PARTNERRE LTD
Form 10-Q
August 02, 2012
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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, 2012

OR

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

For the transition period from to .

Commission file number 1-14536

PartnerRe Ltd.

(Exact name of registrant as specified in its charter)

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

90 Pitts Bay Road, Pembroke, HM08, Bermuda

(Address of principal executive offices) (Zip Code)

(441) 292-0888

(Registrant s telephone number, including area code)

Not Applicable

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

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

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

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

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

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

The number of the registrant s common shares (par value $1.00 per share) outstanding, net of treasury shares, as of July 30, 2012 was 62,192,989.

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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, 2012, and the related condensed consolidated statements of operations and comprehensive income (loss) for the three-month and six-month periods ended June 30, 2012 and 2011, and of shareholders equity, and of cash flows for the six-month periods ended June 30, 2012 and 2011. 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, 2011 and the related consolidated statements of operations and comprehensive (loss) income, shareholders equity, and of cash flows for the year then ended (not presented herein); and in our report dated February 24, 2012, 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, 2011 is fairly stated, in all material respects, in relation to the consolidated balance sheet from which it has been derived.

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

August 2, 2012

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PartnerRe Ltd.

Unaudited Condensed Consolidated Balance Sheets

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

	June 30, 2012	December 31, 2011
Assets		
Investments:		
Fixed maturities, trading securities, at fair value (amortized cost: 2012, $12,994,604; 2011, $13,394,404)	**$ 13,619,948**	$ 13,941,829
Short-term investments, trading securities, at fair value (amortized cost: 2012, $31,943; 2011, $42,563)	**31,984**	42,571
Equities, trading securities, at fair value (cost: 2012, $1,005,118; 2011, $917,613)	**1,050,017**	944,691
Other invested assets	**329,996**	358,154
Total investments	**15,031,945**	15,287,245
Funds held directly managed (cost: 2012, $1,197,479; 2011, $1,241,222)	**1,233,008**	1,268,010
Cash and cash equivalents, at fair value, which approximates amortized cost	**1,512,418**	1,342,257
Accrued investment income	**160,392**	189,074
Reinsurance balances receivable	**2,358,432**	2,059,976
Reinsurance recoverable on paid and unpaid losses	**434,083**	397,788
Funds held by reinsured companies	**783,311**	796,290
Deferred acquisition costs	**620,277**	547,202
Deposit assets	**256,607**	241,513
Net tax assets	**37,711**	66,574
Goodwill	**455,533**	455,533
Intangible assets	**116,081**	133,867
Other assets	**72,165**	70,044
Total assets	**$ 23,071,963**	$ 22,855,373
Liabilities		
Unpaid losses and loss expenses	**$ 10,661,012**	$ 11,273,091
Policy benefits for life and annuity contracts	**1,635,547**	1,645,662
Unearned premiums	**2,008,384**	1,448,841
Other reinsurance balances payable	**496,020**	443,873
Deposit liabilities	**256,773**	249,382
Net tax liabilities	**309,630**	297,153
Accounts payable, accrued expenses and other	**186,015**	208,840
Debt related to senior notes	**750,000**	750,000
Debt related to capital efficient notes	**70,989**	70,989
Total liabilities	**16,374,370**	16,387,831
Shareholders Equity		
Common shares (par value $1.00; issued: 2012, 85,141,999 shares; 2011, 84,766,693 shares)	**85,142**	84,767
Preferred shares (par value $1.00; issued and outstanding: 2012 and 2011, 35,750,000 shares; aggregate liquidation value: 2012 and 2011, $893,750)	**35,750**	35,750
Additional paid-in capital	**3,831,921**	3,803,796
Accumulated other comprehensive loss:		
Currency translation adjustment	**2,317**	4,267
Other accumulated comprehensive loss (net of tax of: 2012, $6,449; 2011, $6,590)	**(16,967)**	(16,911)
Retained earnings	**4,460,655**	4,035,103
Common shares held in treasury, at cost (2012, 22,584,510 shares; 2011, 19,444,365 shares)	**(1,701,225)**	(1,479,230)

Total shareholders equity	**6,697,593**	6,467,542
Total liabilities and shareholders equity	**$ 23,071,963**	$ 22,855,373

See accompanying Notes to Unaudited Condensed Consolidated Financial Statements.

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PartnerRe Ltd.

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

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

	For the three months ended June 30, 2012	For the three months ended June 30, 2011	For the six months ended June 30, 2012	For the six months ended June 30, 2011
Revenues				
Gross premiums written	**$ 1,163,243**	$ 1,082,205	**$ 2,730,726**	$ 2,639,766
Net premiums written	**$ 1,136,046**	$ 1,056,467	**$ 2,609,331**	$ 2,526,887
(Increase) decrease in unearned premiums	**(45,168)**	50,978	**(528,623)**	(354,853)
Net premiums earned	**1,090,878**	1,107,445	**2,080,708**	2,172,034
Net investment income	**153,506**	158,328	**300,402**	309,962
Net realized and unrealized investment gains (losses)	**38,132**	78,199	**230,867**	(34,000)
Other income	**2,654**	1,596	**5,400**	3,408
Total revenues	**1,285,170**	1,345,568	**2,617,377**	2,451,404
Expenses				
Losses and loss expenses and life policy benefits	**706,137**	814,523	**1,282,623**	2,421,740
Acquisition costs	**232,723**	229,251	**444,330**	437,100
Other operating expenses	**106,184**	113,694	**204,358**	217,991
Interest expense	**12,223**	12,214	**24,443**	24,514
Amortization of intangible assets	**8,893**	9,165	**17,786**	17,992
Net foreign exchange gains	**(7,770)**	(8,737)	**(5,181)**	(9,433)
Total expenses	**1,058,390**	1,170,110	**1,968,359**	3,109,904
Income (loss) before taxes and interest in (losses) earnings of equity investments	**226,780**	175,458	**649,018**	(658,500)
Income tax expense	**50,136**	50,085	**117,310**	23,828
Interest in (losses) earnings of equity investments	**(498)**	(1,188)	**4,579**	(443)
Net income (loss)	**176,146**	124,185	**536,287**	(682,771)
Preferred dividends	**15,405**	8,631	**30,811**	17,263
Net income (loss) available to common shareholders	**$ 160,741**	$ 115,554	**$ 505,476**	$ (700,034)
Comprehensive income (loss)				
Net income (loss)	**$ 176,146**	$ 124,185	**$ 536,287**	$ (682,771)
Change in currency translation adjustment	**(19,157)**	6,303	**(1,950)**	44,084
Change in other accumulated comprehensive income (loss), net of tax	**1,055**	(1,920)	**(56)**	(2,155)
Comprehensive income (loss)	**$ 158,044**	$ 128,568	**$ 534,281**	$ (640,842)
Per share data				
Net income (loss) per common share:				

Basic net income (loss)	**$ 2.52**	$ 1.71	**$ 7.82**	$ (10.32)
Diluted net income (loss)	**$ 2.50**	$ 1.69	**$ 7.76**	$ (10.32)
Weighted average number of common shares outstanding	**63,816,027**	67,628,052	**64,610,127**	67,811,366
Weighted average number of common shares and common share equivalents outstanding	**64,423,036**	68,442,300	**65,132,928**	67,811,366
Dividends declared per common share	**$ 0.62**	$ 0.60	**$ 1.24**	$ 1.15

See accompanying Notes to Unaudited Condensed Consolidated Financial Statements.

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PartnerRe Ltd.

Unaudited Condensed Consolidated Statements of Shareholders Equity

(Expressed in thousands of U.S. dollars)

	For the six months ended June 30, 2012	For the six months ended June 30, 2011
Common shares		
Balance at beginning of period	**$ 84,767**	$ 84,033
Issuance of common shares	**375**	536
Balance at end of period	**85,142**	84,569
Preferred shares		
Balance at beginning of period	**35,750**	20,800
Issuance of preferred shares		14,950
Balance at end of period	**35,750**	35,750
Additional paid-in capital		
Balance at beginning of period	**3,803,796**	3,419,864
Issuance of common shares	**28,125**	25,421
Issuance of preferred shares		346,772
Balance at end of period	**3,831,921**	3,792,057
Accumulated other comprehensive (loss) income		
Balance at beginning of period	**(12,644)**	4,056
Change in currency translation adjustment	**(1,950)**	44,084
Change in other accumulated comprehensive loss	**(56)**	(2,155)
Balance at end of period	**(14,650)**	45,985
Retained earnings		
Balance at beginning of period	**4,035,103**	4,761,178
Net income (loss)	**536,287**	(682,771)
Dividends on common shares	**(79,924)**	(77,746)
Dividends on preferred shares	**(30,811)**	(17,263)
Balance at end of period	**4,460,655**	3,983,398
Common shares held in treasury		
Balance at beginning of period	**(1,479,230)**	(1,083,012)
Repurchase of common shares	**(221,995)**	(226,703)
Balance at end of period	**(1,701,225)**	(1,309,715)
Total shareholders equity	**$ 6,697,593**	$ 6,632,044

See accompanying Notes to Unaudited Condensed Consolidated Financial Statements.

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PartnerRe Ltd.

Unaudited Condensed Consolidated Statements of Cash Flows

(Expressed in thousands of U.S. dollars)

	For the six months ended June 30, 2012	For the six months ended June 30, 2011
Cash flows from operating activities		
Net income (loss)	**$ 536,287**	$ (682,771)
Adjustments to reconcile net income (loss) to net cash provided by operating activities:		
Amortization of net premium on investments	**64,054**	37,494
Amortization of intangible assets	**17,786**	17,992
Net realized and unrealized investment (gains) losses	**(230,867)**	34,000
Changes in:		
Reinsurance balances, net	**(281,652)**	(361,501)
Reinsurance recoverable on paid and unpaid losses, net of ceded premiums payable	**33,925**	11,481
Funds held by reinsured companies and funds held directly managed	**36,609**	552,361
Deferred acquisition costs	**(81,990)**	(31,484)
Net tax assets and liabilities	**50,431**	(32,493)
Unpaid losses and loss expenses including life policy benefits	**(494,083)**	853,057
Unearned premiums	**528,623**	354,853
Other net changes in operating assets and liabilities	**3,445**	(10,651)
Net cash provided by operating activities	**182,568**	742,338
Cash flows from investing activities		
Sales of fixed maturities	**3,624,663**	2,713,137
Redemptions of fixed maturities	**512,544**	801,285
Purchases of fixed maturities	**(3,797,073)**	(4,766,381)
Sales and redemptions of short-term investments	**52,804**	76,061
Purchases of short-term investments	**(42,046)**	(240,207)
Sales of equities	**428,226**	457,170
Purchases of equities	**(471,158)**	(330,323)
Other, net	**16,116**	(17,820)
Net cash provided by (used in) investing activities	**324,076**	(1,307,078)
Cash flows from financing activities		
Cash dividends paid to shareholders	**(110,735)**	(95,009)
Net proceeds from issuance of preferred shares		361,722
Repurchase of common shares	**(221,995)**	(244,222)
Issuance of common shares	**16,036**	13,125
Net cash (used in) provided by financing activities	**(316,694)**	35,616
Effect of foreign exchange rate changes on cash	**(19,789)**	24,882
Increase (decrease) in cash and cash equivalents	**170,161**	(504,242)
Cash and cash equivalents beginning of period	**1,342,257**	2,111,084
Cash and cash equivalents end of period	**$ 1,512,418**	$ 1,606,842

Supplemental cash flow information:				
Taxes paid	**$**	**77,278**	$	103,965
Interest paid	**$**	**24,630**	$	24,630

See accompanying Notes to Unaudited Condensed Consolidated Financial Statements.

PartnerRe Ltd.

Notes to Unaudited Condensed Consolidated Financial Statements

1. Organization

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

2. Significant Accounting Policies

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

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

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

In the opinion of Management, all adjustments (which include normal recurring adjustments) necessary for a fair presentation of results for the interim periods have been made. As the Company s reinsurance operations are exposed to low-frequency, high-severity risk events, some of which are seasonal, results for certain interim periods may include unusually low loss experience, while results for other interim periods may include significant catastrophic losses. Consequently, the Company s results for interim periods are not necessarily indicative of results for the full year. These Unaudited Condensed Consolidated Financial Statements should be read in conjunction with the Consolidated Financial Statements and notes thereto included in the Company s Annual Report on Form 10-K/A for the year ended December 31, 2011.

3. New Accounting Pronouncements

In July 2012, the Financial Accounting Standards Board issued new accounting guidance, which amends the existing guidance, related to impairment testing of indefinite-lived intangible assets. The amendments allow the option of performing a qualitative impairment assessment before calculating the fair value of the intangible assets, which could, depending on the results of the assessment, eliminate the need for further impairment testing. The guidance is effective for interim and annual periods beginning after September 15, 2012 with early adoption permitted. The Company does not expect the adoption of this guidance to have an impact on its consolidated shareholders equity or net income.

4. Fair Value

(a) Fair Value of Financial Instrument Assets

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

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

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

Level 2 inputs Quoted prices in active markets for similar assets or liabilities, quoted prices for identical or similar assets or liabilities in inactive markets and significant directly or indirectly observable inputs, other than quoted prices, used in industry accepted models.

The Company s financial instruments that it measures at fair value using Level 2 inputs generally include: U.S. Government issued bonds; U.S. Government sponsored enterprises bonds; U.S. state, territory and municipal entities bonds; Non-U.S. sovereign government, supranational and government related bonds consisting primarily of bonds issued by non-U.S. national governments and their agencies, non-U.S. regional governments and supranational organizations; investment grade and high yield corporate bonds; catastrophe bonds; mortality bonds; asset-backed securities; mortgage-backed securities; certain equities traded on foreign exchanges; certain fixed income mutual funds; foreign exchange forward contracts; over-the-counter derivatives such as foreign currency option contracts, non-exchange traded futures, credit default swaps, total return swaps, interest rate swaps and to-be-announced mortgage-backed securities (TBAs).

Level 3 inputs Unobservable inputs.

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

The Company s financial instruments measured at fair value include investments classified as trading securities, certain other invested assets and the segregated investment portfolio underlying the funds held directly managed account. At June 30, 2012 and December 31, 2011, the Company s financial instruments measured at fair value were classified between Levels 1, 2 and 3 as follows (in thousands of U.S. dollars):

June 30, 2012	Quoted prices in active markets for identical assets (Level 1)	Significant other observable inputs (Level 2)	Significant unobservable inputs (Level 3)	Total
Fixed maturities				
U.S. government and government sponsored enterprises	$	$ 944,080	$	$ 944,080
U.S. states, territories and municipalities		10,235	117,235	127,470
Non-U.S. sovereign government, supranational and government related		2,650,832		2,650,832
Corporate		5,701,490	111,070	5,812,560
Asset-backed securities		382,618	290,371	672,989
Residential mortgage-backed securities		3,337,721		3,337,721
Other mortgage-backed securities		74,296		74,296
Fixed maturities	$	$ 13,101,272	$ 518,676	$ 13,619,948
Short-term investments	$	$ 31,984	$	$ 31,984
Equities				
Consumer noncyclical	$ 130,545	$	$	$ 130,545
Finance	78,442		19,422	97,864
Technology	79,379		7,192	86,571
Energy	76,620			76,620
Communications	62,599			62,599
Insurance	61,521			61,521
Industrials	59,565			59,565
Consumer cyclical	54,851			54,851
Other	82,687			82,687
Mutual funds and exchange traded funds	85,473	244,961	6,760	337,194
Equities	$ 771,682	$ 244,961	$ 33,374	$ 1,050,017
Other invested assets				
Derivative assets				
Foreign exchange forward contracts	$	$ 2,483	$	$ 2,483
Foreign currency option contracts		182		182
Futures contracts	71	1,748		1,819
Credit default swaps (protection purchased)		22		22
Credit default swaps (assumed risks)		324		324
Insurance-linked securities			261	261
Total return swaps			7,115	7,115
TBAs		674		674
Other assets			72,529	72,529
Derivative liabilities				
Foreign exchange forward contracts		(5,683)		(5,683)
Foreign currency option contracts		(2,021)		(2,021)
Futures contracts	(8,149)			(8,149)
Credit default swaps (protection purchased)		(1,142)		(1,142)
Credit default swaps (assumed risks)		(79)		(79)
Insurance-linked securities			(5,423)	(5,423)
Total return swaps			(746)	(746)

Interest rate swaps		(8,194)		(8,194)
Other invested assets	$ (8,078)	$ (11,686)	$ 73,736	$ 53,972
Funds held directly managed				
U.S. government and government sponsored enterprises	$	$ 367,515	$	$ 367,515
U.S. states, territories and municipalities			321	321
Non-U.S. sovereign government, supranational and government related		276,288		276,288
Corporate		419,054		419,054
Short-term investments		10,546		10,546
Other invested assets			15,076	15,076
Funds held directly managed	$	$ 1,073,403	$ 15,397	$ 1,088,800
Total	$ 763,604	$ 14,439,934	$ 641,183	$ 15,844,721

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December 31, 2011	Quoted prices in active markets for identical assets (Level 1)	Significant other observable inputs (Level 2)	Significant unobservable inputs (Level 3)	Total
Fixed maturities				
U.S. government and government sponsored enterprises	$	$ 1,115,777	$	$ 1,115,777
U.S. states, territories and municipalities		12,269	111,415	123,684
Non-U.S. sovereign government, supranational and government related		2,964,091		2,964,091
Corporate		5,635,297	111,700	5,746,997
Asset-backed securities		376,384	257,415	633,799
Residential mortgage-backed securities		3,282,901		3,282,901
Other mortgage-backed securities		74,580		74,580
Fixed maturities	$	$ 13,461,299	$ 480,530	$ 13,941,829
Short-term investments	$	$ 42,571	$	$ 42,571
Equities				
Consumer noncyclical	$ 124,697	$ 154	$	$ 124,851
Energy	83,403	858		84,261
Finance	69,722	191	9,670	79,583
Technology	74,729			74,729
Communications	64,036	44		64,080
Industrials	58,254			58,254
Insurance	58,017			58,017
Consumer cyclical	52,305	108		52,413
Other	69,457	239		69,696
Mutual funds and exchange traded funds	35,285	237,027	6,495	278,807
Equities	$ 689,905	$ 238,621	$ 16,165	$ 944,691
Other invested assets				
Derivative assets				
Foreign exchange forward contracts	$	$ 7,865	$	$ 7,865
Foreign currency option contracts		1,074		1,074
Futures contracts	13,524	48		13,572
Credit default swaps (protection purchased)		92		92
Credit default swaps (assumed risks)		246		246
Total return swaps		443	7,230	7,673
TBAs		747		747
Other assets			91,405	91,405
Derivative liabilities				
Foreign exchange forward contracts		(5,816)		(5,816)
Foreign currency option contracts		(321)		(321)
Futures contracts	(12,905)	(1,268)		(14,173)
Credit default swaps (protection purchased)		(1,285)		(1,285)
Credit default swaps (assumed risks)		(772)		(772)
Insurance-linked securities			(968)	(968)
Total return swaps			(640)	(640)
Interest rate swaps		(7,992)		(7,992)
TBAs		(58)		(58)
Other liabilities		(137)		(137)
Other invested assets	$ 619	$ (7,134)	$ 97,027	$ 90,512
Funds held directly managed				
U.S. government and government sponsored enterprises	$	$ 268,539	$	$ 268,539
U.S. states, territories and municipalities			334	334

Non-U.S. sovereign government, supranational and government related		274,665		274,665
Corporate		480,485		480,485
Short-term investments		18,097		18,097
Other invested assets			15,433	15,433
Funds held directly managed	$	$ 1,041,786	$ 15,767	$ 1,057,553
Total	$ 690,524	$ 14,777,143	$ 609,489	$ 16,077,156

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At June 30, 2012 and December 31, 2011, the aggregate carrying amounts of items included in Other invested assets that the Company did not measure at fair value were $276.0 million and $267.6 million, respectively, which related to the Company s investments that are accounted for using the cost method of accounting, equity method of accounting or investment company accounting.

In addition to the investments underlying the funds held directly managed account held at fair value of $1,088.8 million and $1,057.6 million at June 30, 2012 and December 31, 2011, respectively, the funds held directly managed account also included cash and cash equivalents, carried at fair value, of $64.5 million and $176.3 million, respectively, and accrued investment income of $12.6 million and $13.7 million, respectively. At June 30, 2012 and December 31, 2011, the aggregate carrying amounts of items included in the funds held directly managed account that the Company did not measure at fair value were $67.1 million and $20.4 million, respectively, which primarily related to other assets and liabilities held by Colisée Re related to the underlying business, which are carried at cost (see Note 5 to the Consolidated Financial Statements included in the Company s Annual Report on Form 10-K/A for the year ended December 31, 2011).

At June 30, 2012 and December 31, 2011, substantially all of the accrued investment income in the Unaudited Condensed Consolidated Balance Sheets related to the Company s investments and the investments underlying the funds held directly managed account for which the fair value option was elected.

During the three months and six months ended June 30, 2012, certain equities traded on foreign exchanges with a fair value of $1.1 million were transferred from Level 2 to Level 1 given they are trading in an active market at June 30, 2012. During the three months and six months ended June 30, 2011, there were no significant transfers between Level 1 and Level 2.

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

Disclosures about the fair value of financial instruments that the Company does not measure at fair value exclude insurance contracts and certain other financial instruments. At June 30, 2012 and December 31, 2011, the fair values of financial instrument assets recorded in the Unaudited Condensed Consolidated Balance Sheets not described above, approximate their carrying values.

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

For the three months ended June 30, 2012	Balance at beginning of period	Realized and unrealized investment gains (losses) included in net income	Purchases and issuances (1)	Sales and settlements	Net transfers (out of)/ into Level 3	Balance at end of period	Change in unrealized investment gains (losses) relating to assets held at end of period
Fixed maturities							
U.S. states, territories and municipalities	$ 115,580	$ 1,744	$	$ (89)	$	$ 117,235	$ 1,744
Corporate	111,951	(897)	16			111,070	(897)
Asset-backed securities	264,456	9,512	32,470	(16,067)		290,371	9,296
Fixed maturities	$ 491,987	$ 10,359	$ 32,486	$ (16,156)	$	$ 518,676	$ 10,143
Equities							
Finance	$ 12,730	$ (108)	$ 6,800	$	$	$ 19,422	$ (108)
Technology			7,192			7,192	
Mutual funds and exchange traded funds	6,649	111				6,760	111
Equities	$ 19,379	$ 3	$ 13,992	$	$	$ 33,374	$ 3
Other invested assets							
Derivatives, net	$ 2,585	$ 742	$ (2,120)	$	$	$ 1,207	$ (99)

Other assets	**86,535**	**4,989**	**8,319**	**(27,314)**		**72,529**	**(2,617)**
Other invested assets	**$ 89,120**	**5,731**	**$ 6,199**	**$ (27,314)**	**$**	**$ 73,736**	**$ (2,716)**
Funds held directly managed							
U.S. states, territories and municipalities	**$ 329**	**$ (8)**	**$**	**$**	**$**	**$ 321**	**$ (8)**
Other invested assets	**17,683**	**(2,607)**				**15,076**	**(2,607)**
Funds held directly managed	**$ 18,012**	**$ (2,615)**	**$**	**$**	**$**	**$ 15,397**	**$ (2,615)**
Total	**$ 618,498**	**$ 13,478**	**$ 52,677**	**$ (43,470)**	**$**	**$ 641,183**	**$ 4,815**

(1) Purchases and issuances of derivatives includes issuances of $2.4 million.

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For the three months ended June 30, 2011	Balance at beginning of period	Realized and unrealized investment gains (losses) included in net income	Purchases and issuances [1]	Sales and settlements	Net transfers (out of)/ into Level 3	Balance at end of period	Change in unrealized investment gains (losses) relating to assets held at end of period
Fixed maturities							
U.S. states, territories and municipalities	$ 55,929	$ 819	$ 30,064	$ (30)	$	$ 86,782	$ 819
Corporate	115,107	2,049	84	(812)		116,428	2,049
Asset-backed securities	262,408	7,707	47,130	(55,402)		261,843	(2,660)
Residential mortgage-backed securities	4,301	846		(5,147)			
Other mortgage-backed securities	576	(191)		(384)		1	(166)
Fixed maturities	$ 438,321	$ 11,230	$ 77,278	$ (61,775)	$	$ 465,054	$ 42
Short-term investments	$ 1,204	$ (730)	$ 2,449	$	$	$ 2,923	$ (730)
Equities							
Finance	$ 161	$ 2	$	$	$	$ 163	$ 2
Mutual funds and exchange traded funds	41,451	594		(35,503)		6,542	(804)
Equities	$ 41,612	$ 596	$	$ (35,503)	$	$ 6,705	$ (802)
Other invested assets							
Derivatives, net	$ (17,042)	$ 322	$ (4,815)	$	$	$ (21,535)	$ 234
Other assets	84,662	(1,303)	3,568	(12,909)		74,018	(1,016)
Other invested assets	$ 67,620	$ (981)	$ (1,247)	$ (12,909)	$	$ 52,483	$ (782)
Funds held directly managed							
U.S. states, territories and municipalities	$ 366	$ (11)	$	$	$	$ 355	$ (11)
Other invested assets	22,456	(736)				21,720	(736)
Funds held directly managed	$ 22,822	$ (747)	$	$	$	$ 22,075	$ (747)
Total	$ 571,579	$ 9,368	$ 78,480	$ (110,187)	$	$ 549,240	$ (3,019)

(1) Purchases and issuances of derivatives includes issuances of $5.1 million.

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

For the six months ended June 30, 2012	Balance at beginning of period	Realized and unrealized investment gains (losses) included in net income	Purchases and issuances (1)	Sales and settlements	Net transfers (out of)/into Level 3	Balance at end of period	Change in unrealized investment gains (losses) relating to assets held at end of period
Fixed maturities							
U.S. states, territories and municipalities	**$ 111,415**	**$ 1,282**	**$ 4,700**	**$ (162)**	**$**	**$ 117,235**	**$ 1,282**
Corporate	**111,700**	**(570)**	**64**	**(124)**		**111,070**	**(570)**
Asset-backed securities	**257,415**	**8,193**	**82,590**	**(57,827)**		**290,371**	**8,032**
Fixed maturities	**$ 480,530**	**$ 8,905**	**$ 87,354**	**$ (58,113)**	**$**	**$ 518,676**	**$ 8,744**
Equities							
Finance	**$ 9,670**	**$ 2,952**	**$ 6,800**	**$**	**$**	**$ 19,422**	**$ 2,952**
Technology			**7,192**			**7,192**	
Mutual funds and exchange traded funds	**6,495**	**265**				**6,760**	**265**
Equities	**$ 16,165**	**$ 3,217**	**$ 13,992**	**$**	**$**	**$ 33,374**	**$ 3,217**
Other invested assets							
Derivatives, net	**$ 5,622**	**$ 1,005**	**$ (5,420)**	**$**	**$**	**$ 1,207**	**$ 164**
Other assets	**91,405**	**8,818**	**38,048**	**(65,742)**		**72,529**	**3,107**
Other invested assets	**$ 97,027**	**$ 9,823**	**$ 32,628**	**$ (65,742)**	**$**	**$ 73,736**	**$ 3,271**
Funds held directly managed							
U.S. states, territories and municipalities	**$ 334**	**$ (13)**	**$**	**$**	**$**	**$ 321**	**$ (13)**
Other invested assets	**15,433**	**(357)**				**15,076**	**(357)**
Funds held directly managed	**$ 15,767**	**$ (370)**	**$**	**$**	**$**	**$ 15,397**	**$ (370)**
Total	**$ 609,489**	**$ 21,575**	**$ 133,974**	**$ (123,855)**	**$**	**$ 641,183**	**$ 14,862**

(1) Purchases and issuances of derivatives includes issuances of $5.7 million.

For the six months ended June 30, 2011	Balance at beginning of period	Realized and unrealized investment gains (losses) included in net loss	Purchases and issuances (1)	Sales and settlements	Net transfers into Level 3	Balance at end of period	Change in unrealized investment gains (losses) relating to assets held at end of period
Fixed maturities							
U.S. states, territories and municipalities	$ 55,124	$ 1,624	$ 30,064	$ (30)	$	$ 86,782	$ 1,624
Corporate	76,982	(37,066)	40,878	(4,546)	40,180	116,428	2,368
Asset-backed securities	213,139	10,678	101,644	(63,618)		261,843	4,257
Residential mortgage-backed securities		1,385	4,212	(5,597)			
Other mortgage-backed securities	290	(224)	408	(473)		1	(203)

Fixed maturities	$ 345,535	$ (23,603)	$ 177,206	$ (74,264)	$ 40,180	$ 465,054	$ 8,046
Short-term investments	$	$ (1,069)	$ 3,992	$	$	$ 2,923	$ (1,069)
Equities							
Finance	$ 2,486	$ 239	$	$ (2,562)	$	$ 163	$ 13
Mutual funds and exchange traded funds	40,927	1,242		(35,627)		6,542	(382)
Equities	$ 43,413	$ 1,481	$	$ (38,189)	$	$ 6,705	$ (369)
Other invested assets							
Derivatives, net	$ (7,954)	$ (8,803)	$ (4,778)	$	$	$ (21,535)	$ (8,893)
Other assets	86,278	(3,207)	6,548	(15,601)		74,018	(2,497)
Other invested assets	$ 78,324	$ (12,010)	$ 1,770	$ (15,601)	$	$ 52,483	$ (11,390)
Funds held directly managed							
U.S. states, territories and municipalities	$ 368	$ (13)	$	$	$	$ 355	$ (13)
Mortgage/asset-backed securities	12,118	(150)		(11,968)			
Other invested assets	20,528	1,192				21,720	1,192
Funds held directly managed	$ 33,014	$ 1,029	$	$ (11,968)	$	$ 22,075	$ 1,179
Total	$ 500,286	$ (34,172)	$ 182,968	$ (140,022)	$ 40,180	$ 549,240	$ (3,603)

(1) Purchases and issuances of derivatives includes issuances of $5.1 million.

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

The following table shows the significant unobservable inputs used in the valuation of financial instruments measured at fair value using Level 3 inputs at June 30, 2012 (in thousands of U.S. dollars):

June 30, 2012	Fair Value	Valuation Techniques	Unobservable Inputs	Range (Weighted average)
Fixed maturities				
U.S. states, territories and municipalities	$ 117,235	Discounted cash flow	Credit spreads	3.1% - 4.7% (3.6%)
Corporate	9,838	Discounted cash flow	Discount rate	8.8% - 15.0% (13.0%)
Asset-backed securities interest only	13,483	Discounted cash flow	Credit spreads	7.5% - 12.3% (9.8%)
			Prepayment speed	20.0% (20.0%)
Asset-backed securities other	276,888	Discounted cash flow	Credit spreads	4.0% - 12.7% (6.8%)
Equities				
Finance	19,422	Market comparable companies	Comparable return	-0.8% - 0.0% (-0.5%)
Technology	7,192	Market comparable companies	Comparable return	0.0% (0.0%)
Other invested assets				
Total return swaps	6,369	Discounted cash flow	Credit spreads	2.9% - 4.6% (3.7%)
Notes and loan receivables	44,303	Discounted cash flow	Credit spreads	13.4% -19.5% (16.1%)
			Gross revenue/fair value	1.5 - 2.0 (1.9)
Annuities and residuals	27,226	Discounted cash flow	Credit spreads	5.4% - 11.0% (8.7%)
			Prepayment speed	0.0% - 5.0% (3.0%)
			Constant default rate	2.3% - 40.0% (17.4%)
Funds held directly managed				
Other invested assets	15,076	Lag reported market value	Net asset value, as reported	100.0% (100.0%)
			Market adjustments	-52.4% - 0.0% (-16.5%)

The table above does not include financial instruments that are measured using unobservable inputs (Level 3) where the unobservable inputs were obtained from external sources and used without adjustment. These financial instruments include mortality bonds (included within corporate fixed maturities), certain mutual fund investments (included within equities), and certain insurance-linked securities and private equity investments (included within other invested assets).

The Company has established a Valuation Committee which is responsible for determining the Company s invested asset valuation policy and related procedures, for reviewing significant changes in the fair value measurements of securities classified as Level 3 from period to period, and for reviewing in accordance with the invested asset valuation policy an independent internal peer analysis that is performed on the fair value measurements of all securities that are classified as Level 3. The Valuation Committee is comprised of members of the Company s senior management team and meets on a quarterly basis. The Company s invested asset valuation policy is monitored by the Company s Audit Committee of the Board of Directors (Board) and approved annually by the Company s Risk and Finance Committee of the Board.

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Changes in the fair value of the Company s financial instruments subject to the fair value option during the three months and six months ended June 30, 2012 and 2011, respectively, were as follows (in thousands of U.S. dollars):

	For the three months ended June 30, 2012	For the three months ended June 30, 2011	For the six months ended June 30, 2012	For the six months ended June 30, 2011
Fixed maturities and short-term investments	**$ 32,995**	$ 131,101	**$ 80,815**	$ (9,767)
Equities	**(32,963)**	(30,197)	**17,808**	(14,079)
Other invested assets	**13,610**	(3,689)	**18,160**	(3,333)
Funds held directly managed	**1,675**	8,082	**8,791**	(3,896)
Total	**$ 15,317**	$ 105,297	**$ 125,574**	$ (31,075)

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

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

Fixed maturities

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

U.S. states, territories and municipalities U.S. states, territories and municipalities securities consist primarily of bonds issued by U.S. states, territories and municipalities. These securities are generally priced by independent pricing services using the techniques described for U.S. government and government sponsored enterprises above. The Company generally classifies these securities in Level 2. Certain of the bonds that are issued by municipal housing authorities are not actively traded and are priced based on internal models using unobservable inputs. Accordingly, the Company classifies these securities in Level 3. The significant unobservable input used in the fair value measurement of these U.S. states, territories and municipalities securities classified as Level 3 is credit spreads. A significant increase (decrease) in credit spreads in isolation could result in a significantly lower (higher) fair value measurement.

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

Corporate Corporate securities consist primarily of bonds issued by U.S. and foreign corporations covering a variety of industries and issuing countries. These securities are generally priced by independent pricing services and brokers. The pricing provider incorporates information including credit spreads, interest rate data and market news into the valuation of each security. The Company generally classifies these securities in Level 2. When a corporate security is inactively traded or the valuation model uses unobservable inputs, the Company classifies the security in Level 3. The significant unobservable input used in the fair value measurement of corporate securities classified as Level 3 is discount rates. A significant increase (decrease) in discount rates in isolation could result in a significantly lower (higher) fair value measurement.

Asset-backed securities Asset-backed securities primarily consist of bonds issued by U.S. and foreign corporations that are backed by student loans, automobile loans, credit card receivables, equipment leases, and special purpose financing. With the exception of special purpose financing, these asset-backed securities are generally priced by independent pricing services and brokers. The pricing provider applies dealer quotes and other available trade information, prepayment speeds, yield curves and credit spreads to the valuation. The Company generally classifies these securities in Level 2. Special purpose financing securities are generally inactively traded and are priced based on valuation models using unobservable inputs. The Company generally classifies these securities in Level 3. The significant unobservable inputs used in the fair value measurement of these asset-backed securities classified as Level 3 are prepayment speeds and credit spreads. Significant increases (decreases) in these prepayment speeds and credit spreads in isolation could result in a significantly lower (higher) fair value measurement.

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

Other mortgage-backed securities Other mortgage-backed securities primarily consist of commercial mortgage-backed securities. These securities are generally priced by independent pricing services and brokers. The pricing provider applies dealer quotes and other available trade information, prepayment speeds, yield curves and credit spreads to the valuation. The Company generally classifies these securities in Level 2.

In general, the methods employed by the independent pricing services to determine the fair value of the securities that have not been actively traded involve the use of matrix pricing in which the independent pricing source applies the credit spread for a comparable security that has traded recently to the current yield curve to determine a reasonable fair value. The Company uses a pricing service ranking to consistently select the most appropriate pricing service in instances where it receives multiple quotes on the same security. When fair values are unavailable from these independent pricing sources, quotes are obtained directly from broker-dealers who are active in the corresponding markets. Most of the Company s fixed maturities are priced from the pricing services or dealer quotes. The Company will typically not make adjustments to prices received from pricing services or dealer quotes; however, in instances where the quoted external price for a security uses significant unobservable inputs, the Company will classify that security as Level 3. The methods used to develop and substantiate the unobservable inputs used are based on the Company s valuation policy and are dependent upon the facts and circumstances surrounding the individual investments which are generally transaction specific. The Company s inactively traded fixed maturities are classified as Level 3. For all fixed maturity investments, the bid price is used for estimating fair value.

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

Short term investments

Short term investments are valued in a manner similar to the Company s fixed maturity investments and are generally classified in Level 2.

Equities

Equity securities include U.S. and foreign common and preferred stocks, mutual funds and exchange traded funds. Equities and exchange traded funds are generally classified in Level 1 as the Company uses prices received from independent pricing sources based on quoted prices in active markets. Equities classified as Level 2 are generally mutual funds invested in fixed income securities, where the net asset value of the fund is provided on a daily basis, and common stocks traded in inactive markets. Equities classified as Level 3 are generally mutual funds invested in securities other than the common stock of publicly traded companies, where the net asset value is not provided on a daily basis, and inactively traded common stocks. The significant unobservable input used in the fair value measurement of inactively traded common stocks classified as Level 3 is market return information from comparable publicly traded companies in the same industry, in a similar region and of a similar size. Significant increases (decreases) in the market return information could result in a significantly higher (lower) fair value measurement.

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

Other invested assets

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

Included in the Company s Level 3 classification, in general, are credit-linked notes, certain inactively traded weather derivatives, notes, annuities, residuals and loans receivable and longevity and other total return swaps. For Level 3 instruments, the Company will generally either (i) receive a price based on a manager s or trustee s valuation for the asset; or (ii) develop an internal discounted cash flow model to measure fair value. Where the Company receives prices from the manager or trustee, these prices are based on the manager s or trustee s estimate of fair value for the assets and are generally audited on an annual basis. Where the Company develops its own discounted cash flow models, the inputs will be specific to the asset in question, based on appropriate

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historical information, adjusted as necessary, and using appropriate discount rates. The significant unobservable inputs used in the fair value measurement of other invested assets classified as Level 3 include credit spreads, prepayment speeds, constant default rates and gross revenue to fair value ratios. Significant increases (decreases) in any of these inputs in isolation could result in a significantly lower (higher) fair value measurement. As part of the Company s modeling to determine the fair value of an investment, the Company considers counterparty credit risk as an input to the model, however, the majority of the Company s counterparties are investment grade rated institutions and the failure of any one counterparty would not have a significant impact on the Company s consolidated financial statements.

To validate prices, the Company will compare them to benchmarks, where appropriate, or to the business results generally within that asset class and specifically to those particular assets.

Funds held directly managed

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

The other invested assets within the segregated investment portfolio underlying the funds held directly managed account, which are classified as Level 3 investments, are primarily real estate mutual fund investments carried at fair value. For the real estate mutual fund investments, the Company receives a price based on the real estate fund manager s valuation for the asset and further adjusts the price, if necessary, based on appropriate current information on the real estate market. Significant increases (decreases) to the adjustment to the real estate fund manager s valuation could result in a significantly lower (higher) fair value measurement.

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

(b) Fair Value of Financial Instrument Liabilities

At June 30, 2012 and December 31, 2011, the fair values of financial instrument liabilities recorded in the Unaudited Condensed Consolidated Balance Sheets approximate their carrying values, with the exception of the debt related to senior notes (Senior Notes) and the debt related to capital efficient notes (CENts).

The following methods and assumptions were used by the Company in estimating the fair value of each class of financial instrument liability recorded in the Unaudited Condensed Consolidated Balance Sheets for which the Company does not measure that instrument at fair value:

- the fair value of the Senior Notes was calculated based on discounted cash flow models using observable market yields and contractual cash flows based on the aggregate principal amount outstanding of $250 million from PartnerRe Finance A LLC and $500 million from PartnerRe Finance B LLC at June 30, 2012 and December 31, 2011; and

- the fair value of the CENts was calculated based on discounted cash flow models using observable market yields and contractual cash flows based on the aggregate principal amount outstanding from PartnerRe Finance II Inc. of $63 million at June 30, 2012 and December 31, 2011.

The carrying values and fair values of the Senior Notes and CENts at June 30, 2012 and December 31, 2011 were as follows (in thousands of U.S. dollars):

	June 30, 2012		**December 31, 2011**	
	Carrying Value	**Fair Value**	**Carrying Value**	**Fair Value**
Debt related to senior notes [1]	**$ 750,000**	**$ 823,229**	$ 750,000	$ 781,449
Debt related to capital efficient notes [2]	**63,384**	**59,898**	63,384	55,678

(1) PartnerRe Finance A LLC and PartnerRe Finance B LLC, the issuers of the Senior Notes, do not meet consolidation requirements under U.S. GAAP. Accordingly, the Company shows the related intercompany debt of $750 million in its Unaudited Condensed Consolidated Balance Sheets at June 30, 2012 and December 31, 2011.

(2) PartnerRe Finance II Inc., the issuer of the CENts, does not meet consolidation requirements under U.S. GAAP. Accordingly, the Company shows the related intercompany debt of $71 million in its Unaudited Condensed Consolidated Balance Sheets at June 30, 2012 and December 31, 2011.

At June 30, 2012, the Company s debt related to the Senior Notes and CENts was classified as Level 2 in the fair value hierarchy.

Disclosures about the fair value of financial instrument liabilities exclude insurance contracts and certain other financial instruments.

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5. Derivatives

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

Foreign Exchange Forward Contracts

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

Foreign Currency Option Contracts and Futures Contracts

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

Credit Default Swaps

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

The Company also assumes credit risk through credit default swaps to replicate investment positions. The original term of these credit default swaps is generally five years or less and there are no recourse provisions associated with these swaps. While the Company would be required to perform under exposure assumed through credit default swaps in the event of a default on the underlying issuer, no issuer was in default at June 30, 2012. The counterparties on the Company s assumed credit default swaps are all investment grade rated financial institutions.

Insurance-Linked Securities

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

Total Return and Interest Rate Swaps and Interest Rate Derivatives

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

To-Be-Announced Mortgage-Backed Securities

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

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The fair values and the related notional values of derivatives included in the Company s Unaudited Condensed Consolidated Balance Sheets at June 30, 2012 and December 31, 2011 were as follows (in thousands of U.S. dollars):

June 30, 2012	Asset derivatives at fair value	Liability derivatives at fair value	Net derivatives Net notional exposure	Net derivatives Fair value
Foreign exchange forward contracts	**$ 2,483**	**$ (5,683)**	**$ 2,199,422**	**$ (3,200)**
Foreign currency option contracts	**182**	**(2,021)**	**128,000**	**(1,839)**
Futures contracts	**1,819**	**(8,149)**	**2,285,316**	**(6,330)**
Credit default swaps (protection purchased)	**22**	**(1,142)**	**77,459**	**(1,120)**
Credit default swaps (assumed risks)	**324**	**(79)**	**17,500**	**245**
Insurance-linked securities (1)	**261**	**(5,423)**	**155,964**	**(5,162)**
Total return swaps	**7,115**	**(746)**	**99,212**	**6,369**
Interest rate swaps (2)		**(8,194)**		**(8,194)**
TBAs	**674**		**101,000**	**674**
Total derivatives	**$ 12,880**	**$ (31,437)**		**$ (18,557)**

December 31, 2011	Asset derivatives at fair value	Liability derivatives at fair value	Net derivatives Net notional exposure	Net derivatives Fair value
Foreign exchange forward contracts	$ 7,865	$ (5,816)	$ 2,555,230	$ 2,049
Foreign currency option contracts	1,074	(321)	110,079	753
Futures contracts	13,572	(14,173)	2,534,995	(601)
Credit default swaps (protection purchased)	92	(1,285)	94,961	(1,193)
Credit default swaps (assumed risks)	246	(772)	17,500	(526)
Insurance-linked securities (1)		(968)	136,375	(968)
Total return swaps	7,673	(640)	122,230	7,033
Interest rate swaps (2)		(7,992)		(7,992)
TBAs	747	(58)	104,315	689
Total derivatives	$ 31,269	$ (32,025)		$ (756)

(1) *At June 30, 2012 and December 31, 2011, insurance-linked securities include a longevity swap for which the notional amount is not reflective of the overall potential exposure of the swap. As such, the Company has included the probable maximum loss under the swap within the net notional exposure as an approximation of the notional amount.*

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

The fair value of all derivatives at June 30, 2012 and December 31, 2011 is recorded in Other invested assets in the Company s Unaudited Condensed Consolidated Balance Sheets. At June 30, 2012 and December 31, 2011, none of the Company s derivatives were designated as hedges.

The gains and losses in the Unaudited Condensed Consolidated Statements of Operations for derivatives not designated as hedges for the three months and six months ended June 30, 2012 and 2011 were as follows (in thousands of U.S. dollars):

	For the three months ended June 30, 2012	For the three months ended June 30, 2011	For the six months ended June 30, 2012	For the six months ended June 30, 2011

Foreign exchange forward contracts	**$ 15,829**	$ 65,250	**$ 19,710**	$ 48,234
Foreign currency option contracts	**(1,829)**	2,457	**1,498**	2,381
Total included in net foreign exchange gains and losses	**$ 14,000**	$ 67,707	**$ 21,208**	$ 50,615
Futures contracts	**$ (41,624)**	$ (66,231)	**$ (19,779)**	$ (86,514)
Credit default swaps (protection purchased)	**(14)**	(306)	**(611)**	(551)
Credit default swaps (assumed risks)	**235**	770	**1,311**	1,607
Insurance-linked securities	**4,685**	(2,546)	**1,226**	(9,620)
Total return swaps	**(546)**	(115)	**(469)**	684
Interest rate swaps	**(1,165)**	(182)	**(202)**	641
TBAs	**3,808**	5,625	**4,878**	6,928
Total included in net realized and unrealized investment gains and losses	**$ (34,621)**	$ (62,985)	**$ (13,646)**	$ (86,825)
Total derivatives	**$ (20,621)**	$ 4,722	**$ 7,562**	$ (36,210)

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6. Net Income (Loss) per Share

The reconciliation of basic and diluted net income (loss) per share for the three months and six months ended June 30, 2012 and 2011 is as follows (in thousands of U.S. dollars or shares, except per share amounts):

	For the three months ended June 30, 2012	For the three months ended June 30, 2011	For the six months ended June 30, 2012	For the six months ended June 30, 2011
Numerator:				
Net income (loss)	**$ 176,146**	$ 124,185	**$ 536,287**	$ (682,771)
Less: preferred dividends	**(15,405)**	(8,631)	**(30,811)**	(17,263)
Net income (loss) available to common shareholders	**$ 160,741**	$ 115,554	**$ 505,476**	$ (700,034)
Denominator:				
Weighted number of common shares outstanding - basic	**63,816.0**	67,628.1	**64,610.1**	67,811.4
Share options and other [(1)]	**607.0**	814.2	**522.8**	
Weighted average number of common shares and common share equivalents outstanding - diluted	**64,423.0**	68,442.3	**65,132.9**	67,811.4
Basic net income (loss) per share	**$ 2.52**	$ 1.71	**$ 7.82**	$ (10.32)
Diluted net income (loss) per share [(1)]	**$ 2.50**	$ 1.69	**$ 7.76**	$ (10.32)

(1) *At June 30, 2012 and 2011, share based awards to purchase 1,512.6 thousand and 1,253.6 thousand common shares, respectively, were excluded from the calculation of diluted weighted average number of common shares and common share equivalents outstanding because their exercise prices were greater than the average market price of the common shares. In addition, dilutive securities, in the form of share options and other, of 958.5 thousand shares were not included in the weighted average number of common shares and common share equivalents outstanding for the purpose of computing the diluted net loss per share because to do so would have been anti-dilutive for the six months ended June 30, 2011.*

7. Commitments and Contingencies

(a) Concentration of Credit Risk

Financing receivables

Included in the Company s Other invested assets are certain notes receivable which meet the definition of financing receivables and are accounted for using the cost method of accounting. These notes receivable are collateralized by commercial or residential property. The Company utilizes a third party consultant to determine the initial investment criteria and to monitor the subsequent performance of the notes receivable. The process undertaken prior to the investment in these notes receivable includes an examination of the underlying collateral. The Company reviews its receivable positions on at least a quarterly basis using actual redemption experience. At June 30, 2012, based on the latest available information, the Company recorded an allowance for credit losses related to these notes receivable of $3.4 million.

The Company monitors the performance of the notes receivable based on the type of underlying collateral and by assigning a performing or a non-performing indicator of credit quality to each individual receivable. At June 30, 2012, the Company s notes receivable of $78.5 million were all performing and were collateralized by residential property and commercial property of $51.1 million and $27.4 million, respectively. At December 31, 2011, the Company s notes receivable of $80.4 million were all performing and were collateralized by residential property and commercial property of $45.9 million and $34.5 million, respectively.

The Company purchased $37.4 million of financing receivables during the three months and six months ended June 30, 2012. The Company purchased financing receivables of $66.0 million during the three months and six months ended June 30, 2011. There were no sales of financing receivables during the three months and six months ended June 30, 2012 and 2011. However, the outstanding balances were reduced by settlements of the underlying debt in all the periods above.

(b) Legal Proceedings

There has been no significant change in legal proceedings at June 30, 2012 compared to December 31, 2011. See Note 18(e) to the Consolidated Financial Statements included in the Company s Annual Report on Form 10-K/A for the year ended December 31, 2011.

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8. Credit Agreements

In the normal course of its operations, the Company enters into agreements with financial institutions to obtain unsecured and secured credit facilities. These facilities are used primarily for the issuance of letters of credit, although a portion of these facilities may also be used for liquidity purposes.

On March 20, 2012, the Company modified its existing three-year syndicated unsecured credit facility to reduce the available facility from $750 million to $500 million. All other terms, and the access to a revolving line of credit, remained unchanged.

See Note 20 to the Consolidated Financial Statements included in the Company s Annual Report on Form 10-K/A for the year ended December 31, 2011 for further information related to the credit facilities available to the Company.

9. Segment Information

The Company monitors the performance of its operations in three segments, Non-life, Life and Corporate and Other as described in Note 22 to the Consolidated Financial Statements included in the Company s Annual Report on Form 10-K/A for the year ended December 31, 2011. The Non-life segment is further divided into four sub-segments: North America, Global (Non-U.S.) Property and Casualty (Global (Non-U.S.) P&C), Global (Non-U.S.) Specialty and Catastrophe.

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

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

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The following tables provide a summary of the segment results for the three months and six months ended June 30, 2012 and 2011 (in millions of U.S. dollars, except ratios):

Segment Information

For the three months ended June 30, 2012

	North America	Global (Non-U.S.) P&C	Global (Non-U.S.) Specialty	Catastrophe	Total Non-life segment	Life segment	Corporate and Other	Total
Gross premiums written	$ 271	$ 130	$ 400	$ 159	$ 960	$ 200	$ 3	$ 1,163
Net premiums written	$ 270	$ 128	$ 391	$ 145	$ 934	$ 199	$ 3	$ 1,136
Decrease (increase) in unearned premiums	20	36	(28)	(72)	(44)	1	(2)	(45)
Net premiums earned	$ 290	$ 164	$ 363	$ 73	$ 890	$ 200	$ 1	$ 1,091
Losses and loss expenses and life policy benefits	(185)	(119)	(213)	(16)	(533)	(173)		(706)
Acquisition costs	(69)	(39)	(93)	(6)	(207)	(26)		(233)
Technical result	**$ 36**	**$ 6**	**$ 57**	**$ 51**	**$ 150**	**$ 1**	**$ 1**	**$ 152**
Other income						1	2	3
Other operating expenses					(66)	(13)	(27)	(106)
Underwriting result					**$ 84**	**$ (11)**	**n/a**	**$ 49**
Net investment income						17	136	153
Allocated underwriting result (1)						**$ 6**	**n/a**	**n/a**
Net realized and unrealized investment gains							38	38
Interest expense							(12)	(12)
Amortization of intangible assets							(9)	(9)
Net foreign exchange gains							8	8
Income tax expense							(50)	(50)
Interest in losses of equity investments							(1)	(1)
Net income							**n/a**	**$ 176**
Loss ratio (2)	63.7%	72.3%	58.8%	22.5%	59.9%			
Acquisition ratio (3)	23.8	23.9	25.5	8.3	23.2			
Technical ratio (4)	87.5%	96.2%	84.3%	30.8%	83.1%			
Other operating expense ratio (5)					7.5			
Combined ratio (6)					90.6%			

(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.*

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Segment Information

For the three months ended June 30, 2011

	North America	Global (Non-U.S.) P&C	Global (Non-U.S.) Specialty	Catastrophe	Total Non-life segment	Life segment	Corporate and Other	Total
Gross premiums written	$ 242	$ 122	$ 350	$ 169	$ 883	$ 195	$ 4	$ 1,082
Net premiums written	$ 242	$ 121	$ 333	$ 161	$ 857	$ 195	$ 4	$ 1,056
Decrease (increase) in unearned premiums	19	72	8	(51)	48	6	(3)	51
Net premiums earned	$ 261	$ 193	$ 341	$ 110	$ 905	$ 201	$ 1	$ 1,107
Losses and loss expenses and life policy benefits	(190)	(127)	(206)	(123)	(646)	(166)	(2)	(814)
Acquisition costs	(63)	(53)	(78)	(9)	(203)	(26)		(229)
Technical result	**$ 8**	**$ 13**	**$ 57**	**$ (22)**	**$ 56**	**$ 9**	**$ (1)**	**$ 64**
Other income							1	1
Other operating expenses					(71)	(13)	(30)	(114)
Underwriting result					**$ (15)**	**$ (4)**	**n/a**	**$ (49)**
Net investment income						16	142	158
Allocated underwriting result						**$ 12**	**n/a**	**n/a**
Net realized and unrealized investment gains							78	78
Interest expense							(12)	(12)
Amortization of intangible assets							(9)	(9)
Net foreign exchange gains							9	9
Income tax expense							(50)	(50)
Interest in losses of equity investments							(1)	(1)
Net income							**n/a**	**$ 124**
Loss ratio	72.8%	65.9%	60.3%	111.7%	71.4%			
Acquisition ratio	24.1	27.6	22.9	8.1	22.4			
Technical ratio	96.9%	93.5%	83.2%	119.8%	93.8%			
Other operating expense ratio					7.9			
Combined ratio					101.7%			

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Segment Information

For the six months ended June 30, 2012

	North America	Global (Non-U.S.) P&C	Global (Non-U.S.) Specialty	Catastrophe	Total Non-life segment	Life segment	Corporate and Other	Total
Gross premiums written	$ 613	$ 477	$ 817	$ 401	$ 2,308	$ 417	$ 6	$ 2,731
Net premiums written	$ 611	$ 474	$ 744	$ 360	$ 2,189	$ 414	$ 6	$ 2,609
Increase in unearned premiums	(84)	(150)	(73)	(197)	(504)	(20)	(4)	(528)
Net premiums earned	$ 527	$ 324	$ 671	$ 163	$ 1,685	$ 394	$ 2	$ 2,081
Losses and loss expenses and life policy benefits	(317)	(217)	(408)	(19)	(961)	(322)		(1,283)
Acquisition costs	(134)	(78)	(162)	(15)	(389)	(55)		(444)
Technical result	**$ 76**	**$ 29**	**$ 101**	**$ 129**	**$ 335**	**$ 17**	**$ 2**	**$ 354**
Other income					1	2	2	5
Other operating expenses					(129)	(26)	(49)	(204)
Underwriting result					**$ 207**	**$ (7)**	**n/a**	**$ 155**
Net investment income						33	267	300
Allocated underwriting result						**$ 26**	**n/a**	**n/a**
Net realized and unrealized investment gains							231	231
Interest expense							(24)	(24)
Amortization of intangible assets							(18)	(18)
Net foreign exchange gains							5	5
Income tax expense							(117)	(117)
Interest in earnings of equity investments							4	4
Net income							**n/a**	**$ 536**
Loss ratio	60.1%	67.0%	60.8%	11.3%	57.0%			
Acquisition ratio	25.5	23.9	24.2	9.5	23.1			
Technical ratio	85.6%	90.9%	85.0%	20.8%	80.1%			
Other operating expense ratio					7.7			
Combined ratio					87.8%			

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Segment Information

For the six months ended June 30, 2011

	North America	Global (Non-U.S.) P&C	Global (Non-U.S.) Specialty	Catastrophe	Total Non-life segment	Life segment	Corporate and Other	Total
Gross premiums written	$ 581	$ 440	$ 724	$ 486	$ 2,231	$ 403	$ 6	$ 2,640
Net premiums written	$ 581	$ 437	$ 648	$ 453	$ 2,119	$ 402	$ 6	$ 2,527
(Increase) decrease in unearned premiums	(60)	(63)	10	(220)	(333)	(17)	(5)	(355)
Net premiums earned	$ 521	$ 374	$ 658	$ 233	$ 1,786	$ 385	$ 1	$ 2,172
Losses and loss expenses and life policy benefits	(365)	(277)	(427)	(1,040)	(2,109)	(311)	(2)	(2,422)
Acquisition costs	(129)	(93)	(158)	(1)	(381)	(56)		(437)
Technical result	**$ 27**	**$ 4**	**$ 73**	**$ (808)**	**$ (704)**	**$ 18**	**$ (1)**	**$ (687)**
Other income					2		1	3
Other operating expenses					(137)	(25)	(56)	(218)
Underwriting result					**$ (839)**	**$ (7)**	**n/a**	**$ (902)**
Net investment income						31	279	310
Allocated underwriting result						**$ 24**	**n/a**	**n/a**
Net realized and unrealized investment losses							(34)	(34)
Interest expense							(24)	(24)
Amortization of intangible assets							(18)	(18)
Net foreign exchange gains							9	9
Income tax expense							(24)	(24)
Interest in losses of equity investments								
Net loss							**n/a**	**$ (683)**
Loss ratio	70.0%	74.0%	64.9%	446.3%	118.0%			
Acquisition ratio	24.8	25.0	24.0	0.3	21.4			
Technical ratio	94.8%	99.0%	88.9%	446.6%	139.4%			
Other operating expense ratio					7.7			
Combined ratio					147.1%			

10. Subsequent Event

Currently, the United States is experiencing one of its worst droughts in 50 years, which is threatening crop production of corn, wheat and soybeans. The Company is continuing to monitor its exposure to the drought conditions on a state by state basis. The Company is currently assessing its future incurred losses related to the ongoing drought, but information as of August 2, 2012 is uncertain and not sufficient to arrive at a reasonable estimate.

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

Executive Overview

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

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

The Company s economic objective is to manage a portfolio of risks that will generate growth in compound annual diluted book value per share and share equivalents outstanding over a reinsurance cycle. Management assesses this economic objective over the reinsurance cycle, rather than any particular quarterly or annual period, given the Company s profitability is significantly affected by the level of large catastrophic losses that it incurs each period. The Company uses a number of metrics to monitor its performance in meeting its economic objective, which are discussed further below under Key Financial Measures.

Overview of the Results of Operations for the Three Months and Six Months Ended June 30, 2012

The Company measures its performance in several ways. Among the performance measures accepted under U.S. GAAP is diluted net income or loss per share, a measure that focuses on the return provided to the Company s common shareholders. Diluted net income or loss per share is obtained by dividing net income or loss available to common shareholders by the weighted average number of common shares and common share equivalents outstanding. Net income or loss available to common shareholders is defined as net income or loss less preferred dividends. See the discussion of the non-GAAP performance measures that the Company uses (operating earnings or loss and Operating ROE) and the reconciliation of those non-GAAP performance measures to the most directly comparable GAAP measures in Key Financial Measures below.

As the Company s reinsurance operations are exposed to low frequency and high severity risk events, some of which are seasonal, results for certain periods may include unusually low loss experience, while results for other periods may include significant catastrophic losses. Consequently, the Company s results for interim periods may be volatile from period to period and are not necessarily indicative of results for the full year.

The results for the three months and six months ended June 30, 2012 and 2011 demonstrate this volatility. The three months ended June 30, 2012 included no significant catastrophic losses, while during the three months ended June 30, 2011 the Company incurred losses of $122 million, net of retrocession, reinstatement premiums and profit commission adjustments, related to the tornadoes that caused severe destruction to large areas of southern, mid-western and northeastern United States in April and May 2011 (U.S. tornadoes) and an aggregate contract covering losses in Australia and New Zealand.

Similarly, the six months ended June 30, 2012 included no significant catastrophic losses, while during the six months ended June 30, 2011 the Company incurred losses of $1,259 million related to the combined impact of the Japan earthquake and resulting tsunami (Japan Earthquake), the New Zealand earthquake that occurred in February 2011 (New Zealand Earthquake), aggregate contracts covering losses in Australia and New Zealand, U.S. tornadoes and the floods in Queensland, Australia (Australian Floods) (collectively, 2011 catastrophic events).

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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, 2012 and 2011 were as follows (in millions of U.S. dollars, except per share data):

	For the three months ended June 30, 2012	% Change	For the three months ended June 30, 2011	For the six months ended June 30, 2012	% Change	For the six months ended June 30, 2011
Net income (loss)	**$ 176**	**42%**	$ 124	**$ 536**	**NM%**	$ (683)
Less: preferred dividends	**15**	**78**	9	**31**	**78**	17
Net income (loss) available to common shareholders	**$ 161**	**39**	$ 115	**$ 505**	**NM**	$ (700)
Diluted net income (loss) per share	**$ 2.50**	**48**	$ 1.69	**$ 7.76**	**NM**	$ (10.32)

NM: not meaningful

Three-month result

The increase in net income of $52 million for the three months ended June 30, 2012 compared to the same period of 2011 resulted primarily from:

- an increase in the Non-life underwriting result of $99 million, which was mainly driven by the absence of large catastrophic losses in the three months ended June 30, 2012 compared to losses of $178 million related to the 2011 catastrophic events. This increase in the Non-life underwriting result was partially offset by a decrease in net favorable loss development on prior accident years and a lower level of net premiums earned in the Catastrophe sub-segment which, absent catastrophe losses, directly affects the underwriting result; partially offset by

- a decrease in pre-tax net realized and unrealized investment gains of $40 million as a result of continued volatility in the capital markets which were impacted by wider credit spreads and modest declines in equity markets; and

- a decrease in the Life underwriting result of $7 million, driven by modest increases in claims activity on certain long-term mortality business.

The increase in net income available to common shareholders and diluted net income per share for the three months ended June 30, 2012 compared to the same period of 2011 was primarily due to the above factors, partially offset by an increase in preferred dividends following the issuance of preferred shares during the three months ended June 30, 2011. For diluted net income per share specifically, the increase was also due to a modest decrease in the diluted number of common shares.

Six-month result

The increase in net income of $1,219 million for the six months ended June 30, 2012 compared to the same period of 2011 resulted primarily from:

- an increase in the Non-life underwriting result of $1,046 million, which was primarily driven by the absence of large catastrophic losses in the six months ended June 30, 2012 compared to losses of $1,204 million related to the 2011 catastrophic events in the same period of 2011. This increase in the Non-life underwriting result was partially offset by a decrease in net favorable loss development on prior accident years, a lower level of net premiums earned in the Catastrophe sub-segment as described above and the impact of lower losses recoverable from retrocessional programs in the Global (Non-U.S.) Specialty sub-segment; and

an increase in pre-tax net realized and unrealized investment gains of $265 million as a result of continued volatility in the capital markets which was driven by narrowing credit spreads and decreases in risk-free interest rates; partially offset by

an increase in income tax expense of $93 million, resulting from a higher pre-tax net income.

The increase in net income available to common shareholders and diluted net income per share for the six months ended June 30, 2012 compared to the same period of 2011 was primarily due to the above factors, partially offset by an increase in preferred dividends following the issuance of preferred shares during the three months ended June 30, 2011. For diluted net income per share specifically, the increase was also due to a modest decrease in the diluted number of common shares.

These factors affecting the year over year comparison of the Company s results are discussed below in Review of Net Income (Loss), Results by Segment and Financial Condition, Liquidity and Capital Resources, and may continue to affect our results of operations and financial condition in the future.

Currently, the United States is experiencing one of its worst droughts in 50 years, which is threatening crop production of corn, wheat and soybeans. The Company is continuing to monitor its exposure to the drought conditions on a state by state basis. The Company is currently assessing its future incurred losses related to the ongoing drought, but information as of August 2, 2012 is uncertain and not sufficient to arrive at a reasonable estimate.

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Key Financial Measures

In addition to the Unaudited Condensed Consolidated Balance Sheets and Unaudited Condensed Consolidated Statements of Operations and Comprehensive Income (Loss), Management uses certain key measures to evaluate its financial performance and the overall growth in value generated for the Company s common shareholders. The four key measures that Management uses, together with definitions of their calculations, are as follows at June 30, 2012 and December 31, 2011 and for the three months and six months ended June 30, 2012 and 2011:

	June 30, 2012	December 31, 2011
Diluted book value per common share and common share equivalents outstanding(1)	**$ 91.88**	$ 84.82

	For the three months ended June 30, 2012	For the three months ended June 30, 2011	For the six months ended June 30, 2012	For the six months ended June 30, 2011
Operating earnings (loss) available to common shareholders (in millions of U.S. dollars)(2)	**$ 142**	$ 67	**$ 324**	$ (668)
Annualized operating return on beginning diluted book value per common share and common share equivalents outstanding(3)	**10.4%**	4.2%	**11.7%**	(21.0)%
Combined ratio(4)	**90.6%**	101.7%	**87.8%**	147.1%

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

(2) *Operating earnings or loss available to common shareholders (operating earnings or loss) is calculated as net income or loss available to common shareholders excluding net realized and unrealized gains or losses on investments, net of tax, net foreign exchange gains or losses, net of tax, and interest in earnings or losses of equity investments, net of tax, where the investee s operations are not insurance or reinsurance related and where the Company does not control the investee companies activities, and is calculated after preferred dividends. The presentation of operating earnings or loss is a non-GAAP financial measure within the meaning of Regulation G (see Comment on Non-GAAP Measures below) and is reconciled to the most directly comparable GAAP financial measure below.*

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

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

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

Over the past five years, since June 30, 2007, the Company has generated a compound annual growth rate in Diluted Book Value per Share in excess of 9% and over the past ten years, since June 30, 2002, the Company has generated a compound annual growth rate in Diluted Book Value per Share in excess of 11%.

During 2012, the Company s Diluted Book Value per Share increased by 8% to $91.88 at June 30, 2012 from $84.82 at December 31, 2011, representing a compound annual growth of 17.3%, primarily due to the comprehensive income of $534 million. The comprehensive income was mainly driven by the net income of $536 million in the six months ended June 30, 2012, which is described in Review of Net Income (Loss) below. Also see Shareholders Equity and Capital Resources Management below.

Operating earnings or loss available to common shareholders (operating earnings or loss): Management uses operating earnings or loss to measure its financial performance as this measure focuses on the underlying fundamentals of the Company s operations by excluding net realized and unrealized gains or losses on investments, certain interest in earnings or losses of equity investments and net foreign exchange gains or losses. Net realized and unrealized gains or losses on investments in any particular

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

Operating earnings increased by $75 million, from $67 million in the three months ended June 30, 2011 to $142 million in the same period of 2012. The increase was primarily due to an increase in the Non-life underwriting result as described above, partially offset by an increase in income tax expense on the higher level of operating earnings and a decrease in the Life underwriting result as described above.

Operating earnings increased by $992 million, from a loss of $668 million in the six months ended June 30, 2011 to an income of $324 million in the same period of 2012 primarily due to an increase in the Non-life underwriting result as described above, partially offset by an increase in income tax expense on the higher level of operating earnings.

The other lesser factors contributing to the increases or decreases in operating earnings in the three months and six months ended June 30, 2012 compared to the same period of 2011 are further described in Review of Net Income (Loss) below.

The presentation of operating earnings or loss available to common shareholders is a non-GAAP financial measure within the meaning of Regulation G and should be considered in addition to, and not as a substitute for, measures of financial performance prepared in accordance with GAAP (see Comment on Non-GAAP Measures). The table below provides a reconciliation of operating earnings or loss to the most comparable GAAP financial measure for the three months and six months ended June 30, 2012 and 2011 (in millions of U.S. dollars):

	For the three months ended June 30, 2012	For the three months ended June 30, 2011	For the six months ended June 30, 2012	For the six months ended June 30, 2011
Net income (loss)	**$ 176**	$ 124	**$ 536**	$ (683)
Less:				
Net realized and unrealized investment gains (losses), net of tax	**18**	41	**177**	(47)
Net foreign exchange gains (losses), net of tax	**2**	9		16
Interest in (losses) earnings of equity investments, net of tax	**(1)**	(2)	**4**	(1)
Dividends to preferred shareholders	**15**	9	**31**	17
Operating earnings (loss) available to common shareholders	**$ 142**	$ 67	**$ 324**	$ (668)

Operating ROE: Management uses annualized Operating ROE as a measure of profitability that focuses on the return to common shareholders. To support the Company s growth objectives, most economic decisions, including capital attribution and underwriting pricing decisions, incorporate an Operating ROE impact analysis. For the purpose of that analysis, an appropriate amount of capital (equity) is attributed to each transaction for determining the transaction s priced return on attributed capital. Subject to an adequate return for the risk level as well as other factors, such as the contribution of each risk to the overall risk level and risk diversification, capital is attributed to the transactions generating the highest priced return on deployed capital. Management s challenge consists of (i) attributing an appropriate amount of capital to each transaction based on the risk created by the transaction, (ii) properly estimating the Company s overall risk level and the impact of each transaction on the overall risk level, (iii) assessing the diversification benefit, if any, of each transaction, and (iv) deploying available capital. The risk for the Company lies in mis-estimating any one of these factors, which are critical in calculating a meaningful priced return on deployed capital, and entering into transactions that do not contribute to the Company s growth objectives. The Company s Operating ROE s for quarterly periods are annualized.

Annualized Operating ROE increased from 4.2% in the three months ended June 30, 2011 to 10.4% in the same period of 2012 and from a loss of 21.0% in the six months ended June 30, 2011 to an income of 11.7% in the same period of 2012. The increase in annualized Operating ROE was primarily due to the increase in operating earnings in the three months and six months ended June 30, 2012 compared to the same periods of 2011, as described above. The factors contributing to increases or decreases in operating earnings are described further in Review of Net Income (Loss) below.

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The presentation of Operating ROE is a non-GAAP financial measure within the meaning of Regulation G and should be considered in addition to, and not as a substitute for, measures of financial performance prepared in accordance with GAAP (see Comment on Non-GAAP Measures). The table below provides a reconciliation of Operating ROE to the most directly comparable GAAP financial measure for the three months and six months ended June 30, 2012 and 2011:

	For the three months ended June 30, 2012	For the three months ended June 30, 2011	For the six months ended June 30, 2012	For the six months ended June 30, 2011
Annualized return on beginning diluted book value per common share calculated with net income (loss) per share available to common shareholders	**11.8%**	7.2%	**18.3%**	(22.0)%
Less:				
Annualized net realized and unrealized investment gains (losses), net of tax, on beginning diluted book value per common share	**1.3**	2.5	**6.4**	(1.5)
Annualized net foreign exchange gains (losses), net of tax, on beginning diluted book value per common share	**0.1**	0.6		0.5
Annualized net interest in (losses) earnings of equity investments, net of tax, on beginning diluted book value per common share		(0.1)	**0.2**	
Annualized operating return on beginning diluted book value per common share	**10.4%**	4.2%	**11.7%**	(21.0)%

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

The Non-life combined ratio decreased by 11.1 points to 90.6% in the three months ended June 30, 2012 from 101.7% in the same period of 2011. The decrease in the combined ratio for the three months ended June 30, 2012 compared to the same period of 2011 reflected a decrease in the impact of large catastrophe losses of 19.9 points. This decrease in the combined ratio was partially offset by a decrease in net favorable loss development on prior accident years of 4.9 points and a lower level of net premiums earned in the Catastrophe sub-segment which, absent catastrophe losses, directly affects the Non-life combined ratio.

The Non-life combined ratio decreased by 59.3 points to 87.8% in the six months ended June 30, 2012 from 147.1% in the same period of 2011. The decrease in the combined ratio for the six months ended June 30, 2012 compared to the same period of 2011 reflected a decrease in the impact of large catastrophe losses of 67.6 points. This decrease in the combined ratio was partially offset by a lower level of net premiums earned in the Catastrophe sub-segment, as described for the three months above, and the impact of lower losses recoverable from the retrocessional programs in the Global (Non-U.S.) Specialty sub-segment.

Comment on Non-GAAP Measures

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

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Risk Management

During the three months ended June 30, 2012, the Company updated its Risk Management framework. The following discussion updates Risk Management in Item 1 of Part I of the Company s Annual Report on Form 10-K/A for the year ended December 31, 2011.

In the reinsurance industry, the core of the business model is the assumption and management of risk. A key challenge is to create economic value through the intelligent and optimal assumption and management of reinsurance and capital markets and investment risks while limiting and mitigating those risks that can destroy tangible as well as intangible value, those risks for which the organization is not sufficiently compensated, and those risks that could threaten the ability of the Company to achieve its objectives. While many companies start with a return goal and then attempt to shed risks that may derail that goal, the Company starts with a capital-based risk appetite and then looks for risks that meet its return targets within that framework. Management believes that this construct allows the Company to balance the cedants need for certainty of claims payment with the shareholders need for an adequate return.

All business decisions entail a risk/return trade-off, and these decisions are applicable to the Company s risks. In the context of assumed business risks, this requires an accurate evaluation of risks to be assumed, and a determination of the appropriate economic returns required as fair compensation for such risks. In the context of other than voluntarily assumed business risks, the decision relates to comparing the probability and potential severity of a risk event against the costs of risk mitigation strategies. In many cases, the potential impact of a risk event is so severe as to warrant significant, and potentially expensive, risk mitigation strategies. In other cases, the probability and potential severity of a risk does not warrant extensive risk mitigation.

The Company s results are primarily determined by how well the Company understands, prices and manages assumed risk. Management also believes that every organization faces numerous risks that could threaten the successful achievement of a company s goals and objectives. These include choice of strategy and markets, economic and business cycles, competition, changes in regulation, data quality and security, fraud, business interruption and management continuity; all factors which can be viewed as either strategic, financial, or operational risks that are common to any industry. See Risk Factors in Item 1A of Part I of the Company s Annual Report on Form 10-K/A for the year ended December 31, 2011.

The Company has a clearly defined governance structure for risk management. Executive Management and the Board are responsible for setting the overall vision and goals of the Company, which include the Company s risk appetite and return expectations. The Company s risk framework, including key risk policies, is recommended by Executive Management and approved by the Risk and Finance Committee of the Board (Risk and Finance Committee). Each of the Company s risk policies relates to a specific risk and describes the Company s approach to risk management, defines roles and responsibilities relating to the assumption, mitigation, and control processes for that risk, and an escalation process for exceptions. Key policies are established by the Chief Executive Officer and policies at the next level down are established by Business Unit and functional management. Key policies are approved by the relevant Committee of the Board and other policies are approved by the Chief Executive Officer. Risk management policies and processes are coordinated by Group Risk Management and compliance is verified by Internal Audit on a periodic basis. The results of audits are monitored by the Audit Committee of the Board.

The Company utilizes a multi-level risk management structure, whereby critical exposure limits, return requirement guidelines, capital at risk and key policies are established by the Executive Management and Board, but day-to-day execution of risk assumption activities and related risk mitigation strategies are delegated to the Business Units. Reporting on risk management activities is integrated within the Company s annual planning process, quarterly operations reports, periodic reports on exposures and large losses, and presentations to the Executive Management and Board. Individual Business Units employ, and are responsible for reporting on, operating risk management procedures and controls, while Internal Audit periodically evaluates the effectiveness of such procedures and controls.

Strategic Risks

Strategic risks are managed by Executive Management and include the direction and governance of the Company, as well as its response to key external factors faced by the reinsurance industry, such as changes in cedan