299**	**$ 4**	**$**	**$ 303**
Other income					2		1	3
Other operating expenses					(81)	(11)	(26)	(118)
Underwriting result					**$ 220**	**$ (7)**	**n/a**	**$ 188**
Net investment income						17	147	164
Allocated underwriting result						**$ 10**	**n/a**	**n/a**
Net realized and unrealized investment gains							293	293
Interest expense							(12)	(12)
Amortization of intangible assets							(10)	(10)
Net foreign exchange losses							(27)	(27)
Income tax expense							(72)	(72)
Interest in earnings of equity investments							1	1
Net income							**n/a**	**$ 525**
Loss ratio	47.5%	77.1%	54.8%	36.4%	53.3%			
Acquisition ratio	27.8	25.2	20.2	7.2	20.2			
Technical ratio	75.3%	102.3%	75.0%	43.6%	73.5%			
Other operating expense ratio					7.2			
Combined ratio					80.7%			

23

Table of Contents

Segment Information

For the nine months ended September 30, 2011

	North America	Global (Non-U.S.) P&C	Global (Non-U.S.) Specialty	Catastrophe	Total Non-life Segment	Life Segment	Corporate and Other	Total
Gross premiums written	$ 868	$ 585	$ 1,092	$ 581	$ 3,126	$ 597	$ 12	$ 3,735
Net premiums written	$ 868	$ 581	$ 1,007	$ 542	$ 2,998	$ 596	$ 12	$ 3,606
(Increase) decrease in unearned premiums	(18)	(14)	14	(110)	(128)	(8)	(4)	(140)
Net premiums earned	$ 850	$ 567	$ 1,021	$ 432	$ 2,870	$ 588	$ 8	$ 3,466
Losses and loss expenses and life policy benefits	(556)	(379)	(675)	(1,209)	(2,819)	(479)	(5)	(3,303)
Acquisition costs	(210)	(145)	(240)	(16)	(611)	(89)		(700)
Technical result	**$ 84**	**$ 43**	**$ 106**	**$ (793)**	**$ (560)**	**$ 20**	**$ 3**	**$ (537)**
Other income					4		1	5
Other operating expenses					(206)	(38)	(78)	(322)
Underwriting result					**$ (762)**	**$ (18)**	**n/a**	**$ (854)**
Net investment income						50	424	474
Allocated underwriting result						**$ 32**	**n/a**	**n/a**
Net realized and unrealized investment losses							(8)	(8)
Interest expense							(37)	(37)
Amortization of intangible assets							(27)	(27)
Net foreign exchange gains							20	20
Income tax expense							(66)	(66)
Interest in losses of equity investments							(5)	(5)
Net loss							**n/a**	**$ (503)**
Loss ratio	65.5%	66.8%	66.1%	279.9%	98.2%			
Acquisition ratio	24.6	25.7	23.5	3.5	21.3			
Technical ratio	90.1%	92.5%	89.6%	283.4%	119.5%			
Other operating expense ratio					7.2			
Combined ratio					126.7%			

24

Table of Contents

Segment Information

For the nine months ended September 30, 2010

	North America	Global (Non-U.S.) P&C	Global (Non-U.S.) Specialty	Catastrophe	Total Non-life Segment	Life Segment	Corporate and Other	Total
Gross premiums written	$ 831	$ 792	$ 1,183	$ 711	$ 3,517	$ 537	$ 4	$ 4,058
Net premiums written	$ 830	$ 780	$ 1,103	$ 636	$ 3,349	$ 533	$ 3	$ 3,885
Increase in unearned premiums	(51)	(94)	(27)	(129)	(301)	(12)		(313)
Net premiums earned	$ 779	$ 686	$ 1,076	$ 507	$ 3,048	$ 521	$ 3	$ 3,572
Losses and loss expenses and life policy benefits	(432)	(561)	(794)	(231)	(2,018)	(447)	(1)	(2,466)
Acquisition costs	(218)	(170)	(219)	(37)	(644)	(82)		(726)
Technical result	**$ 129**	**$ (45)**	**$ 63**	**$ 239**	**$ 386**	**$ (8)**	**$ 2**	**$ 380**
Other income					3	2		5
Other operating expenses					(241)	(38)	(127)	(406)
Underwriting result					**$ 148**	**$ (44)**	**n/a**	**$ (21)**
Net investment income						54	458	512
Allocated underwriting result						**$ 10**	**n/a**	**n/a**
Net realized and unrealized investment gains							485	485
Interest expense							(32)	(32)
Amortization of intangible assets							(23)	(23)
Net foreign exchange losses							(12)	(12)
Income tax expense							(118)	(118)
Interest in earnings of equity investments							5	5
Net income							**n/a**	**$ 796**
Loss ratio	55.5%	81.8%	73.7%	45.6%	66.2%			
Acquisition ratio	27.9	24.8	20.4	7.2	21.1			
Technical ratio	83.4%	106.6%	94.1%	52.8%	87.3%			
Other operating expense ratio					7.9			
Combined ratio					95.2%			

10. Subsequent Events

During October 2011, Thailand suffered severe flooding following unusually heavy monsoon rains. The Company has exposure to losses related to this event primarily through its Global (Non-U.S.) P&C and Catastrophe sub-segments. The Company is currently assessing its potential claims related to this event, but information as of November 3, 2011 is not sufficient to arrive at a reasonable estimate.

Table of Contents

ITEM 2. MANAGEMENT S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS
Executive Overview

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

Successful risk management is the foundation of the Company s value proposition, with diversification of risks at the core of its risk management strategy. The Company s ability to succeed in the risk assumption and management business is dependent on its ability to accurately analyze and quantify risk, to understand volatility and how risks aggregate or correlate, and to establish the appropriate capital requirements and limits for the risks assumed. All risks are managed by the Company within an integrated framework of policies and processes that ensure the intelligent and consistent evaluation and valuation of risk, and ultimately provide an appropriate return to shareholders.

The Company s economic objective is to manage a portfolio of risks that will generate compound annual Diluted Book Value per Share growth of 10% and an average Operating ROE of 13% over a reinsurance cycle. Both of these metrics are defined below in Key Financial Measures. See also Other Key Issues of Management in Item 7 of Part II of the Company s Annual Report on Form 10-K for the year ended December 31, 2010.

Key Financial Measures

In addition to the Unaudited Condensed Consolidated Balance Sheets and Unaudited Condensed Consolidated Statement of Operations and Comprehensive Income (Loss), Management uses certain key measures to evaluate its financial performance and the overall growth in value generated for the Company s common shareholders. The four key measures that Management uses, together with definitions of their calculations, are as follows:

	September 30, 2011	December 31, 2010
Diluted book value per common share and common share equivalents outstanding(1)	**$ 85.26**	$ 93.77

	For the three months ended September 30, 2011	For the three months ended September 30, 2010	For the nine months ended September 30, 2011	For the nine months ended September 30, 2010
Operating earnings (loss) available to common shareholders (in millions of U.S. dollars)(2)	**$ 164**	$ 302	**$ (504)**	$ 393
Annualized operating return on beginning diluted book value per common share and common share equivalents outstanding(3)	**10.3%**	18.7%	**(10.6)%**	7.8%
Combined ratio(4)	**93.1%**	80.7%	**126.7%**	95.2%

(1) *Diluted book value per common share and common share equivalents outstanding is calculated using common shareholders equity (shareholders equity less the aggregate liquidation value of preferred shares) divided by the number of fully diluted common shares and common share equivalents outstanding (assuming exercise of all stock-based awards and other dilutive securities).*

(2) *Operating earnings or loss available to common shareholders (operating earnings or loss) is calculated as net income or loss available to common shareholders excluding net realized and unrealized gains or losses on investments, net of tax, net foreign exchange gains or losses, net of tax, and interest in earnings or losses of equity investments, net of tax, where the Company does not control the investee companies activities, and is calculated after preferred dividends. The presentation of operating earnings or loss is a non-GAAP financial measure within the meaning of Regulation G (see Comment on Non-GAAP Measures below) and is reconciled to the nearest GAAP financial measure below. Effective January 1, 2011, Management redefined its operating earnings or loss calculation, as discussed below.*

(3) *Annualized operating return on beginning diluted book value per common share and common share equivalents outstanding (Operating ROE) is calculated using annualized operating earnings or loss, as defined above, per common share and common share equivalents outstanding, divided by beginning diluted book value per common share and common share equivalents outstanding, as defined above. The presentation of Operating ROE is a non-GAAP financial measure within the meaning of Regulation G (see Comment on Non-GAAP Measures below) and is reconciled to the nearest GAAP financial measure below. Effective January 1, 2011, Management redefined its*

Operating ROE calculation, as discussed below.

Table of Contents

(4) *The combined ratio of the Non-life segment is calculated as the sum of the technical ratio (losses and loss expenses and acquisition costs divided by net premiums earned) and the other operating expense ratio (other operating expenses divided by net premiums earned).*

Effective January 1, 2011, Management redefined its operating earnings or loss available to common shareholders (operating earnings or loss) calculation to additionally exclude net foreign exchange gains or losses. Management believes that net foreign exchange gains or losses are not indicative of the performance of, and distort trends in, the Company s business as they predominantly result from general economic and foreign exchange market conditions. In addition, Management redefined its Annualized operating return on beginning diluted book value per common share and common share equivalents outstanding (Operating ROE, previously referred to as operating return on beginning common shareholders equity) calculation to measure Operating ROE on a diluted per share basis. Management believes that the redefined Operating ROE incorporates capital management activities while remaining based on the concept of deploying available capital on an annual basis. Operating earnings or loss and Operating ROE for the three months and nine months ended September 30, 2010 have been recast to reflect the Company s redefined non-GAAP measures.

Diluted book value per common share and common share equivalents outstanding (Diluted Book Value per Share): Management uses growth in Diluted Book Value per Share as a prime measure of the value the Company is generating for its common shareholders, as Management believes that growth in the Company s Diluted Book Value per Share ultimately translates into growth in the Company s stock price. Diluted Book Value per Share is impacted by the Company s net income, capital resources management and external factors such as foreign exchange, interest rates and equity markets, which can drive changes in unrealized gains or losses on its investment portfolio.

The Company s Diluted Book Value per Share at September 30, 2011 was $85.26, an increase of 2% from $83.71 at June 30, 2011 and a decrease of 9% from $93.77 at December 31, 2010. The increase during the three months ended September 30, 2011 was primarily due to comprehensive income of $126 million, which was driven by net income of $180 million and partially offset by the change in the currency translation account of $55 million. The decrease during the nine months ended September 30, 2011 was primarily due to the comprehensive loss of $515 million, which was driven by the net loss of $503 million that resulted primarily from significant catastrophic losses. Net income and net loss for the three months and nine months ended September 30, 2011, respectively, and a discussion of the significant catastrophic losses in 2011 are described in Overview and Review of Net Income (Loss) below. Also see Shareholders Equity and Capital Resources Management below.

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

Operating earnings decreased by $138 million from $302 million in the three months ended September 30, 2010 to $164 million in the same period of 2011 primarily due to a decrease in the Non-life underwriting result of $144 million. The decrease in the Non-life underwriting result was driven by net adverse loss development on prior quarters, primarily related to the Japan earthquake and resulting tsunami (Japan Earthquake), a higher level of mid-sized loss activity and lower profitability driven by declines in pricing in certain lines of business. These decreases were partially offset by an increase in net favorable prior year loss development and a decrease in large catastrophic losses that occurred during the three months ended September 30, 2011 compared to 2010.

Operating earnings decreased by $897 million from $393 million in the nine months ended September 30, 2010 to a loss of $504 million in the same period of 2011 mainly due to a decrease in the Non-life underwriting result, driven primarily by large catastrophic losses, and a decrease in net investment income. These decreases were partially offset by an increase in the Life underwriting result and lower charges related to the Company s voluntary termination plan (see Results of Operations - Overview in Item 7 of Part II of the Company s Annual Report on Form 10-K for the year ended December 31, 2010 for a discussion of the voluntary termination plan). The factors contributing to the increases or decreases in operating earnings or loss in the three months and nine months ended September 30, 2011 compared to the same periods in 2010 are further described in Overview and Review of Net Income (Loss) below.

Table of Contents

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

	For the three months ended September 30, 2011	For the three months ended September 30, 2010	For the nine months ended September 30, 2011	For the nine months ended September 30, 2010
Net income (loss)	**$ 180**	$ 525	**$ (503)**	$ 796
Less:				
Net realized and unrealized investment gains (losses), net of tax	**6**	233	**(41)**	373
Net foreign exchange (losses) gains, net of tax		(20)	**16**	(1)
Interest in (losses) earnings of equity investments, net of tax	**(4)**	1	**(6)**	5
Dividends to preferred shareholders	**14**	9	**32**	26
Operating earnings (loss) available to common shareholders	**$ 164**	$ 302	**$ (504)**	$ 393

Operating ROE: Management uses annualized Operating ROE as a measure of profitability that focuses on the return to common shareholders. Management has set an average 13% Operating ROE target over the reinsurance cycle, which Management believes provides an attractive return to shareholders for the risk assumed. Each business unit and support department throughout the Company is focused on seeking to ensure that the Company meets the 13% return objective. This means that most economic decisions, including capital attribution and underwriting pricing decisions, incorporate an Operating ROE impact analysis. For the purpose of that analysis, an appropriate amount of capital (equity) is attributed to each transaction for determining the transaction s priced return on attributed capital. Subject to an adequate return for the risk level as well as other factors, such as the contribution of each risk to the overall risk level and risk diversification, capital is attributed to the transactions generating the highest priced return on deployed capital. Management s challenge consists of (i) attributing an appropriate amount of capital to each transaction based on the risk created by the transaction, (ii) properly estimating the Company s overall risk level and the impact of each transaction on the overall risk level, (iii) assessing the diversification benefit, if any, of each transaction, and (iv) deploying available capital. The risk for the Company lies in mis-estimating any one of these factors, which are critical in calculating a meaningful priced return on deployed capital, and entering into transactions that do not contribute to the Company s 13% Operating ROE objective. The Company s Operating ROE s for quarterly periods are annualized.

Annualized Operating ROE decreased from 18.7% in the three months ended September 30, 2010 to 10.3% in the same period of 2011 and from 7.8% in the nine months ended September 30, 2010 to a loss of 10.6% in the same period of 2011. The decreases in Operating ROE were primarily due to the decreases in operating earnings (loss), which were driven by net adverse development on prior quarters catastrophe losses in the three months ended September 30, 2011 and by large catastrophic losses in the nine months ended September 30, 2011. Operating earnings (loss) is described further in Operating earnings or loss available to common shareholders above and in Overview and Review of Net Income (Loss).

Table of Contents

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

	For the three months ended September 30, 2011	For the three months ended September 30, 2010	For the nine months ended September 30, 2011	For the nine months ended September 30, 2010
Annualized return on beginning diluted book value per common share calculated with net income (loss) per share available to common shareholders	**10.4%**	32.0%	**(11.2)%**	15.3%
Less:				
Annualized net realized and unrealized investment gains (losses), net of tax, on beginning diluted book value per common share	**0.4**	14.4	**(0.9)**	7.4
Annualized net foreign exchange (losses) gains, net of tax, on beginning diluted book value per common share		(1.2)	**0.4**	
Annualized net interest in (losses) earnings of equity investments, net of tax, on beginning diluted book value per common share	**(0.3)**	0.1	**(0.1)**	0.1
Annualized operating return on beginning diluted book value per common share	**10.3%**	18.7%	**(10.6)%**	7.8%

Combined Ratio: The combined ratio is used industry-wide as a measure of underwriting profitability for Non-life business. A combined ratio under 100% indicates underwriting profitability, as the total losses and loss expenses, acquisition costs and other operating expenses are less than the premiums earned on that business. While an important metric of underwriting profitability, the combined ratio does not reflect all components of profitability, as it does not recognize the impact of interest income earned on premiums between the time premiums are received and the time loss payments are ultimately made to clients. The key challenges in managing the combined ratio metric consist of (i) focusing on underwriting profitable business even in the weaker part of the reinsurance cycle, as opposed to growing the book of business at the cost of profitability, (ii) diversifying the portfolio to achieve a good balance of business, with the expectation that underwriting losses in certain lines or markets may potentially be offset by underwriting profits in other lines or markets, and (iii) maintaining control over expenses.

The Non-life combined ratio increased from 80.7% and 95.2% in the three months and nine months ended September 30, 2010, respectively, to 93.1% and 126.7% in the same periods of 2011, respectively. The increase in the Non-life combined ratio of 12.4 points during the three months ended September 30, 2011 compared to the same period in 2010 was mainly due to net adverse loss development on prior quarters, primarily related to the Japan Earthquake, a higher level of mid-sized loss activity and lower profitability driven by declines in pricing in certain lines of business. These increases were partially offset by an increase in net favorable prior year loss development and a decrease in large catastrophic losses that occurred during the three months ended September 30, 2011 compared to 2010.

The increase in the Non-life combined ratio of 31.5 points during the nine months ended September 30, 2011 compared to the same period in 2010 was primarily due to large catastrophic losses related to the Japan Earthquake, the New Zealand earthquake that occurred in February 2011 (2011 New Zealand Earthquake), tornadoes that caused severe destruction to large areas of southern, mid-western and northeastern United States in April and May 2011 (U.S. tornadoes), the floods in Queensland, Australia (Australian Floods) and aggregate contracts covering losses in Australia and New Zealand. These events contributed 47.1 points to the combined ratio during the nine months ended September 30, 2011. In comparison, the Non-life combined ratio included 14.1 points related to the Chile earthquake that occurred in February 2010 (Chile Earthquake), the New Zealand Earthquake that occurred in September 2010 (2010 New Zealand Earthquake) and Deepwater Horizon Oil Platform loss (Deepwater Horizon) in the nine months ended September 30, 2010.

Comment on Non-GAAP Measures

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

Table of Contents

Risk Management

A key challenge in the reinsurance industry is to create economic value through the intelligent assumption of reinsurance and capital markets and investment risk, but also to limit or mitigate those risks that can destroy tangible as well as intangible value. Management believes that every organization faces numerous risks that could threaten the successful achievement of a company s goals and objectives. These include choice of strategy and markets, economic and business cycles, competition, changes in regulation, data quality and security, fraud, business interruption and management continuity; all factors which can be viewed as either strategic or operational risks that are common to any industry. See Risk Factors in Item 1A of Part I of the Company s Annual Report on Form 10-K for the year ended December 31, 2010 and in Item 1A of Part II of the Company s quarterly report on Form 10-Q for the three months ended March 31, 2011. In addition to these risks, the Company assumes risks and its results are primarily determined by how well the Company understands, prices and manages assumed risk. While many industries and companies start with a return goal and then attempt to shed risks that may derail that goal, the Company starts with a capital-based risk appetite and then looks for risks that meet its return targets within that framework. Management believes that this construct allows the Company to balance the cedants need for certainty of claims payment with the shareholders need for an adequate return on their capital. See Executive Overview Other Key Issues of Management Risk Management in Item 7 of Part II of the Company s Annual Report on Form 10-K for the year ended December 31, 2010 for a complete description of the Company s risks, risk management framework and the related risk management strategies and controls.

The Company manages assumed risk at a strategic level through diversification, risk appetite, and limits. For each key risk, the Board approves a risk appetite that the Company defines as the percentage of economic capital the Company is willing to expose to economic loss with a modeled probability of occurring once every 15 years and once every 75 years. The Company manages its exposure to key risks such that the modeled economic loss at a 1 in 15 year and a 1 in 75 year return period are less than the economic capital the Company is willing to expose to the key risks at those return periods.

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

There are four areas of risk that the Company has currently identified as having the greatest potential for shock losses: catastrophe, reserving for casualty and other long-tail lines, equity and equity-like investment risk and longevity risk. The Company manages the risk of shock losses by setting risk appetite and limits, as described above and below, for each type of shock loss. The Company establishes limits to manage the maximum foreseeable loss from any one event and considers the possibility that several shock losses could occur at one time, for example a major catastrophe event accompanied by a collapse in the equity markets. Management believes that the limits that it has placed on shock losses will allow the Company to continue writing business should such an event occur.

See Other Key Issues of Management Risk Management in Item 7 of Part II of the Company s Annual Report on Form 10-K for the year ended December 31, 2010 for a discussion of the Company s exposure to catastrophe risk, casualty reserving risk, equity investment risk and longevity risk.

Other risks such as interest rate risk and credit spread risk have the ability to impact results substantially and may result in volatility in results from period to period. However, Management believes that by themselves, interest rate risk and credit spread risk are unlikely to represent a material threat to the Company s long-term economic value. See Quantitative and Qualitative Disclosures about Market Risk in Item 3 of Part I of this report for additional disclosure on interest rate risk, credit spread risk, foreign currency risk, counterparty credit risk and equity price risk.

The Company seeks to maintain a risk appetite moderately above the average of the reinsurance market because Management believes that this position offers the best potential for creating shareholder value at an acceptable risk level. The most profitable products generally present the most volatility and potential risk. Management believes that the Company s actual risk profile is equal to or less than the average of the reinsurance market because of the level of diversification achieved in the portfolio, the strict adherence to risk appetite and limits, and the risk mitigation strategies employed.

Table of Contents

The limits and actual exposures of the Company for its four major risks are as follows:

	Limit at September 30, 2011	Deployed at September 30, 2011	Deployed at December 31, 2010
Catastrophe risk largest zonal limit	**$ 2.8 billion**	**$ 2.1 billion**	$ 2.5 billion
Casualty reserving risk total earned premiums for casualty and other long-tail lines for the four most recent underwriting periods	**6.3 billion**	**2.9 billion**	3.0 billion
Equity investment risk value of equity and equity-like securities	**3.3 billion**	**1.5 billion**	1.5 billion
Longevity risk net present value loss from extreme mortality improvement scenario	**2.0 billion**	**1.0 billion**	1.0 billion

The following table summarizes risk appetite and modeled economic loss for the Company s major risks discussed above:

	Risk Appetite at September 30, 2011(1)	Modeled Economic Loss at September 30, 2011(1)	Modeled Economic Loss at December 31, 2010(1)
Catastrophe risk 1 in 75 year annual aggregate loss	**$ 1.4 billion**	**$ 1.2 billion**	$ 1.3 billion
Casualty reserving risk casualty and other long-tail lines 1 in 15 year prior years reserve development	**0.7 billion**	**0.4 billion**	0.4 billion
Equity investment risk 1 in 75 year decline in value	**1.1 billion**	**0.5 billion**	0.5 billion

(1) The Company has not defined a risk appetite for longevity risk as it believes that establishing a limit is currently the most appropriate risk management metric. In addition, the Company has not relied upon a modeled economic loss for longevity risk.

Critical Accounting Policies and Estimates

Critical Accounting Policies and Estimates of the Company at September 30, 2011 have not changed materially compared to December 31, 2010. See Critical Accounting Policies and Estimates in Management s Discussion and Analysis of Financial Condition and Results of Operations in Item 7 of Part II of the Company s Annual Report on Form 10-K for the year ended December 31, 2010. The following discussion updates specific information related to the Company s estimates for losses and loss expenses and life policy benefits and valuation of investments and funds held directly managed, including certain derivative financial instruments.

Losses and Loss Expenses and Life Policy Benefits

Losses and Loss Expenses

Because a significant amount of time can elapse between the assumption of risk, occurrence of a loss event, the reporting of the event to an insurance company (the primary company or the cedant), the subsequent reporting to the reinsurance company (the reinsurer) and the ultimate payment of the claim on the loss event by the reinsurer, the Company s liability for unpaid losses and loss expenses (loss reserves) is based largely upon estimates. The Company categorizes loss reserves into three types of reserves: reported outstanding loss reserves (case reserves), additional case reserves (ACRs) and incurred but not reported (IBNR) reserves. The Company updates its estimates for each of the aforementioned categories on a quarterly basis using information received from its cedants. The Company also estimates the future unallocated loss adjustment expenses (ULAE) associated with the loss reserves and these form part of the Company s loss adjustment expense reserves. The Company s Non-life loss reserves for each category and sub-segment are reported in the table included later in this section.

The amount of time that elapses before a claim is reported to the cedant and then subsequently reported to the reinsurer is commonly referred to in the industry as the reporting tail. For all lines, the Company s objective is to estimate ultimate losses and loss expenses. Total loss reserves are then calculated by subtracting losses paid. Similarly, IBNR reserves are calculated by subtraction of case reserves and ACRs from total loss reserves.

The Company analyzes its ultimate losses and loss expenses after consideration of the loss experience of various reserving cells. The Company assigns treaties to reserving cells and allocates losses from the treaty to the reserving cell. The reserving cells are selected in order to ensure that the underlying treaties have homogeneous loss development characteristics (e.g., reporting tail) but are large enough to make estimation of trends credible. The selection of reserving cells is reviewed annually and changes over time as the business of the Company evolves. For each reserving cell, the Company s estimates of loss reserves are reached after a review of the results of several commonly accepted actuarial projection methodologies. In selecting its best estimate, the Company considers the appropriateness of each methodology to the individual circumstances of the reserving cell and underwriting year for which the projection is made.

Table of Contents

See Critical Accounting Policies and Estimates Losses and Loss Expenses and Life Policy Benefits in Item 7 of Part II of the Company s Annual Report on Form 10-K for the year ended December 31, 2010 for additional information on the reserving methodologies employed by the Company, the principal reserving methods used for the reserving lines, the principal parameter assumptions underlying the methods and the main underlying factors upon which the estimates of reserving parameters are predicated.

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

During the three months and nine months ended September 30, 2011 and 2010, the Company reviewed its estimate for prior year losses for each sub-segment of the Non-life segment (defined below in Results by Segment) and, in light of developing data, adjusted its ultimate loss ratios for prior accident years. The following table summarizes the net prior year favorable reserve development for each sub-segment of the Company s Non-life segment for the three months and nine months ended September 30, 2011 and 2010 (in millions of U.S. dollars):

	For the three months ended September 30, 2011	For the three months ended September 30, 2010	For the nine months ended September 30, 2011	For the nine months ended September 30, 2010
Net Non-life prior year favorable (adverse) reserve development:				
North America	**$ 75**	$ 68	**$ 169**	$ 144
Global (Non-U.S.) P&C	**35**	4	**90**	63
Global (Non-U.S.) Specialty	**30**	66	**122**	114
Catastrophe	**36**	(2)	**98**	29
Total net Non-life prior year favorable reserve development	**$ 176**	$ 136	**$ 479**	$ 350

The net Non-life favorable reserve development on prior accident years for the three months and nine months ended September 30, 2011 and 2010 was driven by the following factors (in millions of U.S. dollars):

	For the three months ended September 30, 2011	For the three months ended September 30, 2010	For the nine months ended September 30, 2011	For the nine months ended September 30, 2010
Net Non-life prior year (adverse) favorable reserve development:				
Net prior year reserve development due to changes in premiums	**$ (8)**	$ (9)	**$ (34)**	$ (15)
Net prior year reserve development due to all other factors (1)	**184**	145	**513**	365
Total net Non-life prior year favorable reserve development	**$ 176**	$ 136	**$ 479**	$ 350

(1) Net prior year reserve development due to all other factors includes, but is not limited to, loss experience, changes in assumptions and changes in methodology.

For a discussion of net prior year favorable reserve development by Non-life sub-segment, see Results by Segment below. See Critical Accounting Policies and Estimates Losses and Loss Expenses and Life Policy Benefits in Item 7 of Part II of the Company s Annual Report on Form 10-K for the year ended December 31, 2010 for additional information by reserving lines.

Table of Contents

The following table shows the gross reserves reported by cedants (case reserves), those estimated by the Company (ACRs and IBNR reserves) and the total gross, ceded and net loss reserves recorded as of September 30, 2011 for each Non-life sub-segment (in millions of U.S. dollars):

	Case reserves	ACRs	IBNR reserves	Total gross loss reserves recorded	Ceded loss reserves