PARTNERRE LTD
Form 10-Q
August 10, 2009
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 JUNE 30, 2009

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 (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). Yes ¨ No ¨

Indicate by check mark 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 August 3, 2009 was 58,166,779.

Table of Contents

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 June 30, 2009, and the related condensed consolidated statements of operations and comprehensive income for the three-month and six-month periods ended June 30, 2009 and 2008, and of shareholders equity and of cash flows for the six-month periods ended June 30, 2009 and 2008. 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, 2008 and the related consolidated statements of operations and comprehensive income, shareholders equity and cash flows for the year then ended (not presented herein); and in our report dated February 27, 2009, 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, 2008 is fairly stated, in all material respects, in relation to the consolidated balance sheet from which it has been derived.

/s/ Deloitte & Touche
Deloitte & Touche
Hamilton, Bermuda

August 10, 2009

Table of Contents

PartnerRe Ltd.

Unaudited Condensed Consolidated Balance Sheets

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

	June 30, 2009	December 31, 2008
Assets		
Investments:		
Fixed maturities, trading securities, at fair value (amortized cost: 2009, $10,660,127; 2008, $10,219,126)	**$ 10,756,853**	$ 10,181,995
Short-term investments, trading securities, at fair value (amortized cost: 2009, $63,808; 2008, $116,445)	**63,873**	117,091
Equities, trading securities, at fair value (cost: 2009, $524,272; 2008, $637,198)	**527,280**	512,812
Other invested assets	**105,880**	74,493
Total investments	**11,453,886**	10,886,391
Cash and cash equivalents, at fair value, which approximates amortized cost	**616,290**	838,280
Accrued investment income	**184,925**	169,103
Reinsurance balances receivable	**2,051,940**	1,719,694
Reinsurance recoverable on paid and unpaid losses	**156,124**	153,594
Funds held by reinsured companies	**827,457**	786,422
Deferred acquisition costs	**673,685**	617,121
Deposit assets	**330,033**	342,132
Net tax assets	**140,923**	215,703
Goodwill	**429,519**	429,519
Net receivable for securities sold	**37,019**	43,007
Other assets	**72,270**	78,354
Total assets	**$ 16,974,071**	$ 16,279,320
Liabilities		
Unpaid losses and loss expenses	**$ 7,396,600**	$ 7,510,666
Policy benefits for life and annuity contracts	**1,546,779**	1,432,015
Unearned premiums	**1,771,401**	1,273,787
Other reinsurance balances payable	**237,397**	209,007
Deposit liabilities	**355,365**	362,485
Net tax liabilities	**239,516**	219,679
Accounts payable, accrued expenses and other	**138,346**	164,968
Current portion of long-term debt		200,000
Long-term debt	**200,000**	200,000
Debt related to senior notes	**250,000**	250,000
Debt related to capital efficient notes	**70,989**	257,605
Total liabilities	**12,206,393**	12,080,212
Shareholders Equity		
Common shares (par value $1.00, issued: 2009, 57,950,306; 2008, 57,748,507)	**57,950**	57,749
Series C cumulative preferred shares (par value $1.00, issued and outstanding: 2009 and 2008, 11,600,000; aggregate liquidation preference: 2009 and 2008, $290,000)	**11,600**	11,600
Series D cumulative preferred shares (par value $1.00, issued and outstanding: 2009 and 2008, 9,200,000; aggregate liquidation preference: 2009 and 2008, $230,000)	**9,200**	9,200
Additional paid-in capital	**1,479,431**	1,465,688
Accumulated other comprehensive income:		
Net unrealized gains on investments (net of tax of: 2009 and 2008, $nil)	**5,072**	3,943

Currency translation adjustment	**42,610**	34,888
Unfunded pension obligation (net of tax of: 2009, $4,561; 2008, $4,668)	**(15,623)**	(16,023)
Retained earnings	**3,275,037**	2,729,662
Common shares held in treasury, at cost (2009 and 2008, 1,295,173)	**(97,599)**	(97,599)
Total shareholders equity	**4,767,678**	4,199,108
Total liabilities and shareholders equity	**$ 16,974,071**	$ 16,279,320

See accompanying Notes to Unaudited Condensed Consolidated Financial Statements.

2

Table of Contents

PartnerRe Ltd.

Unaudited Condensed Consolidated Statements of Operations and Comprehensive Income

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

	For the three months ended June 30, 2009	For the three months ended June 30, 2008	For the six months ended June 30, 2009	For the six months ended June 30, 2008
Revenues				
Gross premiums written	**$ 846,149**	$ 968,163	**$ 2,186,528**	$ 2,407,495
Net premiums written	**$ 844,659**	$ 956,269	**$ 2,152,717**	$ 2,367,833
Increase in unearned premiums	**(18,530)**	(730)	**(460,138)**	(502,540)
Net premiums earned	**826,129**	955,539	**1,692,579**	1,865,293
Net investment income	**135,593**	145,494	**268,720**	282,504
Net realized and unrealized investment gains (losses)	**306,536**	(296,255)	**236,417**	(271,143)
Net realized gain on purchase of capital efficient notes			**88,427**	
Other income	**3,361**	4,591	**7,942**	6,228
Total revenues	**1,271,619**	809,369	**2,294,085**	1,882,882
Expenses				
Losses and loss expenses and life policy benefits	**458,898**	548,720	**977,797**	1,138,388
Acquisition costs	**181,689**	228,170	**381,657**	432,408
Other operating expenses	**98,468**	96,737	**182,062**	189,017
Interest expense	**6,335**	14,914	**15,482**	26,810
Net foreign exchange losses (gains)	**1,202**	(1,574)	**4,550**	3,223
Total expenses	**746,592**	886,967	**1,561,548**	1,789,846
Income (loss) before taxes and interest in earnings (losses) of equity investments	**525,027**	(77,598)	**732,537**	93,036
Income tax expense (benefit)	**56,954**	(53,423)	**116,765**	(10,697)
Interest in earnings (losses) of equity investments	**6,196**	(1,849)	**17**	(737)
Net income (loss)	**474,269**	(26,024)	**615,789**	102,996
Preferred dividends	**8,631**	8,631	**17,263**	17,263
Net income (loss) available to common shareholders	**$ 465,638**	$ (34,655)	**$ 598,526**	$ 85,733
Comprehensive income (loss), net of tax				
Net income (loss)	**$ 474,269**	$ (26,024)	**$ 615,789**	$ 102,996
Change in net unrealized gains or losses on investments, net of tax	**(9)**	6,653	**1,129**	15,227
Change in currency translation adjustment	**38,922**	4,000	**7,722**	57,006
Change in unfunded pension obligation, net of tax	**(786)**	69	**400**	(334)
Comprehensive income (loss)	**$ 512,396**	$ (15,302)	**$ 625,040**	$ 174,895
Per share data				
Net income (loss) per common share:				
Basic net income (loss)	**$ 8.23**	$ (0.64)	**$ 10.58**	$ 1.58
Diluted net income (loss)	**$ 8.10**	$ (0.64)	**$ 10.43**	$ 1.54
Weighted average number of common shares outstanding	**56,609,822**	54,276,623	**56,560,784**	54,262,457

Weighted average number of common and common share equivalents outstanding		**57,469,013**		54,276,623		**57,394,927**		55,685,583
Dividends declared per common share	**$**	**0.47**	$	0.46	**$**	**0.94**	$	0.92

See accompanying Notes to Unaudited Condensed Consolidated Financial Statements.

3

Table of Contents

PartnerRe Ltd.

Unaudited Condensed Consolidated Statements of Shareholders Equity

(Expressed in thousands of U.S. dollars)

	For the six months ended June 30, 2009	For the six months ended June 30, 2008
Common shares		
Balance at beginning of period	**$ 57,749**	$ 57,380
Issue of common shares	**201**	286
Balance at end of period	**57,950**	57,666
Preferred shares		
Balance at beginning and end of period	**20,800**	20,800
Additional paid-in capital		
Balance at beginning of period	**1,465,688**	1,441,598
Issue of common shares	**13,743**	19,437
Balance at end of period	**1,479,431**	1,461,035
Accumulated other comprehensive income		
Balance at beginning of period	**22,808**	289,250
Change in net unrealized gains or losses on investments, net of tax	**1,129**	15,227
Change in currency translation adjustment	**7,722**	57,006
Change in unfunded pension obligation, net of tax	**400**	(334)
Impact of adopting SFAS 159		(105,961)
Balance at end of period	**32,059**	255,188
Retained earnings		
Balance at beginning of period	**2,729,662**	2,753,784
Net income	**615,789**	102,996
Dividends on common shares	**(53,151)**	(49,893)
Dividends on preferred shares	**(17,263)**	(17,263)
Impact of adopting SFAS 159		105,961
Balance at end of period	**3,275,037**	2,895,585
Common shares held in treasury		
Balance at beginning of period	**(97,599)**	(241,255)
Repurchase of common shares		(39,777)
Balance at end of period	**(97,599)**	(281,032)
Total shareholders equity	**$ 4,767,678**	$ 4,409,242

See accompanying Notes to Unaudited Condensed Consolidated Financial Statements.

Table of Contents

PartnerRe Ltd.

Unaudited Condensed Consolidated Statements of Cash Flows

(Expressed in thousands of U.S. dollars)

	For the six months ended June 30, 2009	For the six months ended June 30, 2008
Cash Flows from Operating Activities		
Net income	**$ 615,789**	$ 102,996
Adjustments to reconcile net income to net cash provided by operating activities:		
Amortization of net premium on investments	**10,074**	4,650
Net realized and unrealized investment (gains) losses	**(236,417)**	271,143
Net realized gain on purchase of capital efficient notes	**(88,427)**	
Changes in:		
Reinsurance balances, net	**(286,205)**	(622,812)
Reinsurance recoverable on paid and unpaid losses, net of ceded premiums payable	**17,380**	16,134
Funds held by reinsured companies	**8,537**	166,697
Deferred acquisition costs	**(47,052)**	(88,713)
Net tax liabilities	**93,419**	(18,127)
Unpaid losses and loss expenses including life policy benefits	**(104,921)**	215,797
Unearned premiums	**460,138**	502,540
Other changes in operating assets and liabilities	**(19,341)**	(34,023)
Other, net	**4,552**	3,223
Net cash provided by operating activities	**427,526**	519,505
Cash Flows from Investing Activities		
Sales of fixed maturities	**2,502,800**	3,234,844
Redemptions of fixed maturities	**561,895**	430,734
Purchases of fixed maturities	**(3,447,701)**	(4,421,994)
Sales of short-term investments	**110,600**	114,842
Purchases of short-term investments	**(57,602)**	(124,230)
Sales of equities	**424,522**	891,536
Purchases of equities	**(377,434)**	(800,242)
Other, net	**(6,767)**	57,535
Net cash used in investing activities	**(289,687)**	(616,975)
Cash Flows from Financing Activities		
Cash dividends paid to shareholders	**(70,414)**	(67,156)
Repayment of long-term debt	**(200,000)**	(220,000)
Purchase of capital efficient notes	**(94,241)**	
Net issue (repurchase) of common shares and treasury shares	**4,975**	(32,760)
Contract fees on forward sale agreement	**(2,502)**	(5,190)
Proceeds from issuance of senior notes		250,000
Net cash used in financing activities	**(362,182)**	(75,106)
Effect of foreign exchange rate changes on cash	**2,353**	(1,970)
Decrease in cash and cash equivalents	**(221,990)**	(174,546)
Cash and cash equivalents beginning of period	**838,280**	654,895
Cash and cash equivalents end of period	**$ 616,290**	$ 480,349

Supplemental cash flow information:

Taxes paid	**$**	**41,125**	$	17,291
Interest paid	**$**	**18,157**	$	27,408

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, Partner Reinsurance Company Ltd. (Partner Reinsurance), Partner Reinsurance Company of the U.S. (PartnerRe U.S.) and Partner Reinsurance Europe Limited (PartnerRe Europe). 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, life/annuity 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.

On July 4, 2009, the Company entered into definitive agreements to acquire PARIS RE Holdings Limited (Paris Re) a French-listed, Swiss-based diversified reinsurer and its operating subsidiaries. See Note 10.

2. Significant Accounting Policies

The Company s 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 Condensed Consolidated Financial Statements include the accounts of the Company and its subsidiaries, including those that meet the consolidation requirements of variable interest entities. 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 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
- Valuation of fixed maturity and equity investments that are measured using significant unobservable inputs and valuation of other invested assets, including certain derivative financial instruments.

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 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, 2008.

The following significant accounting policies were adopted by the Company during the six months ended June 30, 2009.

6

SFAS 165

In May 2009, the Financial Accounting Standards Board (FASB) issued Statement of Financial Accounting Standards (SFAS) No. 165, Subsequent Events (SFAS 165). SFAS 165 requires the Company to evaluate subsequent events through the date that the financial statements are issued, establishes the requirements for recognition of a subsequent event in its financial statements and establishes disclosure requirements about events or transactions that occurred after the balance sheet date. The adoption of SFAS 165 as of June 30, 2009 only required new disclosures to be made and did not have an impact on the Company s consolidated shareholders equity or net income.

FSP FAS 107-1 and APB 28-1

In April 2009, the FASB issued FASB Staff Position (FSP) No. FAS 107-1 and APB 28-1, Interim Disclosures about Fair Value of Financial Instruments (FSP FAS 107-1 and APB 28-1), which amends FASB Statement No. 107, Disclosures about Fair Value of Financial Instruments and APB Opinion No. 28, Interim Financial Reporting , to require disclosures about fair value of financial instruments in interim financial statements. The adoption of FSP FAS 107-1 and APB 28-1 for the three months ended June 30, 2009 only required new disclosures to be made and did not have an impact on the Company s consolidated shareholders equity or net income.

FSP FAS 157-4

In April 2009, the FASB issued FSP FAS 157-4, Determining Fair Value When the Volume and Level of Activity for the Asset or Liability Have Significantly Decreased and Identifying Transactions That Are Not Orderly (FSP FAS 157-4), which provides additional guidance on fair value measurements under SFAS No. 157, Fair Value Measurements (SFAS 157) when the volume and level of activity for an asset or liability have significantly decreased. The adoption of FSP FAS 157-4 for the three months ended June 30, 2009 did not have a material impact on the Company s consolidated shareholders equity or net income.

FSP FAS 157-2

In February 2008, the FASB issued FSP FAS 157-2, Effective Date of FASB Statement No. 157 (FSP FAS 157-2), which permits a one-year deferral of the application of SFAS 157 for all non-financial assets and non-financial liabilities, except those that are recognized or disclosed at fair value in the financial statements on a recurring basis. The adoption of FSP FAS 157-2 on January 1, 2009 did not have a material impact on the Company s consolidated shareholders equity or net income.

SFAS 160

In December 2007, the FASB issued SFAS No. 160, Noncontrolling Interests in Consolidated Financial Statements an amendment of ARB No. 51 (SFAS 160). SFAS 160 amends Accounting Research Bulletin No. 51, Consolidated Financial Statements (ARB 51) to establish accounting and reporting standards for a noncontrolling interest in a subsidiary and for the deconsolidation of a subsidiary. It also amends certain of ARB 51 s consolidation procedures for consistency with the requirements of FASB Statement No. 141 (revised 2007), Business Combinations . The adoption of SFAS 160 on January 1, 2009 did not have a material impact on the Company s consolidated shareholders equity or net income.

EITF 07-05

In June 2008, the FASB s Emerging Issues Task Force (EITF) reached a consensus regarding EITF Issue No. 07-5, Determining Whether an Instrument (or Embedded Feature) Is Indexed to an Entity s Own Stock (EITF 07-5). EITF 07-5 outlines a two-step approach to evaluate the instrument s contingent exercise provisions, if any, and to evaluate the instrument s settlement provisions when determining whether an equity-linked financial instrument (or embedded feature) is indexed to an entity s own stock. The adoption of EITF 07-5 on January 1, 2009 did not have a material impact on the Company s consolidated shareholders equity or net income.

3. New Accounting Pronouncements

SFAS 167

In June 2009, the FASB issued SFAS No. 167, Amendments to FASB Interpretation No. 46(R) (SFAS 167). SFAS 167 amends FASB Interpretation No. 46 (revised December 2003), Consolidation of Variable Interest Entities an interpretation of ARB No. 51 (FIN 46(R)). SFAS 167 requires an enterprise to perform ongoing reassessments of its variable interest entities, clarifies certain provisions of FIN 46(R) and requires enhanced disclosures of an enterprise s involvement in variable interest entities. SFAS 167 will be effective for annual and interim periods beginning after November 15, 2009, with early adoption prohibited. The Company is currently evaluating the impact of the adoption of SFAS 167 on its consolidated shareholders equity and net income.

SFAS 168

In June 2009, the FASB issued SFAS No. 168, The FASB Accounting Standards Codification and the Hierarchy of Generally Accepted Accounting Principles a replacement of FASB Statement No. 162 (SFAS 168). SFAS 168 establishes the FASB

Table of Contents

Accounting Standards Codification (Codification) as the source of authoritative U.S. GAAP for non-governmental entities. The Codification supersedes all then-existing non-SEC accounting and reporting standards and reorganizes existing U.S. GAAP into authoritative accounting topics and sub-topics. SFAS 168 is effective for annual and interim periods ending after September 15, 2009. Since SFAS 168 will only amend the way the Company refers to U.S. GAAP in its financial statements, its adoption will not affect the Company s consolidated shareholders equity or net income.

4. Fair value

(a) SFAS 157

The SFAS 157 fair value hierarchy prioritizes the inputs to valuation techniques used to measure fair value by maximizing the use of observable inputs and minimizing the use of unobservable inputs by requiring that the most observable inputs be used when available. Observable inputs are inputs that market participants would use in pricing an asset or liability based on market data obtained from sources independent of the Company. Unobservable inputs are inputs that reflect the Company s assumptions about what market participants would use in pricing the asset or liability based on the best information available in the circumstances. The level in the hierarchy within which a given fair value measurement falls is determined based on the lowest level input that is significant to the measurement.

The Company must determine the appropriate level in the hierarchy for each financial instrument that it measures at fair value. In determining fair value, the Company uses various valuation approaches, including market, income and cost approaches. The hierarchy is broken down into three levels based on the reliability 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 and exchange traded derivatives, such as futures and options 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 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; Organization for Economic Co-operation and Development Sovereign Treasury bonds; investment grade and high yield corporate bonds; catastrophe bonds; mortgage-backed securities; asset-backed securities (ABS); foreign exchange forward contracts and over-the-counter derivatives such as foreign currency option contracts, equity put and call options, interest rate swaps and credit default 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 including preference shares; unit trusts; private ABS; credit linked notes; loans receivable; total return swaps and weather derivatives.

At June 30, 2009 and December 31 2008, 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):

June 30, 2009	**Quoted prices in active markets for identical assets (Level 1)**	**Significant other observable inputs (Level 2)**	**Significant unobservable inputs (Level 3)**	**Total**
Fixed maturities, trading securities	**$**	**$ 10,684,878**	**$ 71,975**	**$ 10,756,853**
Short-term investments, trading securities		**63,800**	**73**	**63,873**
Equities, trading securities	**492,349**	**217**	**34,714**	**527,280**

Other invested assets				**(8,338)**		**5,289**	**(3,049)**
Total	**$**	**492,349**	**$**	**10,740,557**	**$**	**112,051**	**$ 11,344,957**

December 31, 2008		**Quoted prices in active markets for identical assets (Level 1)**		**Significant other observable inputs (Level 2)**		**Significant unobservable inputs (Level 3)**	**Total**
Fixed maturities, trading securities	$		$	10,103,857	$	78,138	$ 10,181,995
Short-term investments, trading securities				116,954		137	117,091
Equities, trading securities		436,627		42,638		33,547	512,812
Other invested assets				(870)		(16,136)	(17,006)
Total	$	436,627	$	10,262,579	$	95,686	$ 10,794,892

8

Table of Contents

At June 30, 2009 and December 31, 2008, the aggregate carrying amounts of items included in Other invested assets that the Company did not measure at fair value were $108.9 million and $91.5 million, respectively, which primarily related to the Company s investments that are accounted for using the equity method of accounting or investment company accounting.

Substantially all of the accrued investment income in the Condensed Consolidated Balance Sheets as of June 30, 2009 and December 31, 2008 related to the Company s fixed maturities, short-term investments and equities for which the fair value option was elected.

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 June 30, 2009 and 2008, respectively (in thousands of U.S. dollars):

Three months ended June 30, 2009	**Fixed maturities**	**Short-term investments**	**Equities**	**Other invested assets**	**Total**
Balance at beginning of period	**$ 121,578**	**$ 93**	**$ 32,985**	**$ (8,754)**	**$ 145,902**
Realized and unrealized investment gains (losses) included in net income	**19,037**	**(20)**	**1,729**	**16,219**	**36,965**
Net purchases, sales and settlements	**(4,010)**			**(2,176)**	**(6,186)**
Net transfers out of Level 3	**(64,630)**				**(64,630)**
Balance at end of period	**$ 71,975**	**$ 73**	**$ 34,714**	**$ 5,289**	**$ 112,051**
Change in unrealized investment gains (losses) relating to assets held at end of period	**$ 18,606**	**$ (20)**	**$ 1,729**	**$ 15,575**	**$ 35,890**

The net transfers out of Level 3 for the three months ended June 30, 2009 of $64.6 million of fixed maturities was related to a single issuer which was classified as a Level 2 asset at December 31, 2008 and June 30, 2009 and valued using a broker quote based on current market activity. However, these fixed maturities were classified as Level 3 assets at March 31, 2009 and valued using an internal model due to a lack of market activity at that time.

Three months ended June 30, 2008	**Fixed maturities**	**Short-term investments**	**Equities**	**Other invested assets**	**Total**
Balance at beginning of period	$ 11,682	$	$ 38,685	$ 89	$ 50,456
Realized and unrealized investment (losses) gains included in net loss	(1,738)		480	12,302	11,044
Net purchases, sales and settlements				12,718	12,718
Balance at end of period	$ 9,944	$	$ 39,165	$ 25,109	$ 74,218
Change in unrealized investment (losses) gains relating to assets held at end of period	$ (1,738)	$	$ 480	$ 8,468	$ 7,210

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 six months ended June 30, 2009 and 2008, respectively (in thousands of U.S. dollars):

Six months ended June 30, 2009	**Fixed maturities**	**Short-term investments**	**Equities**	**Other invested assets**	**Total**
Balance at beginning of period	**$ 78,138**	**$ 137**	**$ 33,547**	**$ (16,136)**	**$ 95,686**
Realized and unrealized investment gains (losses) included in net income	**18,741**	**(64)**	**1,226**	**23,720**	**43,623**
Net purchases, sales and settlements	**(5,936)**		**(59)**	**(2,295)**	**(8,290)**
Net transfers out of Level 3	**(18,968)**				**(18,968)**
Balance at end of period	**$ 71,975**	**$ 73**	**$ 34,714**	**$ 5,289**	**$ 112,051**
Change in unrealized investment gains (losses) relating to assets held at end of period	**$ 18,622**	**$ (64)**	**$ 1,226**	**$ 22,792**	**$ 42,576**

9

Table of Contents

Six months ended June 30, 2008	Fixed maturities	Short-term investments	Equities	Other invested assets	Total
Balance at beginning of period	$ 15,166	$	$ 39,606	$ (14,838)	$ 39,934
Realized and unrealized investment (losses) gains included in net income	(1,764)		(441)	10,411	8,206
Net purchases, sales and settlements				29,536	29,536
Transfers out of Level 3	(3,458)				(3,458)
Balance at end of period	$ 9,944	$	$ 39,165	$ 25,109	$ 74,218
Change in unrealized investment (losses) gains relating to assets held at end of period	$ (1,764)	$	$ (441)	$ 586	$ (1,619)

Changes in the fair value of the Company s financial instruments measured at fair value, for which the fair value option was elected, during the three months and six months ended June 30, 2009 and 2008, respectively, were as follows (in thousands of U.S. dollars):

	For the three months ended June 30, 2009	For the three months ended June 30, 2008	For the six months ended June 30, 2009	For the six months ended June 30, 2008
Fixed maturities, trading securities	**$ 186,819**	$ (303,100)	**$ 138,448**	$ (229,350)
Short-term investments, trading securities	**(206)**	(193)	**(581)**	(315)
Equities, trading securities	**121,199**	14,784	**124,689**	(74,302)
Total	**$ 307,812**	$ (288,509)	**$ 262,556**	$ (303,967)

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

(b) Fair Value of Financial Instrument Liabilities

The methods and assumptions used by the Company in estimating the fair value of each class of financial instrument liabilities recorded in the Condensed Consolidated Balance Sheet for which the Company does not measure these instruments at fair value did not change from December 31, 2008. The carrying values and fair values of the financial instrument liabilities recorded in the Condensed Consolidated Balance Sheets as of June 30, 2009 and December 31, 2008 were as follows (in thousands of U.S. dollars):

	June 30, 2009		December 31, 2008	
	Carrying Value	Fair Value	Carrying Value	Fair Value
Policy benefits for life and annuity contracts (1)	**$ 1,546,779**	**$ 1,546,779**	$ 1,432,015	$ 1,432,015
Long-term debt	**200,000**	**198,319**	200,000	196,103
Debt related to senior notes (2)	**250,000**	**241,520**	250,000	237,095
Debt related to capital efficient notes (3)	**63,384**	**30,185**	250,000	94,536
Current portion of long-term debt			200,000	200,000

(1) Policy benefits for life and annuity contracts included short-duration and long-duration contracts.

(2) PartnerRe Finance A LLC, the issuer of the Senior Notes, does not meet the consolidation requirements of FIN 46(R). Accordingly, the Company shows the related intercompany debt of $250.0 million at June 30, 2009 and December 31, 2008 in its Condensed Consolidated Balance Sheets.

(3)

PartnerRe Finance II, the issuer of the capital efficient notes, does not meet the consolidation requirements of FIN 46(R). Accordingly, the Company shows the related intercompany debt of $71.0 million at June 30, 2009 and $257.6 million at December 31, 2008 in its Condensed Consolidated Balance Sheets. The fair value of the capital efficient notes was based on the aggregate principal amount outstanding from PartnerRe Finance II of $63.4 million at June 30, 2009 and $250.0 million at December 31, 2008 (see Note 5).

5. Debt

On March 2, 2009, the Company announced the commencement of a cash tender offer for any and all of the 6.440% Fixed-to-Floating Rate Junior Subordinated Capital Efficient Notes (CENts) due 2066 (see Note 13 to the Consolidated Financial Statements in the Company s Annual Report on Form 10-K for the year ended December 31, 2008). Under the terms of the tender offer, Partner Re Finance II Inc. (PartnerRe Finance II), an indirect wholly-owned subsidiary of the Company, and the issuer of the CENts, paid holders $500 per $1,000 principal amount of CENts tendered. In addition, holders of the CENts were paid any accrued and unpaid interest on the purchased CENts from the last interest payment date.

Table of Contents

On March 13, 2009, PartnerRe Finance II purchased approximately 75% of the issue, or $186.6 million. Contemporaneously, under the terms of a cross receipt agreement, PartnerRe U.S. Holdings paid PartnerRe Finance II consideration of $93.3 million for the extinguishment of $186.6 million of the principal amount of PartnerRe U.S. Holdings 6.440% Fixed-to-Floating Rate promissory note due December 1, 2066. All other terms and conditions of the remaining CENts and promissory note remain unchanged. A pre-tax gain of $88.4 million, net of deferred issuance costs and fees was realized on the foregoing transactions. The aggregate principal amount of the CENts and promissory note outstanding at June 30, 2009 was $63.4 million and $71.0 million, respectively.

On January 8, 2009, the Company entered into a second amendment to the loan agreement, dated as of October 25, 2005, among the Company, as borrower, Citibank, N.A., as administrative agent, and Citibank, N.A., as lender, which originally evidenced a three-and-a-half year term loan agreement with Citibank, N.A. Under the terms of the second loan amendment, the Company had a right to prepay the half of the original $400.0 million loan that had a maturity of April 27, 2009. Any such prepayment under the terms of the second loan amendment will be accompanied by payment of accrued and unpaid interest on the prepayment amount. The remaining half of the loan has a maturity of July 12, 2010 and the Company does not have a right to prepay this amount. The loan was otherwise unchanged. On January 14, 2009, the Company repaid the half of the original $400.0 million loan that was due April 27, 2009. See Notes 12 and 22 to the Consolidated Financial Statements in the Company s Annual Report on Form 10-K for the year ended December 31, 2008.

6. Net Income (Loss) per Share

The reconciliation of basic and diluted net income (loss) per share is as follows (in thousands of U.S. dollars or shares, except per share amounts):

	For the three months ended June 30, 2009	For the three months ended June 30, 2008	For the six months ended June 30, 2009	For the six months ended June 30, 2008
Numerator:				
Net income (loss)	**$ 474,269**	$ (26,024)	**$ 615,789**	$ 102,996
Less: preferred dividends	**8,631**	8,631	**17,263**	17,263
Net income (loss) available to common shareholders	**$ 465,638**	$ (34,655)	**$ 598,526**	$ 85,733
Denominator:				
Weighted average number of common shares outstanding basic	**56,609.8**	54,276.6	**56,560.8**	54,262.5
Stock options and other (1)	**859.2**		**834.1**	1,423.1
Weighted average number of common and common share equivalents outstanding diluted	**57,469.0**	54,276.6	**57,394.9**	55,685.6
Basic net income (loss) per share	**$ 8.23**	$ (0.64)	**$ 10.58**	$ 1.58
Diluted net income (loss) per share (1)	**$ 8.10**	$ (0.64)	**$ 10.43**	$ 1.54

(1) At June 30, 2009 and 2008, stock options to purchase 969.4 thousand and 377.5 thousand common shares, respectively, were excluded from the calculation of diluted weighted average number of common and common share equivalents outstanding because their exercise prices were greater than the average market price of the common shares.

7. Derivatives

In accordance with SFAS No. 133, Accounting for Derivative Instruments and Hedging Activities (SFAS 133), the Company s derivative instruments are recorded in the Condensed Consolidated Balance Sheets at fair value, with changes in fair value recognized in either net foreign exchange gains and losses or net realized and unrealized investment gains and losses in the Condensed Consolidated Statements of Operations, 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. 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 and commodity futures to manage portfolio duration or hedge certain investments, respectively.

Table of Contents

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 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 June 30, 2009. 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, a weather future and a longevity total return swap for which the underlying risks include parametric weather risks for the weather derivatives and future and longevity risk for the longevity total return swap.

Total Return and Interest Rate Swaps

The Company has entered into total return swaps referencing various project and principal finance obligations. The Company has also entered into interest rate swaps to mitigate interest rate risk on certain total return swaps.

The fair values and the related notional values of derivatives included in the Company s Condensed Consolidated Balance Sheets at June 30, 2009 and December 31, 2008 were as follows (in thousands of U.S. dollars):

	June 30, 2009		December 31, 2008	
	Fair Value	Notional Value	Fair Value	Notional Value
Derivatives designated as hedges				
Foreign exchange forward contracts (net investment hedge)	**$ (31,110)**	**$ 529,779**	$ (37,470)	$ 443,210
Derivatives not designated as hedges				
Foreign exchange forward contracts	**$ 17,233**	**$ 1,892,396**	$ 32,522	$ 1,196,830
Foreign currency option contracts	**3,993**	**93,300**	(8,027)	123,932
Futures contracts	**14,297**	**1,580,993**	7,991	1,122,524
Credit default swaps (protection purchased)	**3,560**	**224,141**	20,305	295,665
Credit default swaps (assumed risks)	**(16,622)**	**35,714**	(16,191)	46,130
Insurance-linked securities	**(296)**	**35,432**	(5,393)	60,000
Total return swaps	**(6,626)**	**223,443**	(24,898)	239,733
Interest rate swaps	**(9,154)**		(12,355)	
Other	**(13)**			
Total derivatives not designated as hedges	**$ 6,372**		$ (6,046)	
Total derivatives	**$ (24,738)**		$ (43,516)	

The fair value of all derivatives at June 30, 2009 and December 31, 2008 is recorded in other invested assets in the Company s Condensed Consolidated Balance Sheets.

The effective portion of net investment hedging derivatives, recognized in accumulated other comprehensive income, at June 30, 2009 and December 31, 2008 was a $50.0 million loss and a $37.5 million loss, respectively.

Table of Contents

The amount of gain (loss) in the Condensed Consolidated Statement of Operations for derivatives not designated as hedges for the three months and six months ended June 30, 2009 was as follows (in thousands of U.S. dollars):

	For the three months ended June 30, 2009	For the six months ended June 30, 2009
Foreign exchange forward contracts	$ 22,221	$ 2,035
Foreign currency option contracts	3,989	2,184
Total included in net foreign exchange gains and losses	**$ 26,210**	**$ 4,219**
Futures contracts	$ 39,434	$ 34,200
Credit default swaps (protection purchased)	(8,261)	(8,836)
Credit default swaps (assumed risks)	6,347	77
Insurance-linked securities	50	571
Total return swaps	12,983	19,203
Interest rate swaps	1,620	3,202
Other	213	230
Total included in net realized and unrealized investment gains and losses	**$ 52,386**	**$ 48,647**
Total derivatives not designated as hedges	**$ 78,596**	**$ 52,866**

8. Legal Proceedings

Legal proceedings at June 30, 2009 have not changed significantly since December 31, 2008. See Note 16(e) to the Consolidated Financial Statements included in the Company s Annual Report on Form 10-K for the year ended December 31, 2008.

9. Segment Information

The Company monitors the performance of its operations in three segments, Non-life, Life and Corporate & Other as described in Note 19 to the Consolidated Financial Statements included in the Company s Annual Report on Form 10-K for the year ended December 31, 2008. The Non-life segment is further divided into four sub-segments: U.S., Global (Non-U.S.) P&C, Global (Non-U.S.) Specialty and Catastrophe.

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, net realized gain on purchase of CENts, interest expense, net foreign exchange gains and losses and income tax expense or benefit. Segment results are shown net 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 (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, 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 six months ended June 30, 2009 and 2008 (in millions of U.S. dollars, except ratios):

Segment Information

For the three months ended June 30, 2009

	U.S.	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	$ 248	$ 120	$ 232	$ 125	$ 725	$ 116	$ 5	$ 846
Net premiums written	$ 249	$ 118	$ 232	$ 125	$ 724	$ 116	$ 5	$ 845
Decrease (increase) in unearned premiums	9	43		(73)	(21)	7	(5)	(19)
Net premiums earned	$ 258	$ 161	$ 232	$ 52	$ 703	$ 123	$	$ 826
Losses and loss expenses and life policy benefits	(164)	(83)	(152)	22	(377)	(85)	3	(459)
Acquisition costs	(63)	(38)	(50)	(4)	(155)	(27)		(182)
Technical result	**$ 31**	**$ 40**	**$ 30**	**$ 70**	**$ 171**	**$ 11**	**$ 3**	**$ 185**
Other income					1		2	3
Other operating expenses					(55)	(11)	(32)	(98)
Underwriting result					**$ 117**	**$**	**n/a**	**$ 90**
Net investment income						15	121	136
Allocated underwriting result (1)						**$ 15**	**n/a**	**n/a**
Net realized and unrealized investment gains							307	307
Interest expense							(6)	(6)
Net foreign exchange losses							(2)	(2)
Income tax expense							(57)	(57)
Interest in earnings of equity investments							6	6
Net income							**n/a**	**$ 474**
Loss ratio (2)	63.7%	51.5%	65.5%	(43.0)%	53.6%			
Acquisition ratio (3)	24.2	23.7	21.5	7.9	22.0			
Technical ratio (4)	87.9%	75.2%	87.0%	(35.1)%	75.6%			
Other operating expense ratio (5)					7.9			
Combined ratio (6)					83.5%			

(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 June 30, 2008

	U.S.	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	$ 254	$ 134	$ 291	$ 145	$ 824	$ 138	$ 6	$ 968
Net premiums written	$ 246	$ 132	$ 291	$ 145	$ 814	$ 136	$ 6	$ 956
Decrease (increase) in unearned premiums	39	54	(19)	(80)	(6)	10	(4)	
Net premiums earned	$ 285	$ 186	$ 272	$ 65	$ 808	$ 146	$ 2	$ 956
Losses and loss expenses and life policy benefits	(227)	(87)	(144)	20	(438)	(111)		(549)
Acquisition costs	(64)	(48)	(75)	(7)	(194)	(34)		(228)
Technical result	**$ (6)**	**$ 51**	**$ 53**	**$ 78**	**$ 176**	**$ 1**	**$ 2**	**$ 179**
Other income					2		3	5
Other operating expenses					(63)	(12)	(22)	(97)
Underwriting result					**$ 115**	**$ (11)**	**n/a**	**$ 87**
Net investment income						18	127	145
Allocated underwriting result (1)						**$ 7**	**n/a**	**n/a**
Net realized and unrealized investment losses							(296)	(296)
Interest expense							(15)	(15)
Net foreign exchange gains							2	2
Income tax benefit							53	53
Interest in losses of equity investments							(2)	(2)
Net loss							**n/a**	**$ (26)**
Loss ratio (2)	79.6%	46.7%	52.8%	(30.7)%	54.2%			
Acquisition ratio (3)	22.7	25.6	27.7	10.2	24.0			
Technical ratio (4)	102.3%	72.3%	80.5%	(20.5)%	78.2%			
Other operating expense ratio (5)					7.7			
Combined ratio (6)					85.9%			

15

Table of Contents

Segment Information

For the six months ended June 30, 2009

	U.S.	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	$ 561	$ 419	$ 591	$ 330	$ 1,901	$ 281	$ 5	$ 2,187
Net premiums written	$ 561	$ 417	$ 563	$ 330	$ 1,871	$ 277	$ 5	$ 2,153
Increase in unearned premiums	(61)	(99)	(84)	(199)	(443)	(14)	(3)	(460)
Net premiums earned	$ 500	$ 318	$ 479	$ 131	$ 1,428	$ 263	$ 2	$ 1,693
Losses and loss expenses and life policy benefits	(326)	(158)	(309)	11	(782)	(198)	2	(978)
Acquisition costs	(126)	(79)	(110)	(12)	(327)	(55)		(382)
Technical result	**$ 48**	**$ 81**	**$ 60**	**$ 130**	**$ 319**	**$ 10**	**$ 4**	**$ 333**
Other income					3	1	4	8
Other operating expenses					(109)	(21)	(52)	(182)
Underwriting result					**$ 213**	**$ (10)**	**n/a**	**$ 159**
Net investment income						30	239	269
Allocated underwriting result (1)						**$ 20**	**n/a**	**n/a**
Net realized and unrealized investment gains							236	236
Net realized gain on purchase of capital efficient notes							89	89
Interest expense							(15)	(15)
Net foreign exchange losses							(5)	(5)
Income tax expense							(117)	(117)
Interest in earnings of equity investments								
Net income							**n/a**	**$ 616**
Loss ratio (2)	65.2%	49.6%	64.5%	(8.6)%	54.8%			
Acquisition ratio (3)	25.2	24.9	23.0	8.9	22.9			
Technical ratio (4)	90.4%	74.5%	87.5%	0.3%	77.7%			
Other operating expense ratio (5)					7.6			
Combined ratio (6)					85.3%			

Segment Information

For the six months ended June 30, 2008

	U.S.	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	$ 586	$ 509	$ 645	$ 343	$ 2,083	$ 313	$ 11	$ 2,407
Net premiums written	$ 578	$ 505	$ 624	$ 343	$ 2,050	$ 307	$ 11	$ 2,368
Increase in unearned premiums	(27)	(118)	(134)	(201)	(480)	(16)	(7)	(503)
Net premiums earned	$ 551	$ 387	$ 490	$ 142	$ 1,570	$ 291	$ 4	$ 1,865
Losses and loss expenses and life policy benefits	(398)	(234)	(291)	18	(905)	(233)		(1,138)
Acquisition costs	(131)	(100)	(129)	(13)	(373)	(59)		(432)
Technical result	**$ 22**	**$ 53**	**$ 70**	**$ 147**	**$ 292**	**$ (1)**	**$ 4**	**$ 295**
Other income					3		3	6
Other operating expenses					(120)	(21)	(48)	(189)
Underwriting result					**$ 175**	**$ (22)**	**n/a**	**$ 112**
Net investment income						33	249	282
Allocated underwriting result (1)						**$ 11**	**n/a**	**n/a**
Net realized and unrealized investment losses							(271)	(271)
Interest expense							(27)	(27)
Net foreign exchange losses							(3)	(3)
Income tax benefit							11	11
Interest in losses of equity investments							(1)	(1)
Net income							**n/a**	**$ 103**
Loss ratio (2)	72.2%	60.6%	59.5%	(12.9)%	57.6%			
Acquisition ratio (3)	23.7	25.7	26.3	9.6	23.8			
Technical ratio (4)	95.9%	86.3%	85.8%	(3.3)%	81.4%			
Other operating expense ratio (5)					7.6			
Combined ratio (6)					89.0%			

10. Subsequent Events

The Company has evaluated subsequent events through August 10, 2009, the date the financial statements were issued. The following events occurred subsequent to June 30, 2009 through August 10, 2009.

Acquisition of Paris Re

On July 4, 2009, the Company entered into agreements to effect a multi-step acquisition of all of the outstanding common shares and warrants of PARIS RE Holdings Limited (Paris Re), a French-listed, Swiss-domiciled diversified reinsurer.

As a first step in the acquisition, the Company will cause a wholly-owned subsidiary (the Acquisition Subsidiary) to purchase (the Block Purchase) all of the Paris Re common shares and Paris Re warrants held by six private equity firms and their related investment vehicles pursuant to the terms of a purchase agreement (the Block Purchase Agreement). Under the Block Purchase Agreement, the Company will acquire approximately 57.5% of the outstanding Paris Re common shares. These shares, when added together with the approximately 6.1% of the outstanding Paris Re common shares that the Company purchased from certain other Paris Re shareholders prior to the announcement of the Paris Re acquisition and the additional approximately 19.5% of the outstanding Paris Re common shares that the Company has subsequently committed to acquire simultaneously with the closing of the Block Purchase from certain other Paris Re shareholders, will give the Company an aggregate ownership of approximately 83.1% of the outstanding Paris Re common shares following the closing of the Block Purchase.

Table of Contents

Following the closing of the Block Purchase and subject to certain conditions, the Company will cause the Acquisition Subsidiary to commence a voluntary public exchange offer (the Exchange Offer) for all remaining outstanding Paris Re common shares and Paris Re warrants. The Exchange Offer will be commenced pursuant to the terms of a transaction agreement dated July 4, 2009 between the Company and Paris Re (the Transaction Agreement). If, after completion of the Exchange Offer, the Company and its affiliates own at least 90% of the outstanding Paris Re common shares, the Company will effect a compulsory merger (the Merger), in accordance with Swiss law to acquire all remaining outstanding Paris Re common shares. In the Merger, Paris Re will be merged into the Acquisition Subsidiary with the Acquisition Subsidiary surviving the Merger.

In each step of the acquisition, the Company has exchanged or will exchange 0.300 Company common shares for each Paris Re common share and 0.167 Company common shares for each Paris Re warrant. The per share consideration and per warrant consideration are each subject to adjustment if the parties tangible book values per share diverge significantly relative to each other prior to the closing of the Block Purchase. In addition, if the Company declares a cash dividend or other cash distribution on the Company s common shares with a record date on or after the closing of the Block Purchase and prior to the earliest date on which Paris Re shareholders have the right to receive payment for the Paris Re common shares tendered in the Exchange Offer, then the per share consideration will be appropriately adjusted upwards.

Immediately prior to the closing of the Block Purchase, Paris Re intends, subject to obtaining the requisite regulatory approvals, to effect an extraordinary cash distribution by way of a capital reduction to all Paris Re shareholders in the amount of CHF 4.17 per Paris Re common share (the Swiss franc equivalent of $3.85 as of July 7, 2009, the date on which Paris Re fixed the U.S. dollar/Swiss franc currency exchange rate to be used for the extraordinary cash distribution) (the Share Capital Repayment). To the extent that the Share Capital Repayment is not made in full immediately prior to the closing of the Block Purchase, the remaining portion will be paid (i) to the shareholders selling their Paris Re common shares and Paris Re warrants to the Company at or contemporaneously with the Block Purchase in the form of a promissory note issued by the Company at the closing of the Block Purchase and (ii) to all other holders of Paris Re common shares in the form of cash by way of a capital distribution from Paris Re immediately prior to the settlement of the Exchange Offer.

The Paris Re shareholders that have previously sold their Paris Re common shares to the Company prior to the announcement of the transactions will receive a payment of $3.85 for each Paris Re common share sold at the earlier of the closing of the Block Purchase and the termination of the Transaction Agreement (net of dividends paid or payable on the Company s common shares with respect to the period after such sale and prior to the closing of the Block Purchase). This payment to these selling shareholders will be made irrespective of whether the Block Purchase closes or the Share Capital Repayment or any portion thereof is paid.

The Transaction Agreement contains certain termination rights for both the Company and Paris Re and further provides that the Company may be required to pay Paris Re a termination fee of $75 million upon termination of such agreement either because (i) the Company s board of directors withdraws, changes or modifies its recommendation with respect to the transactions contemplated by the Block Purchase Agreement and Transaction Agreement in a manner that is adverse to Paris Re or (ii) the Company s shareholders fail to approve such transactions at the Company s shareholders meeting called for such purpose.

The Block Purchase is expected to close in the fourth quarter of 2009 and the Exchange Offer and the Merger are expected to close in the first quarter of 2010. However, the exact timing of the completion of the transactions cannot be predicted because they are subject to certain shareholder approvals, regulatory approvals and other customary closing conditions.

In conjunction with the purchase of approximately 6.1% of the outstanding Paris Re common shares, in July 2009, the Company issued 1.5 million of its common shares (1.3 million of which were treasury shares) for consideration of $95.5 million in addition to the deferred cash payment described above.

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 absolute limits for the risks assumed. All risks are managed by the Company within an integrated framework of policies and processes that seek to ensure the intelligent and consistent evaluation and valuation of risk, and ultimately to 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 percent and an average operating return on beginning shareholders equity of 13 percent over a reinsurance cycle.

See Executive Overview, Key Financial Measures and Other Key Issues of Management in Item 7 of Part II of the Company s 2008 Annual Report on Form 10-K.

Acquisition of Paris Re

On July 4, 2009, the Company entered into agreements to effect a multi-step acquisition of all of the outstanding common shares and warrants of PARIS RE Holdings Limited (Paris Re), a French-listed, Swiss-domiciled diversified reinsurer.

As a first step in the acquisition, the Company will cause a wholly-owned subsidiary (the Acquisition Subsidiary) to purchase (the Block Purchase) all of the Paris Re common shares and Paris Re warrants held by six private equity firms and their related investment vehicles pursuant to the terms of a purchase agreement (the Block Purchase Agreement). Under the Block Purchase Agreement, the Company will acquire approximately 57.5% of the outstanding Paris Re common shares. These shares, when added together with the approximately 6.1% of the outstanding Paris Re common shares that the Company purchased from certain other Paris Re shareholders prior to the announcement of the Paris Re acquisition and the additional approximately 19.5% of the outstanding Paris Re common shares that the Company has subsequently committed to acquire simultaneously with the closing of the Block Purchase from certain other Paris Re shareholders, will give the Company an aggregate ownership of approximately 83.1% of the outstanding Paris Re common shares following the closing of the Block Purchase.

Following the closing of the Block Purchase and subject to certain conditions, the Company will cause the Acquisition Subsidiary to commence a voluntary public exchange offer (the Exchange Offer) for all remaining outstanding Paris Re common shares and Paris Re warrants. The Exchange Offer will be commenced pursuant to the terms of a transaction agreement dated July 4, 2009 between the Company and Paris Re (the Transaction Agreement). If, after completion of the Exchange Offer, the Company and its affiliates own at least 90% of the outstanding Paris Re common shares, the Company will effect a compulsory merger (the Merger), in accordance with Swiss law to acquire all remaining outstanding Paris Re common shares. In the Merger, Paris Re will be merged into the Acquisition Subsidiary with the Acquisition Subsidiary surviving the Merger.

In each step of the acquisition, the Company has exchanged or will exchange 0.300 Company common shares for each Paris Re common share and 0.167 Company common shares for each Paris Re warrant. The per share consideration and per warrant consideration are each subject to adjustment if the parties tangible book values per share diverge significantly relative to each other prior to the closing of the Block Purchase. In addition, if the Company declares a cash dividend or other cash distribution on the Company s common shares with a record date on or after the closing of the Block Purchase and prior to the earliest date on which Paris Re shareholders have the right to receive payment for the Paris Re common shares tendered in the Exchange Offer, then the per share consideration will be appropriately adjusted upwards.

Immediately prior to the closing of the Block Purchase, Paris Re intends, subject to obtaining the requisite regulatory approvals, to effect an extraordinary cash distribution by way of a capital reduction to all Paris Re shareholders in the amount of CHF 4.17 per Paris Re common share (the Swiss franc equivalent of $3.85 as of July 7, 2009, the date on which Paris Re fixed the U.S. dollar/Swiss franc currency exchange rate to be used for the extraordinary cash distribution) (the Share Capital Repayment). To the extent that the Share Capital Repayment is not made in full immediately prior to the closing of the Block Purchase, the remaining portion will be paid (i) to the shareholders selling their Paris Re common shares and Paris Re warrants to the Company at or contemporaneously with the Block Purchase in the form of a promissory note issued by the Company at the closing of the Block Purchase and (ii) to all other holders of Paris Re common shares in the form of cash by way of a capital distribution from Paris Re immediately prior to the settlement of the Exchange Offer.

Table of Contents

The Paris Re shareholders that have previously sold their Paris Re common shares to the Company prior to the announcement of the transactions will receive a payment of $3.85 for each Paris Re common share sold at the earlier of the closing of the Block Purchase and the termination of the Transaction Agreement (net of dividends paid or payable on the Company s common shares with respect to the period after such sale and prior to the closing of the Block Purchase). This payment to these selling shareholders will be made irrespective of whether the Block Purchase closes or the Share Capital Repayment or any portion thereof is paid.

The Transaction Agreement contains certain termination rights for both the Company and Paris Re and further provides that the Company may be required to pay Paris Re a termination fee of $75 million upon termination of such agreement either because (i) the Company s board of directors withdraws, changes or modifies its recommendation with respect to the transactions contemplated by the Block Purchase Agreement and Transaction Agreement in a manner that is adverse to Paris Re or (ii) the Company s shareholders fail to approve such transactions at the Company s shareholders meeting called for such purpose.

The Block Purchase is expected to close in the fourth quarter of 2009 and the Exchange Offer and the Merger are expected to close in the first quarter of 2010. However, the exact timing of the completion of the transactions cannot be predicted because they are subject to certain shareholder approvals, regulatory approvals and other customary closing conditions.

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. 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 absolute 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 2008 Annual Report on Form 10-K for a complete description of the Company s risks, risk management framework and the related risk management strategies and controls.

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 downside 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.

The Company manages assumed risk at a strategic level through diversification, risk appetite, and absolute 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 damage 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 discount rates. For traded assets, the calculated net present values are equivalent to market values.

There are three 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, and equity and equity-like investment risk. The Company manages the risk of shock losses by setting risk appetite and limits as described above for each type of shock loss. The Company establishes limits to manage the absolute 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.

Other risks such as interest rate risk and credit risk have the ability to impact results substantially and may result in volatility of results from quarter to quarter, but Management believes that by themselves, they are unlikely to represent a material downside threat of destruction of 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.

Table of Contents

The limits at June 30, 2009 and actual exposures at June 30, 2009 and December 31, 2008 of the Company for its three major risks were as follows:

Risk	Limit at June 30, 2009	Utilized at June 30, 2009	Utilized at December 31, 2008
Catastrophe risk largest zonal limit	$ 1.6 billion	$ 1.4 billion	$ 1.4 billion
Casualty reserving risk total earned premiums for casualty and other long-tail lines for the four most recent underwriting periods	3.8 billion	2.6 billion	2.8 billion
Equity investment risk value of equity and equity-like securities	2.4 billion	1.0 billion	920 million

The risk appetite at June 30, 2009 and modeled economic loss at June 30, 2009 and December 31, 2008 for the Company s three major risks were as follows:

Risk	Risk Appetite at June 30, 2009	Modeled Economic Loss at June 30, 2009	Modeled Economic Loss at December 31, 2008
Catastrophe risk 1 in 75 year annual aggregate loss	$ 960 million	$ 870 million	$ 810 million
Casualty reserving risk casualty and other long-tail lines 1 in 15 year prior years reserve development	480 million	330 million	350 million
Equity investment risk 1 in 75 year decline in value	720 million	300 million	280 million

Critical Accounting Policies and Estimates

Critical Accounting Policies and Estimates of the Company at June 30, 2009 have not changed materially compared to December 31, 2008. 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 2008 Annual Report on Form 10-K. The following discussion updates specific information related to the Company s estimates for losses and loss expenses and life policy benefits and fair value measurements.

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.

21

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 2008 Annual Report on Form 10-K 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 reserve estimates. 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. 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 reserve estimates. Selected reserves are always within the indicated reasonable range of estimates indicated by the Company s actuaries.

During the three months and six months ended June 30, 2009 and 2008, the Company reviewed its estimate for prior year losses for each sub-segment of the Non-life segment and, in light of developing data, determined to adjust its ultimate loss ratios for prior accident years. The following table summarizes the prior year net favorable reserve development for the Company s Non-life segment for the three months and six months ended June 30, 2009 and 2008 (in millions of U.S. dollars):

	For the three months ended June 30, 2009	For the three months ended June 30, 2008	For the six months ended June 30, 2009	For the six months ended June 30, 2008
Prior year favorable loss development:				
Non-life segment				
U.S.	**$ 56**	$ 22	**$ 77**	$ 38
Global (Non-U.S.) P&C	**35**	52	**87**	110
Global (Non-U.S.) Specialty	**31**	32	**56**	65
Catastrophe	**21**	24	**23**	34
Total Non-life prior year net favorable reserve development	**$ 143**	$ 130	**$ 243**	$ 247

The net favorable reserve development on prior accident years of $143 million and $243 million recorded in the three months and six months ended June 30, 2009, respectively, resulted from a reassessment of the Company s total Non-life reserves of approximately $126 million and $216 million, respectively, of loss development assumptions used by the Company to estimate future liabilities predominantly due to favorable loss emergence, as losses reported by cedants, including treaties where the risk period expired, were lower than expected. This impact was supplemented by approximately $17 million and $27 million related to change in exposure due to downward premium adjustments in the three months and six months ended June 30, 2009, respectively.

The net favorable reserve development on prior accident years of $130 million and $247 million recorded in the three months and six months ended June 30, 2008, respectively, resulted from a reassessment of approximately $137 million and $223 million, respectively, predominantly due to favorable loss emergence and was partially offset by approximately $7 million related to change in exposure due to upward premium adjustments in the three months ended June 30, 2008 and was supplemented by approximately $24 million related to change in exposure due to downward premium adjustments in the six months ended June 30, 2008.

For a discussion of prior year net 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 2008 Annual Report on Form 10-K for additional information by reserving lines.

Case reserves are reported to the Company by its cedants, while ACRs and IBNR reserves are estimated by the Company. The following table shows the gross reserves reported by cedants (case reserves), those estimated by the Company (ACRs and IBNR reserves) and the total net loss reserves recorded as of June 30, 2009 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	Total net loss reserves recorded

U.S.	$ 730	$ 143	$ 1,873	$ 2,746	$ (29)	$ 2,717
Global (Non-U.S.) P&C	1,232	9	992	2,233	(36)	2,197
Global (Non-U.S.) Specialty	1,120	15	1,016	2,151	(61)	2,090
Catastrophe	160	107		267		267
Total Non-life	$ 3,242	$ 274	$ 3,881	$ 7,397	$ (126)	$ 7,271

Table of Contents

The net loss reserves represent the Company s best estimate of future losses and loss expense amounts based on information available as of June 30, 2009. Loss reserves are estimates involving actuarial and statistical projections at a given time that reflect the Company s expectations of the costs of the ultimate settlement and administration of claims. The estimates are continually reviewed and the ultimate liability may be in excess of, or less than, the amounts provided, for which any adjustments will be reflected in the period in which the need for an adjustment is determined.

The Company estimates its net loss reserves using single actuarial point estimates. Ranges around these actuarial point estimates are developed using stochastic simulations and techniques and provide an indication as to the degree of variability of the loss reserves. The Company interprets the ranges produced by these techniques as confidence intervals around the Company s best estimates for each Non-life sub-segment. However, due to the inherent volatility in the business written by the Company, there can be no guarantee that the final settlement of the loss reserves will fall within these ranges.

The actuarial point estimates recorded by the Company, and the range of estimates around these point estimates at June 30, 2009, were as follows for each Non-life sub-segment (in millions of U.S. dollars):

	Recorded Point Estimate	High	Low
Net Non-life sub-segment loss reserves:			
U.S.	$ 2,717	$ 2,966	$ 2,114
Global (Non-U.S.) P&C	2,197	2,334	1,920
Global (Non-U.S.) Specialty	2,090	2,195	1,824
Catastrophe	267	282	238

It is not appropriate to add together the ranges of each sub-segment in an effort to determine a high and low range around the Company s total net Non-life recorded loss reserves.

The deteriorating condition of the financial markets during 2008 continued into the first quarter of 2009. However, during the second quarter of 2009, signs of improvement in the financial markets emerged, primarily with increases in worldwide equity markets. During the second quarter the U.S. dollar reversed its course over the prior nine months and weakened against most currencies compared to March 31, 2009, risk-free rates increased and credit spreads narrowed. The fair value of the Company s investment portfolio benefited from these improved conditions in the financial markets. The Company s financial position and second quarter results of operations include an increase in the fair value of its investment portfolio, and the related increase in the level of unrealized gains on investments, which following the adoption of SFAS No. 159, The Fair Value Option for Financial Assets and Financial Liabilities Including an amendment of FASB Statement No. 115 (SFAS 159), are recorded in net income.

Based on information currently available and the range of potential estimated ultimate liabilities, the Company believes that the unpaid loss and loss expense reserves for U.S. and Global (Non-U.S.) specialty casualty, Global (Non-U.S.) credit/surety, U.S. surety and other potentially exposed classes of business contemplate a reasonable provision for exposures related to the effect of increased financial stress in the world economies. The Company is unaware of any specific issues that would materially affect its unpaid loss and loss expenses estimates related to this exposure.

Life Policy Benefits

Policy benefits for life and annuity contracts relate to the business in the Company s Life operations, which predominantly includes reinsurance of longevity, subdivided into standard and non-standard annuities, and mortality business, which includes traditional death and disability covers (with various riders), term assurance and critical illness (TCI) written in the UK and Ireland, and guaranteed minimum death benefit (GMDB) written in Continental Europe.

The Company categorizes life reserves into three types: reported outstanding loss reserves (case reserves), incurred but not reported (IBNR) reserves and reserves for future policy benefits. Such liabilities are established based on methods and underlying assumptions in accordance with U.S. GAAP and applicable actuarial standards. Principal assumptions used in the establishment of reserves for future policy benefits have been determined based upon information reported by ceding companies, supplemented by the Company s actuarial estimates of mortality, critical illness, persistency and future investment income, with appropriate provision to reflect uncertainty.

For the traditional life portfolio, case reserves, IBNR reserves and reserves for future policy benefits are mainly calculated at the treaty level. The Company updates its estimates for each of the aforementioned categories on a quarterly basis using information received from its cedants.

For the products that are covered by the long duration provisions of Financial Accounting Standards Board (FASB) Statement No. 60 Accounting and Reporting by Insurance Enterprises (SFAS 60), a reserve adequacy test is performed at least once a year based on

Table of Contents

the latest best estimate assumptions by line of business, including an experience analysis and a review of likely future experience. If such review produces reserves in excess of those currently held, then the locked-in assumptions will be revised and a loss recognized.

See Critical Accounting Policies and Estimates Losses and Loss Expenses and Life Policy Benefits Life Policy Benefits in Item 7 of Part II of the Company s 2008 Annual Report on Form 10-K for additional information on the reserving methodologies employed by the Company for its longevity and mortality lines.

The Life segment reported net favorable development on prior accident years of $4 million during the three months ended June 30, 2009 and net adverse development of $3 million during the six months ended June 30, 2009, primarily due to certain GMDB treaties where the payout is linked to the performance of the underlying capital markets. For the three months ended June 30, 2008, the Life segment reported net favorable development on prior accident years of less than $1 million and net adverse development on prior accident years of $5 million for the six months ended June 30, 2008, primarily due to certain GMDB treaties. See Results by Segment below.

The Company may be exposed to claims in its life portfolio that may be significantly higher than expected as a result of spikes in mortality due to causes such as a swine flu pandemic. However, the composition of the Company s mortality and longevity business, as well as retrocessional protection, serve to partially mitigate the impact of such exposures to the Company.

Fair Value Measurements

The Company adopted FASB Statement No. 157, Fair Value Measurements (SFAS 157) on January 1, 2008. Fair value is the price received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. The Company measures the fair value of its financial instruments according to a fair value hierarchy that prioritizes the information used to measure fair value into three broad levels based on the reliability of inputs.

Under the SFAS 157 hierarchy, Management uses certain assumptions and judgments to derive the fair value of its investments, particularly for those assets with significant unobservable inputs, commonly referred to as Level 3 assets. The Company s Level 3 assets totaled $112.1 million and $95.7 million at June 30, 2009 and December 31, 2008, respectively. During the three months ended June 30, 2009, the Company transferred out of Level 3 approximately $65 million of fixed maturities related to a single issuer which was classified as a Level 2 asset at December 31, 2008 and June 30, 2009 and valued using a broker quote based on current market activity. However, these fixed maturities were classified as Level 3 assets at March 31, 2009 and valued using an internal model due to a lack of market activity at that time. For additional information, see Note 4 to Condensed Consolidated Financial Statements included in Item 1 of Part I of this report.

For additional information on the valuation techniques, methods and assumptions that were used by the Company to estimate the fair value of its fixed maturities, short-term investments, equities and other invested assets, see Note 3 to Consolidated Financial Statements included in Item 8 of Part II of the Company s 2008 Annual Report on Form 10-K. For additional information on the Company s use of derivative financial instruments, see Note 7 to Condensed Consolidated Financial Statements included in Item 1 of Part I of this report.

Results of Operations for the Three Months and Six Months Ended June 30, 2009 and 2008

The following discussion of Results of Operations contains forward-looking statements based upon assumptions and expectations concerning the potential effect of future events that are subject to uncertainties. See Item 1A of Part 1 of the Company s 2008 Annual Report on Form 10-K and Item 1A of Part II of this report for a review of important risk factors. Any of these risk factors could cause actual results to differ materially from those reflected in such forward-looking statements.

The Company s reporting currency is the U.S. dollar. The Company s subsidiaries and branches have one of the following functional currencies: U.S. dollar, euro or Canadian dollar. As a significant portion of the Company s operations is transacted in foreign currencies, fluctuations in foreign exchange rates may affect period-to-period comparisons. To the extent that fluctuations in foreign exchange rates affect comparisons, their impact has been quantified, when possible, and discussed in each of the relevant sections. See Note 2(j) to Consolidated Financial Statements in the Company s 2008 Annual Report on Form 10-K for a discussion of translation of foreign currencies.

The foreign exchange fluctuations for the principal currencies in which the Company transacts business were as follows:

the U.S. dollar average exchange rate was stronger against most currencies, except the Japanese yen, in the three months and six months ended June 30, 2009 compared to the same periods in 2008; and

the U.S. dollar ending exchange rate strengthened against most currencies, except the British pound and the Canadian dollar, at June 30, 2009 compared to December 31, 2008.

Table of Contents

Overview

The Company measures its performance in several ways. Among the performance measures accepted under U.S. GAAP is diluted net income (loss) per share, a measure that focuses on the return provided to the Company s common shareholders. Diluted net income (loss) per share is obtained by dividing net income (loss) available to common shareholders by the weighted average number of common and common share equivalents outstanding. Net income (loss) available to common shareholders is defined as net income (loss) less preferred dividends. As the effect of dilutive securities would have been anti-dilutive due to the Company s reported net loss for the three months ended June 30, 2008, the fully diluted per share figure was calculated using the basic weighted average number of common shares outstanding for that period.

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.

The deteriorating condition of the financial markets during 2008 continued into the first quarter of 2009. However, during the second quarter of 2009, signs of improvement in the financial markets emerged, primarily with increases in worldwide equity markets. During the second quarter, the U.S. dollar reversed its course over the prior nine months and weakened against most currencies compared to March 31, 2009, risk-free rates increased and credit spreads narrowed. The fair value of the Company s investment portfolio benefited from these improved conditions in the financial markets. The Company s financial position and second quarter results of operations include an increase in the fair value of its investment portfolio, and the related increase in the level of unrealized gains on investments, which following the adoption of SFAS No. 159, The Fair Value Option for Financial Assets and Financial Liabilities Including an amendment of FASB Statement No. 115 (SFAS 159), are recorded in net income.

The impacts of the global financial and economic crisis are wide-ranging and have also affected the Company s reinsurance operations. Accordingly, the Company has continued to review its loss estimates and has modestly increased its reserves during the three and the six months ended June 30, 2009 in certain lines of business for the 2006, 2007 and 2008 underwriting years, where increased claims are anticipated, given deteriorated economic and credit conditions. The Company s loss reserves related to the impacted lines of business represent Management s best estimate of the cost to settle the ultimate liabilities related to these events based on information available at June 30, 2009.

These factors are discussed below in Review of Net Income (Loss) and Financial Condition, Liquidity and Capital Resources. These events and continuing disruptions, uncertainty or volatility in the capital or credit markets may continue to affect our results of operations and financial condition in the future.

Net income (loss), preferred dividends, net income (loss) available to common shareholders and diluted net income (loss) per share for the three months and six months ended June 30, 2009 and 2008 were as follows (in millions of U.S. dollars, except per share data):

	For the three months ended June 30, 2009	**% Change 2009 over 2008**	**For the three months ended June 30, 2008**	**For the six months ended June 30, 2009**	**% Change 2009 over 2008**	**For the six months ended June 30, 2008**
Net income (loss)	**$ 474**	**NM**	$ (26)	**$ 616**	**498%**	$ 103
Less: preferred dividends	**9**		9	**17**		17
Net income (loss) available to common shareholders	**$ 465**	**NM**	$ (35)	**$ 599**	**598**	$ 86
Diluted net income (loss) per share	**$ 8.10**	**NM**	$ (0.64)	**$ 10.43**	**577**	$ 1.54

NM: not meaningful

Three-month result

The increase in net income (loss), net income (loss) available to common shareholders and diluted net income (loss) per share for the three months ended June 30, 2009 compared to 2008 resulted primarily from realized and unrealized investment gains and was partially offset by an increase in related income tax expense. These items are discussed in the Review of Net Income (Loss) below.

Table of Contents

Six-month result

The increase in net income, net income available to common shareholders and diluted net income per share for the six months ended June 30, 2009 compared to 2008 resulted primarily from net realized and unrealized investment gains, net realized gain on purchase of capital efficient notes, an increase in Non-life underwriting result and lower interest expense, and was partially offset by an increase in income tax expense. These items are discussed in the Review of Net Income (Loss) below.

Review of Net Income (Loss)

Management analyzes the Company s net income (loss) in three parts: underwriting result, investment result and other components of net income (loss). Underwriting result consists of net premiums earned and other income or loss less losses and loss expenses and life policy benefits, acquisition costs and other operating expenses. Net investment income includes interest and dividends, net of investment expenses, generated by the Company s investment activities, as well as interest income generated on funds held. Net realized and unrealized investment gains and losses include sales of the Company s fixed income, equity and other invested assets and changes in net unrealized gains and losses. Interest in earnings or losses of equity investments includes the Company s strategic investments. Other components of net income (loss) consist of net realized gain on purchase of capital efficient notes, technical result and other income, other operating expenses, interest expense, net foreign exchange gains and losses and income tax expense or benefit.

The components of net income (loss) for the three months and six months ended June 30, 2009 and 2008 were as follows (in millions of U.S. dollars):

	For the three months ended June 30, 2009	% Change 2009 over 2008	For the three months ended June 30, 2008	For the six months ended June 30, 2009	% Change 2009 over 2008	For the six months ended June 30, 2008
Underwriting result:						
Non-life	**$ 117**	**1%**	$ 115	**$ 213**	**22%**	$ 175
Life		**NM**	(11)	**(10)**	**(57)**	(22)
Investment result:						
Net investment income	**136**	**(7)**	145	**269**	**(5)**	282
Net realized and unrealized investment gains (losses)	**307**	**NM**	(296)	**236**	**NM**	(271)
Interest in earnings (losses) of equity investments	**6**	**NM**	(2)		**NM**	(1)
Corporate and Other:						
Net realized gain on purchase of capital efficient notes				**89**	**NM**	
Technical result	**3**	**114**	2	**4**	**26**	4
Other income	**2**	**(33)**	3	**4**	**9**	3
Other operating expenses	**(32)**	**46**	(22)	**(52)**	**9**	(48)
Interest expense	**(6)**	**(58)**	(15)	**(15)**	**(42)**	(27)
Net foreign exchange (losses) gains	**(2)**	**NM**	2	**(5)**	**41**	(3)
Income tax (expense) benefit	**(57)**	**NM**	53	**(117)**	**NM**	11
Net income (loss)	**$ 474**	**NM**	$ (26)	**$ 616**	**498**	$ 103

NM: not meaningful

Table of Contents

Underwriting result is a key measurement that the Company uses to manage and evaluate its Non-life and Life segments, as it is a primary measure of underlying profitability for the Company s core reinsurance operations, separate from the investment results. The Company believes that in order to enhance the understanding of its profitability, it is useful for investors to evaluate the components of net income (loss) separately and in the aggregate. Underwriting result should not be considered a substitute for net income (loss) and does not reflect the overall profitability of the business, which is also impacted by investment results and other items.

Three-month result

The underwriting result for the Non-life segment increased by $2 million, from $115 million in the three months ended June 30, 2008 to $117 million in 2009. The increase was principally attributable to:

- an increase of $13 million in net favorable development on prior accident years, from $130 million in the three months ended June 30, 2008 to $143 million in 2009. The components of the net favorable loss development are described in more detail in the discussion of individual sub-segments in Results by Segment below; and

- an increase of approximately $11 million resulting primarily from a lower frequency of mid-sized losses in 2009 and normal fluctuations in profitability between periods and between lines of business as the Company redistributed its premiums to changing market conditions; partially offset by

- a decrease of $22 million in net favorable prior quarter development.

Underwriting result for the Life segment increased by $11 million from a loss of $11 million in the three months ended June 30, 2008 to a breakeven position in the same period of 2009. This increase was due to an improvement in the technical result, which was driven by an increase in profitability of the mortality line, primarily as a result of favorable development in the GMDB line due to improved capital market conditions. See Results by Segment below.

The Company reported net investment income of $136 million in the three months ended June 30, 2009 compared to $145 million in 2008. The 7% decrease in net investment income is primarily attributable to foreign exchange fluctuations, which contributed 7% of the decrease as a result of stronger average U.S. dollar foreign exchange rates in the three months ended June 30, 2009 compared to the same period in 2008. The decrease was also impacted by (a) lower dividends received on equity securities due to a reduction in the level of equity exposures held, (b) the sale of the Company s bank loan portfolio, which yielded a high interest rate (c) cash outflows from the investment portfolio during the three months ended March 31, 2009 related to the repayment of the Company s debt and purchase of the Company s CENts during the first quarter of 2009 and (d) lower reinvestment interest rates in the three months ended June 30, 2009 compared to the same period of 2008. Partially offsetting these declines were increases in net investment income from fixed maturities due to the reinvestment of cash flows from operations and from a reallocation to fixed maturities as the Company reduced its equity exposures during the three months ended June 30, 2009 compared to the same period in 2008, as well as an increase from the purchase of higher yielding investments.

Net realized and unrealized investment gains increased by $603 million, from a loss of $296 million in the three months ended June 30, 2008 to a gain of $307 million in the same period of 2009. This increase in net realized and unrealized investment gains in 2009 was mainly due to the narrowing of credit spreads and increases in worldwide equity markets and was partially offset by increases in risk-free interest rates. Net realized and unrealized investment gains of $307 million in the three months ended June 30, 2009 were primarily due to the change in net unrealized gains on fixed maturities of $187 million, change in net unrealized gains on equities of $121 million, change in net unrealized gains on other invested assets of $38 million, net realized gains on other invested assets of $16 million and net realized gains on fixed maturities and short-term investments of $8 million, which were partially offset by net realized losses on equities of $62 million. See Corporate and Other Net Realized and Unrealized Investment Gains (Losses) below for more details on the net realized and unrealized investment activity.

Interest in the results of equity investments increased from a loss of $2 million in the three months ended June 30, 2008 to a gain of $6 million in the same period of 2009. See Corporate and Other Interest in Earnings (Losses) of Equity Investments below for more details.

Other operating expenses included in Corporate and Other increased by $10 million from $22 million in the three months ended June 30, 2008 to $32 million in the same period of 2009. The increase was primarily due to consulting and professional fees incurred related to the acquisition of Paris Re.

Interest expense decreased by $9 million in the three months ended June 30, 2009 compared to the same period in 2008 mainly due to the repayment of $200 million of the Company s $400 million floating-rate long-term debt and the purchase of approximately 75% of the Company s CENts during the first quarter of 2009.

Net foreign exchange gains and losses decreased from a gain of $2 million in the three months ended June 30, 2008 to a loss of $2 million in the same period of 2009. The decrease in net foreign exchange during the three months ended June 30, 2009 was primarily due to higher foreign exchange losses on foreign currency exchange hedges on the investment portfolio, partially offset by gains

Table of Contents

related to currency movements on unhedged equity securities. The Company hedges a significant portion of its currency risk exposure as discussed in Quantitative and Qualitative Disclosures about Market Risk in Item 3 of Part I of this report.

Income tax expense was $57 million for the three months ended June 30, 2009 compared to income tax benefit of $53 million for the prior year period. The increase in the income tax expense was primarily due to higher pre-tax income, partially reduced by the geographic (or tax jurisdiction) distribution of the net realized and unrealized gains on investments, with the Company s taxable entities generating relatively lower net realized and unrealized gains on investments.

Six-month result

The underwriting result for the Non-life segment increased by $38 million, from $175 million in the six months ended June 30, 2008 to $213 million in 2009. The increase was principally attributable to:

- an increase of approximately $42 million resulting primarily from a lower frequency of mid-sized losses in 2009 and normal fluctuations in profitability between periods and between lines of business as the Company redistributed its premiums to changing market conditions; partially offset by

- a decrease of $4 million in net favorable development on prior accident years, from $247 million in the six months ended June 30, 2008 to $243 million in 2009. The components of the net favorable loss development are described in more detail in the discussion of individual sub-segments in Results by Segment below.

Underwriting result for the Life segment increased by $12 million from a loss of $22 million in the six months ended June 30, 2008 to a loss of $10 million in the same period of 2009. This increase was due to an improvement in the technical result, which was driven by an increase in profitability of the mortality line, primarily as a result of favorable development in the GMDB line due to improved capital market conditions. See Results by Segment below.

The Company reported net investment income of $269 million in the six months ended June 30, 2009 compared to $282 million in 2008. The 5% decrease in net investment income is primarily attributable to foreign exchange fluctuations, which contributed 6% of the decrease as a result of stronger average U.S. dollar foreign exchange rates in the six months ended June 30, 2009 compared to the same period in 2008. The decrease was also impacted by (a) lower dividends received on equity securities due to a reduction in the level of equity exposures held, (b) the sale of the Company s bank loan portfolio, which yielded a high interest rate, (c) cash outflows from the investment portfolio during the three months ended March 31, 2009 related to the repayment of the Company s debt and purchase of the Company s CENts during the first quarter of 2009, and (d) lower reinvestment interest rates in the six months ended June 30, 2009 compared to the same period of 2008. Offsetting these declines were net investment income on operating cash flow added to the investment portfolio and the purchase of higher yielding investments.

Net realized and unrealized investment gains increased by $507 million, from a loss of $271 million in the six months ended June 30, 2008 to a gain of $236 million in the same period of 2009. The increase in net realized and unrealized investment gains in 2009 was mainly due to the narrowing of credit spreads and increases in worldwide equity markets. Net realized and unrealized investment gains of $236 million in the six months ended June 30, 2009 were primarily due to the change in net unrealized gains on fixed maturities and short-term investments of $138 million, change in net unrealized gains on equities of $125 million, net realized gains on other invested assets of $32 million, net realized gains on fixed maturities and short-term investments of $28 million, and change in net unrealized gains on other invested assets of $18 million, which were partially offset by net realized losses on equities of $103 million. See Corporate and Other Net Realized and Unrealized Investment Gains (Losses) below for more details on the net realized and unrealized investment activity.

Net realized gain on purchase of capital efficient notes (CENts) was $89 million in the six months ended June 30, 2009, as the Company purchased $187 million of the CENts for $93 million, which after deferred issuance costs and fees produced a gain of $89 million.

Other operating expenses included in Corporate and Other increased by $4 million from $48 million in the six months ended June 30, 2008 to $52 million in the same period of 2009. The increase was primarily due to consulting and professional fees incurred related to the acquisition of Paris Re, which were partially offset by lower stock based compensation and the impact of foreign exchange.

Interest expense decreased by $12 million in the six months ended June 30, 2009 compared to the same period in 2008 mainly due to the repayment of $200 million of the Company s $400 million floating-rate long-term debt and the purchase of approximately 75% of the Company s CENts in 2009.

Net foreign exchange losses increased from a loss of $3 million in the six months ended June 30, 2008 to a loss of $5 million in the six months ended June 30, 2009. The increase in net foreign exchange losses during the six months ended June 30, 2009 was primarily due to the impact of realized losses on the foreign currency hedges on the investment portfolio partially offset by gains arising from the income statement revaluation. The Company hedges a significant portion of its currency risk exposure as discussed in Quantitative and Qualitative Disclosures about Market Risk in Item 3 of Part I of this report.

Table of Contents

Income tax expense was $117 million for the six months ended June 30, 2009, compared to an income tax benefit of $11 million for the same period in 2008. The increase in the income tax expense was primarily due to higher pre-tax income, including tax on the net realized gain on purchase of CENts of $31 million. The increase in the income tax expense was partially reduced by the geographic (or tax jurisdiction) distribution of the net realized and unrealized gains on investments, with the Company s taxable entities generating relatively lower net realized and unrealized gains on investments. In 2008, the Company incurred a $46 million tax charge related to its European reorganization.

Results by Segment

The Company monitors the performance of its operations in three segments: Non-life, Life and Corporate & Other. The Non-life segment is further divided into four sub-segments, U.S., Global (Non-U.S.) Property and Casualty (Global (Non-U.S.) P&C), Global (Non-U.S.) Specialty, and Catastrophe. See Note 19 to the Consolidated Financial Statements included in the Company s 2008 Annual Report on Form 10-K for additional information concerning the Company s segments and sub-segments.

Segment results are shown net of intercompany transactions. Business reported in the Global (Non-U.S.) P&C and Global (Non-U.S.) Specialty sub-segments and the Life segment is, to a significant extent, denominated in foreign currencies and is reported in U.S. dollars at the average foreign exchange rates for each period. The U.S. dollar has fluctuated against the euro and other currencies in the three months and six months ended June 30, 2009 compared to the same period in 2008, and this should be considered when making period-to-period comparisons.

Non-life Segment

U.S.

The U.S. sub-segment includes the U.S. casualty line, which represented approximately 39% and 42% of net premiums written in this sub-segment in the second quarter and first six months of 2009, respectively. This line typically tends to have a higher loss ratio and a lower technical result due to the long-tail nature of the risks involved. Casualty treaties typically provide for investment income on premiums invested over a longer period as losses are typically paid later than for other lines. Investment income, however, is not considered in the calculation of the technical result.

The following table provides the components of the technical result and the corresponding ratios for this sub-segment for the three months and six months ended June 30, 2009 and 2008 (in millions of U.S. dollars):

	For the three months ended June 30, 2009	% Change 2009 over 2008	For the three months ended June 30, 2008	For the six months ended June 30, 2009	% Change 2009 over 2008	For the six months ended June 30, 2008
Gross premiums written	**$ 248**	**(2)%**	$ 254	**$ 561**	**(4)%**	$ 586
Net premiums written	**249**	**1**	246	**561**	**(3)**	578
Net premiums earned	**$ 258**	**(9)**	$ 285	**$ 500**	**(9)**	$ 551
Losses and loss expenses	**(164)**	**(27)**	(227)	**(326)**	**(18)**	(398)
Acquisition costs	**(63)**	**(3)**	(64)	**(126)**	**(4)**	(131)
Technical result(1)	**$ 31**	**NM**	$ (6)	**$ 48**	**110**	$ 22
Loss ratio(2)	**63.7%**		79.6%	**65.2%**		72.2%
Acquisition ratio(3)	**24.2**		22.7	**25.2**		