PARTNERRE LTD
Form 10-Q
November 08, 2010
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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 SEPTEMBER 30, 2010

OR

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

For the transition period from _________ to _________.

Commission file number 1-14536

PartnerRe Ltd.

(Exact name of Registrant as specified in its charter)

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

90 Pitts Bay Road, Pembroke, HM08, Bermuda

(Address of principal executive offices) (Zip Code)

(441) 292-0888

(Registrant s telephone number, including area code)

Not Applicable

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

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

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). Yes x No ¨

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

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

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

The number of the Registrant s common shares (par value $1.00 per share) outstanding, net of treasury shares, as of November 2, 2010 was 74,497,314.

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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 September 30, 2010, and the related condensed consolidated statements of operations and comprehensive income for the three-month and nine-month periods ended September 30, 2010 and 2009, and of shareholders equity and of cash flows for the nine-month periods ended September 30, 2010 and 2009. 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, 2009 and the related consolidated statements of operations and comprehensive income, shareholders equity and cash flows for the year then ended (not presented herein); and in our report dated March 1, 2010, 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, 2009 is fairly stated, in all material respects, in relation to the consolidated balance sheet from which it has been derived.

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

November 8, 2010

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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)

	September 30, 2010	December 31, 2009
Assets		
Investments:		
Fixed maturities, trading securities, at fair value (amortized cost: 2010, $13,088,496; 2009, $13,856,840)	**$ 13,769,651**	$ 14,143,093
Short-term investments, trading securities, at fair value (amortized cost: 2010, $88,599; 2009, $134,830)	**89,016**	137,346
Equities, trading securities, at fair value (cost: 2010, $984,957; 2009, $731,387)	**1,027,338**	795,539
Other invested assets	**296,105**	225,532
Total investments	**15,182,110**	15,301,510
Funds held directly managed (cost: 2010, $1,870,523; 2009, $2,126,456)	**1,919,325**	2,124,826
Cash and cash equivalents, at fair value, which approximates amortized cost	**1,437,722**	738,309
Accrued investment income	**201,400**	218,739
Reinsurance balances receivable	**2,494,034**	2,249,181
Reinsurance recoverable on paid and unpaid losses	**395,865**	367,453
Funds held by reinsured companies	**918,832**	938,039
Deferred acquisition costs	**664,058**	614,857
Deposit assets	**277,275**	313,798
Net tax assets	**40,276**	79,044
Goodwill	**455,533**	455,533
Intangible assets	**191,252**	247,269
Other assets	**94,141**	83,986
Total assets	**$ 24,271,823**	$ 23,732,544
Liabilities		
Unpaid losses and loss expenses	**$ 10,705,562**	$ 10,811,483
Policy benefits for life and annuity contracts	**1,735,930**	1,615,193
Unearned premiums	**2,019,892**	1,706,816
Other reinsurance balances payable	**528,014**	426,091
Deposit liabilities	**290,598**	330,015
Net tax liabilities	**349,866**	444,789
Accounts payable, accrued expenses and other	**238,679**	231,441
Current portion of long-term debt		200,000
Debt related to senior notes	**750,000**	250,000
Debt related to capital efficient notes	**70,989**	70,989
Total liabilities	**16,689,530**	16,086,817
Shareholders Equity		
Common shares (par value $1.00, issued: 2010, 83,538,734 shares; 2009, 82,585,707 shares)	**83,539**	82,586
Series C cumulative preferred shares (par value $1.00, issued and outstanding: 2010 and 2009, 11,600,000 shares; aggregate liquidation preference: 2010 and 2009, $290,000)	**11,600**	11,600

Series D cumulative preferred shares (par value $1.00, issued and outstanding: 2010 and 2009, 9,200,000 shares; aggregate liquidation preference: 2010 and 2009, $230,000)	**9,200**	9,200
Additional paid-in capital	**3,395,567**	3,357,004
Accumulated other comprehensive income:		
Currency translation adjustment	**16,337**	82,843
Other accumulated comprehensive (loss) income (net of tax of: 2010, $3,293; 2009, $3,144)	**(4,430)**	2,084
Retained earnings	**4,753,328**	4,100,782
Common shares held in treasury, at cost (2010, 8,957,377 shares; 2009, 5,000 shares)	**(682,848)**	(372)
Total shareholders equity	**7,582,293**	7,645,727
Total liabilities and shareholders equity	**$ 24,271,823**	$ 23,732,544

See accompanying Notes to Unaudited Condensed Consolidated Financial Statements.

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PartnerRe Ltd.

Unaudited Condensed Consolidated Statements of Operations and Comprehensive Income

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

	For the three months ended September 30, 2010	For the three months ended September 30, 2009	For the nine months ended September 30, 2010	For the nine months ended September 30, 2009
Revenues				
Gross premiums written	**$ 1,008,464**	$ 893,714	**$ 4,057,965**	$ 3,080,243
Net premiums written	**$ 987,612**	$ 891,547	**$ 3,884,511**	$ 3,044,264
Decrease (increase) in unearned premiums	**325,802**	199,144	**(312,687)**	(260,994)
Net premiums earned	**1,313,414**	1,090,691	**3,571,824**	2,783,270
Net investment income	**164,402**	145,350	**511,978**	414,071
Net realized and unrealized investment gains	**293,164**	330,226	**484,683**	566,643
Net realized gain on purchase of capital efficient notes				88,427
Other income	**3,363**	8,385	**5,391**	16,327
Total revenues	**1,774,343**	1,574,652	**4,573,876**	3,868,738
Expenses				
Losses and loss expenses and life policy benefits	**748,879**	574,228	**2,465,847**	1,552,025
Acquisition costs	**261,668**	232,475	**725,919**	614,133
Other operating expenses	**118,221**	102,224	**406,506**	284,286
Interest expense	**12,297**	6,161	**32,232**	21,643
Amortization of intangible assets	**10,003**		**22,639**	
Net foreign exchange losses	**27,074**	961	**12,426**	5,511
Total expenses	**1,178,142**	916,049	**3,665,569**	2,477,598
Income before taxes and interest in earnings of equity investments	**596,201**	658,603	**908,307**	1,391,140
Income tax expense	**72,576**	93,433	**117,892**	210,198
Interest in earnings of equity investments	**1,312**	1,535	**5,103**	1,552
Net income	**524,937**	566,705	**795,518**	1,182,494
Preferred dividends	**8,631**	8,631	**25,894**	25,894
Net income available to common shareholders	**$ 516,306**	$ 558,074	**$ 769,624**	$ 1,156,600
Comprehensive income				
Net income	**$ 524,937**	$ 566,705	**$ 795,518**	$ 1,182,494
Change in currency translation adjustment	**107,572**	40,121	**(66,506)**	47,843
Change in other accumulated comprehensive (loss) income, net of tax	**(1,260)**	(852)	**(6,514)**	677
Comprehensive income	**$ 631,249**	$ 605,974	**$ 722,498**	$ 1,231,014
Per share data				
Net income per common share:				

Basic net income	**$ 6.86**	$ 9.60	**$ 9.86**	$ 20.26
Diluted net income	**$ 6.76**	$ 9.44	**$ 9.68**	$ 19.95
Weighted average number of common shares outstanding	**75,238,329**	58,118,175	**78,076,561**	57,085,619
Weighted average number of common and common share equivalents outstanding	**76,428,460**	59,128,488	**79,494,247**	57,978,485
Dividends declared per common share	**$ 0.50**	$ 0.47	**$ 1.50**	$ 1.41

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 nine months ended September 30, 2010	For the nine months ended September 30, 2009
Common shares		
Balance at beginning of period	**$ 82,586**	$ 57,749
Issuance of common shares	**953**	528
Balance at end of period	**83,539**	58,277
Preferred shares		
Balance at beginning and end of period	**20,800**	20,800
Additional paid-in capital		
Balance at beginning of period	**3,357,004**	1,465,688
Issuance of common shares	**38,563**	36,272
Balance at end of period	**3,395,567**	1,501,960
Accumulated other comprehensive income		
Balance at beginning of period	**84,927**	22,808
Change in currency translation adjustment	**(66,506)**	47,843
Change in other accumulated comprehensive (loss) income, net of tax	**(6,514)**	677
Balance at end of period	**11,907**	71,328
Retained earnings		
Balance at beginning of period	**4,100,782**	2,729,662
Net income	**795,518**	1,182,494
Reissuance of treasury shares		(13,883)
Dividends on common shares	**(117,078)**	(79,818)
Dividends on preferred shares	**(25,894)**	(25,894)
Balance at end of period	**4,753,328**	3,792,561
Common shares held in treasury		
Balance at beginning of period	**(372)**	(97,599)
Repurchase of common shares	**(682,476)**	
Reissuance of treasury shares		97,227
Balance at end of period	**(682,848)**	(372)
Total shareholders equity	**$ 7,582,293**	$ 5,444,554

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 nine months ended September 30, 2010	For the nine months ended September 30, 2009
Cash flows from operating activities		
Net income	**$ 795,518**	$ 1,182,494
Adjustments to reconcile net income to net cash provided by operating activities:		
Amortization of net premium on investments	**59,766**	14,938
Amortization of intangible assets	**22,639**	
Net realized and unrealized investment gains	**(484,683)**	(566,643)
Net realized gain on purchase of capital efficient notes		(88,427)
Changes in:		
Reinsurance balances, net	**(165,012)**	(186,388)
Reinsurance recoverable on paid and unpaid losses, net of ceded premiums payable	**(2,061)**	7,791
Funds held by reinsured companies and funds held directly managed	**178,945**	(19,362)
Deferred acquisition costs	**(31,300)**	(6,685)
Net tax assets and liabilities	**(50,269)**	196,895
Unpaid losses and loss expenses including life policy benefits	**172,974**	(59,461)
Unearned premiums	**312,687**	260,994
Other net changes in operating assets and liabilities	**56,269**	38,404
Net cash provided by operating activities	**865,473**	774,550
Cash flows from investing activities		
Sales of fixed maturities	**5,609,630**	4,736,803
Redemptions of fixed maturities	**962,540**	799,958
Purchases of fixed maturities	**(5,910,648)**	(6,029,175)
Sales and redemptions of short-term investments	**175,733**	168,001
Purchases of short-term investments	**(86,252)**	(96,588)
Sales of equities	**268,625**	592,508
Purchases of equities	**(485,455)**	(602,834)
Other, net	**(160,862)**	(27,963)
Net cash provided by (used in) investing activities	**373,311**	(459,290)
Cash flows from financing activities		
Cash dividends paid to shareholders	**(142,972)**	(105,712)
Proceeds from issuance of senior notes	**500,000**	
Repurchase of common shares	**(682,476)**	
Issuance of common shares	**17,487**	11,777
Contract fees on forward sale agreement	**(2,638)**	(3,779)
Repayment of debt	**(200,000)**	(200,000)
Purchase of capital efficient notes		(94,241)
Net cash used in financing activities	**(510,599)**	(391,955)
Effect of foreign exchange rate changes on cash	**(28,772)**	10,665
Increase (decrease) in cash and cash equivalents	**699,413**	(66,030)
Cash and cash equivalents beginning of period	**738,309**	838,280

Cash and cash equivalents end of period	**$**	**1,437,722**	$	772,250
Supplemental cash flow information:				
Taxes paid	**$**	**182,335**	$	74,183
Interest paid	**$**	**18,365**	$	19,209

See accompanying Notes to Unaudited Condensed Consolidated Financial Statements.

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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 Limited, Partner Reinsurance Company of the U.S., PARIS RE SA and PARIS RE Switzerland AG. Risks reinsured include, but are not limited to, property, casualty, motor, agriculture, aviation/space, catastrophe, credit/surety, engineering, energy, marine, specialty property, specialty casualty, multiline and other lines, life/annuity and health and alternative risk products. The Company s alternative risk products include weather and credit protection to financial, industrial and service companies on a worldwide basis.

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.

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

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

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

Statements and notes thereto included in the Company s Annual Report on Form 10-K for the year ended December 31, 2009.

The following significant accounting policies were adopted by the Company during the nine months ended September 30, 2010. The adoption of these policies did not have an impact on the Company s consolidated shareholders equity or net income.

In June 2009, the Financial Accounting Standards Board (FASB) issued new accounting guidance which replaced the quantitative approach previously required for determining the primary beneficiary of a variable interest entity (VIE) with a qualitative approach to determine whether the Company has a controlling interest (primary beneficiary) in a VIE at the date when it becomes initially involved in the VIE. The guidance also requires the Company to perform ongoing reassessments, and provide certain disclosures, related to its involvement in VIEs. The Company adopted this guidance as of January 1, 2010.

The Company is involved in the normal course of business with VIEs as a passive investor in certain asset-backed securities, other fixed maturity investments and limited partnerships, that are issued by third party VIEs. The Company s maximum exposure to loss with respect to these investments is limited to the investment carrying amounts reported in the Company s Unaudited Condensed Consolidated Balance Sheets and any unfunded commitments. The Company also has three indirect wholly-owned subsidiaries that are considered to be VIEs, which were utilized to issue the Company s Senior Notes and Capital Efficient Notes (see Note 16 to Consolidated Financial Statements in the Company s Annual Report on Form 10-K for the year ended December 31, 2009). The Company determined that it was not the primary beneficiary of any of these VIEs as of September 30, 2010.

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PartnerRe Ltd.

Notes to Unaudited Condensed Consolidated Financial Statements (Continued)

In January 2010, the FASB issued new accounting guidance which requires the Company to disclose additional information about its fair value measurements at a greater level of disaggregation. The additional disclosures include information about significant transfers into and/or out of the Level 1 and 2 categories, other disclosures about inputs and valuation techniques, and expanded disclosures related to the Level 3 activity. The Company adopted the guidance related to disclosures at a greater level of disaggregation, disclosures about transfers into and/or out of the Level 1 and 2 categories and other disclosures about inputs and valuation techniques as of January 1, 2010. Expanded disclosures related to the Level 3 activity will be effective for interim and annual periods beginning after December 15, 2010.

In March 2010, the FASB issued new accounting guidance for embedded credit derivatives, which clarifies that only a credit derivative related to the subordination of one financial instrument to another is exempt from embedded derivative bifurcation requirements. As a result, entities that have contracts containing an embedded credit derivative feature in a form other than such subordination may need to separately account for the embedded credit derivative feature. The Company adopted this guidance as of July 1, 2010.

3. New Accounting Pronouncements

In July 2010, the FASB issued new accounting guidance which requires companies to enhance the disclosures related to the credit quality of financing receivables and the allowances for credit losses. This guidance is effective for interim and annual periods ending on or after December 15, 2010. The Company is currently evaluating the impact of the adoption of this guidance on its disclosures.

In October 2010, the FASB issued new accounting guidance clarifying that only acquisition costs related directly to the successful acquisition of new or renewal insurance contracts may be capitalized. Those acquisition costs that may be capitalized include incremental direct costs, such as commissions, and a portion of salaries and benefits of certain employees who are involved in underwriting and policy issuance, that are directly related to time spent on an acquired contract. This guidance is effective for interim and annual periods beginning after December 15, 2011, with early adoption permitted at the beginning of an entity s annual reporting period. The Company is currently evaluating the impact of the adoption of this guidance 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.

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 reliability of inputs as follows:

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

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

The Company s financial instruments that it measures at fair value using Level 2 inputs generally include: U.S. Treasury bonds; U.S. Government Sponsored Entities; Organization for Economic Co-operation and Development Sovereign Treasury bonds; investment grade and high yield corporate bonds; catastrophe bonds; mortgage-backed

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PartnerRe Ltd.

Notes to Unaudited Condensed Consolidated Financial Statements (Continued)

securities; asset-backed securities; foreign exchange forward contracts and over-the-counter derivatives such as foreign currency option contracts, equity put and call options, credit default swaps and interest rate swaps.

Level 3 inputs Unobservable inputs.
The Company s financial instruments that it measures at fair value using Level 3 inputs generally include: unlisted equities including preference shares; unit trusts; inactively traded fixed maturities; real estate mutual fund investments; notes receivable and 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 September 30, 2010 and December 31, 2009, the Company s financial instruments measured at fair value were categorized between Levels 1, 2 and 3 as follows (in thousands of U.S. dollars):

September 30, 2010	Quoted prices in active markets for identical assets (Level 1)	Significant other observable inputs (Level 2)	Significant unobservable inputs (Level 3)	Total
Fixed maturities, trading securities				
U.S. government and agencies	$	$ 1,086,968	$ 10,532	$ 1,097,500
Non-U.S. sovereign government, supranational and government related		2,980,384		2,980,384
Corporate		6,600,060	16,577	6,616,637
Asset-backed securities		447,652	202,224	649,876
Residential mortgage-backed securities		2,397,653		2,397,653
Other mortgage-backed securities		27,047	554	27,601
Fixed maturities, trading securities	$	$ 13,539,764	$ 229,887	$ 13,769,651
Short-term investments, trading securities	$	$ 89,016	$	$ 89,016
Equities, trading securities				
Consumer noncyclical	$ 192,085	$	$	$ 192,085
Technology	112,288			112,288
Finance	105,234		2,428	107,662
Communications	107,024			107,024
Energy	105,804			105,804
Industrials	95,402			95,402
Consumer cyclical	78,023			78,023
Insurance	49,461			49,461
Other	86,223			86,223
Mutual funds and exchange traded funds	53,111		40,255	93,366
Equities, trading securities	$ 984,655	$	$ 42,683	$ 1,027,338
Other invested assets				
Foreign exchange forward contracts	$	$ 13,569	$	$ 13,569
Foreign currency option contracts		4,675		4,675
Futures contracts	(20,046)			(20,046)
Credit default swaps (protection purchased)		(1,741)		(1,741)

Credit default swaps (assumed risks)		(262)		(262)
Insurance-linked securities	389		(2,548)	(2,159)
Total return swaps			(4,020)	(4,020)
Interest rate swaps		(8,629)		(8,629)
Other		(36)	78,871	78,835
Other invested assets	$ (19,657)	$ 7,576	$ 72,303	$ 60,222
Funds held directly managed				
U.S. government and agencies	$	$ 301,942	$ 369	$ 302,311
Non-U.S. sovereign government, supranational and government related		437,998		437,998
Corporate		929,046		929,046
Mortgage/asset-backed securities			12,258	12,258
Short-term investments		17,389		17,389
Other invested assets			30,888	30,888
Funds held directly managed	$	$ 1,686,375	$ 43,515	$ 1,729,890
Total	$ 964,998	$ 15,322,731	$ 388,388	$ 16,676,117

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PartnerRe Ltd.

Notes to Unaudited Condensed Consolidated Financial Statements (Continued)

During the three months and nine months ended September 30, 2010, there were no significant transfers between Levels 1 and 2.

December 31, 2009	Quoted prices in active markets for identical assets (Level 1)	Significant other observable inputs (Level 2)	Significant unobservable inputs (Level 3)	Total
Fixed maturities, trading securities	$	$ 13,945,500	$ 197,593	$ 14,143,093
Short-term investments, trading securities		137,346		137,346
Equities, trading securities	757,436		38,103	795,539
Other invested assets		39,795	16,454	56,249
Funds held directly managed		1,790,676	39,619	1,830,295
Total	$ 757,436	$ 15,913,317	$ 291,769	$ 16,962,522

At September 30, 2010 and December 31, 2009, the aggregate carrying amounts of items included in other invested assets that the Company did not measure at fair value were $235.9 million and $169.3 million, respectively, which primarily 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 $1,729.9 million and $1,830.3 million at September 30, 2010 and December 31, 2009, respectively, the funds held directly managed account also included cash and cash equivalents, carried at fair value, of $45.5 million and $145.4 million, respectively, and accrued investment income of $26.6 million and $25.2 million, respectively. At September 30, 2010 and December 31, 2009, the aggregate carrying amounts of items included in the funds held directly managed account that the Company did not measure at fair value were $117.3 million and $123.9 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 7 to the Consolidated Financial Statements included in the Company s Annual Report on Form 10-K for the year ended December 31, 2009).

At September 30, 2010 and December 31, 2009, substantially all of the accrued investment income and the accrued investment income related to the investments underlying the funds held directly managed account in the Unaudited Condensed Consolidated Balance Sheets related to investments for which the fair value option was elected.

The following tables are reconciliations of the beginning and ending balances for all financial instruments measured at fair value using Level 3 inputs for the three months ended September 30, 2010 and 2009 (in thousands of U.S. dollars):

For the three months ended September 30, 2010	Balance at beginning of period	Realized and unrealized investment gains (losses) included in net income	Net purchases, sales and settlements	Transfers into Level 3 [(a)]	Balance at end of period	Change in unrealized investment gains (losses) relating to assets held at end of period
Fixed maturities, trading securities						

U.S. government and agencies	$ 9,999	$ 533	$	$	$ 10,532	$ 533
Corporate	15,437	109	856	175	16,577	109
Asset-backed securities	225,958	(1,066)	(22,668)		202,224	(3,677)
Mortgage-backed securities	854	(25)	(275)		554	(25)
Fixed maturities, trading securities	$ 252,248	$ (449)	$ (22,087)	$ 175	$ 229,887	$ (3,060)
Equities, trading securities						
Finance	$ 2,115	$ 313	$	$	$ 2,428	$ 313
Mutual funds and exchange traded funds	39,612	643			40,255	643
Equities, trading securities	$ 41,727	$ 956	$	$	$ 42,683	$ 956
Other invested assets						
Derivatives, net	$ (14,579)	$ 10,011	$ (2,000)	$	$ (6,568)	$ 9,023
Other	50,289	(1,580)	30,162		78,871	(1,580)
Other invested assets	$ 35,710	$ 8,431	$ 28,162	$	$ 72,303	$ 7,443
Funds held directly managed						
U.S. government and agencies	$ 357	$ 12	$	$	$ 369	$ 12
Mortgage/asset-backed securities	12,577	(319)			12,258	(319)
Other invested assets	26,825	4,063			30,888	4,063
Funds held directly managed	$ 39,759	$ 3,756	$	$	$ 43,515	$ $3,756
Total	$ 369,444	$ 12,694	$ 6,075	$ 175	$ 388,388	$ 9,095

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

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PartnerRe Ltd.

Notes to Unaudited Condensed Consolidated Financial Statements (Continued)

For the three months ended September 30, 2009	Balance at beginning of period	Realized and unrealized investment gains (losses) included in net income	Net purchases, sales and settlements	Net transfers (out of)/into Level 3 [(a)]	Balance at end of period	Change in unrealized investment gains relating to assets held at end of period
Fixed maturities	$ 71,975	$ 2,521	$ 28,166	$ (3,878)	$ 98,784	$ 1,878
Short-term investments	73	(35)		(38)		
Equities	34,714	1,351			36,065	1,351
Other invested assets	5,289	9,673	(2,149)	3,498	16,311	8,662
Total	$ 112,051	$ 13,510	$ 26,017	$ (418)	$ 151,160	$ 11,891

The following tables are reconciliations of the beginning and ending balances for all financial instruments measured at fair value using Level 3 inputs for the nine months ended September 30, 2010 and 2009 (in thousands of U.S. dollars):

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

U.S. government and agencies	$ 375	$ (6)	$	$	$ 369	$ (6)
Non-U.S. sovereign government, supranational and government related	3,417	(13)	(3,404)			
Mortgage/asset-backed securities	142	(4,750)		16,866	12,258	(4,744)
Other invested assets	35,685	(4,797)			30,888	(4,797)
Funds held directly managed	$ 39,619	$ (9,566)	$ (3,404)	$ 16,866	$ 43,515	$ (9,547)
Total	$ 291,769	$ 7,812	$ 81,711	$ 7,096	$ 388,388	$ 2,224

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

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PartnerRe Ltd.

Notes to Unaudited Condensed Consolidated Financial Statements (Continued)

For the nine months ended September 30, 2009	Balance at beginning of period	Realized and unrealized investment gains (losses) included in net income	Net purchases, sales and settlements	Net transfers (out of)/into Level 3 [(a)]	Balance at end of period	Change in unrealized investment gains relating to assets held at end of period
Fixed maturities	$ 78,138	$ 21,262	$ 22,230	$ (22,846)	$ 98,784	$ 1,679
Short-term investments	137	(99)		(38)		
Equities	33,547	2,577	(59)		36,065	2,577
Other invested assets	(16,136)	33,393	(4,444)	3,498	16,311	32,385
Total	$ 95,686	$ 57,133	$ 17,727	$ (19,386)	$ 151,160	$ 36,641

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

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

Changes in the fair value of the Company s financial instruments subject to the fair value option, during the three months and nine months ended September 30, 2010 and 2009, respectively, were as follows (in thousands of U.S. dollars):

	For the three months ended September 30, 2010	For the three months ended September 30, 2009	For the nine months ended September 30, 2010	For the nine months ended September 30, 2009
Fixed maturities, trading securities	**$ 134,467**	$ 243,234	**$ 399,229**	$ 381,683
Short-term investments, trading securities	**324**	(898)	**(2,093)**	(1,479)
Equities, trading securities	**79,650**	74,384	**(21,549)**	199,072
Funds held directly managed	**24,182**	N/A	**55,349**	N/A
Total	**$ 238,623**	$ 316,720	**$ 430,936**	$ 579,276

N/A: not applicable

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.

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.

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Notes to Unaudited Condensed Consolidated Financial Statements (Continued)

Fixed maturities and short-term investments

Substantially all of the Company s fixed maturities and short-term investments are categorized as Level 2 within the fair value hierarchy. The Company receives prices from independent pricing sources to measure the fair values of its fixed maturity investments. The independent pricing sources obtain market quotations and actual transaction prices for securities that have quoted prices in active markets. Each source has its own proprietary method for determining the fair value of securities that are not actively traded. In general, these methods involve the use of matrix pricing in which the independent pricing source applies the credit spread for a comparable security that has traded recently to the current yield curve to determine a reasonable fair value. The Company uses a pricing service ranking to consistently select the most appropriate pricing service in instances where it receives multiple quotes on the same security. When fair values are unavailable from these independent pricing sources, quotes are obtained directly from broker-dealers who are active in the corresponding markets. Most of the Company s fixed maturities are priced from the pricing services or dealer quotes. The Company will typically not make adjustments to prices received from pricing services or dealer quotes; however, in instances where the quoted external price for a security uses significant unobservable inputs, the Company will categorize that security as Level 3. The Company s inactively traded fixed maturities are classified as Level 3. For all fixed maturity investments, the bid price is used for estimating fair value.

To validate prices, the Company compares the fair value estimates to its knowledge of the current market and will investigate prices that it considers not to be representative of fair value. The Company also reviews an internally generated fixed maturity price validation report which converts prices received for fixed maturity investments from the independent pricing sources and from broker-dealers quotes and plots option adjusted spreads (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.

Equities

The majority of the Company s equities are categorized as Level 1 within the fair value hierarchy. In determining the fair value for equities and exchange traded funds categorized as Level 1, the Company uses prices received from independent pricing sources based on closing exchange prices. Equities categorized as Level 3 are generally mutual funds invested in securities other than the common stock of publicly traded companies, where the net asset value is not provided on a daily basis.

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

Other invested assets

The Company s exchange traded derivatives, such as futures and certain weather derivatives are categorized as Level 1 and foreign exchange forward contracts, foreign currency option contracts, equity put and call options, interest rate swaps, and credit default swaps are categorized as Level 2 within the fair value hierarchy. Included in the Company s Level 3 categorization are unlisted equities including preference shares, unit trusts, credit linked notes, notes receivable and total return swaps. The Company will generally either (i) receive a price based on a manager s or trustee s valuation for the asset; or (ii) develop an internal discounted cash flow model to measure fair value. Where the Company receives prices from the manager or trustee, these prices are based on the manager s or trustee s estimate of fair value for the assets and are generally audited on an annual basis. Where the Company develops its own discounted cash flow models, the inputs will be specific to the asset in question, based on appropriate historical information, adjusted as necessary, and using appropriate discount rates. As part of the Company s modeling to determine the fair value of an investment, the Company considers counterparty credit risk as an input to the model, however, the majority of the Company s counterparties are highly rated institutions and the failure of any one counterparty would not have a significant impact on the Company s financial statements.

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

Funds held directly managed

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

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PartnerRe Ltd.

Notes to Unaudited Condensed Consolidated Financial Statements (Continued)

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

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

The methods and assumptions used by the Company in estimating the fair value of each class of financial instrument liability recorded in the Unaudited Condensed Consolidated Balance Sheet at September 30, 2010, for which the Company does not measure that instrument at fair value, did not change from December 31, 2009, except for:

- the fair value of the capital efficient notes (CENts), which was based on the present value of estimated discounted future cash flows at December 31, 2009, was based on quoted market prices at September 30, 2010;
- the fair value of the Senior Notes, issued on March 10, 2010, was based on quoted market prices (see Note 6); and
- the current portion of long-term debt was repaid in July 2010 (see Note 5).

The carrying values and fair values of the financial instrument liabilities recorded in the Unaudited Condensed Consolidated Balance Sheets as of September 30, 2010 and December 31, 2009 were as follows (in thousands of U.S. dollars):

	September 30, 2010		December 31, 2009	
	Carrying Value	**Fair Value**	**Carrying Value**	**Fair Value**
Policy benefits for life and annuity contracts (1)	**$ 1,735,930**	**$ 1,735,930**	$ 1,615,193	$ 1,615,193
Current portion of long-term debt			200,000	199,494
Debt related to senior notes (2)	**750,000**	**789,666**	250,000	264,438
Debt related to capital efficient notes (3)	**63,384**	**54,829**	63,384	56,355

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

(2) *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 $750.0 million and $250.0 million in its Unaudited Condensed Consolidated Balance Sheets at September 30, 2010 and December 31, 2009, respectively.*

(3) *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 $71.0 million in its Unaudited Condensed Consolidated Balance Sheets at September 30, 2010 and December 31, 2009, respectively.*

5. Debt

On July 12, 2010, the Company repaid the $200 million remaining half of the original $400 million loan agreement with Citibank N.A. that was classified as current portion of long-term debt in the Company s Unaudited Condensed Consolidated Balance Sheet at December 31, 2009 (see Note 15 to Consolidated Financial Statements included in the Company s Annual Report on Form 10-K for the year ended December 31, 2009).

6. Debt Related to Senior Notes

On March 10, 2010, PartnerRe Finance B LLC (PartnerRe Finance B), an indirect wholly-owned subsidiary of the Company, issued $500 million aggregate principal amount of 5.500% Senior Notes (Senior Notes). The Senior Notes will mature on June 1, 2020 and may be redeemed at the option of the issuer, in whole or in part, at any time. Interest payments on the Senior Notes commenced on June 1, 2010 and is payable semi-annually at an annual fixed rate of 5.500%, and cannot be deferred.

The Senior Notes are ranked as senior unsecured obligations of PartnerRe Finance B. The Company has fully and unconditionally guaranteed all obligations of PartnerRe Finance B under the Senior Notes. The Company s obligations under this guarantee are senior and unsecured and rank equally with all other senior unsecured indebtedness of the Company. The proceeds from the Senior Notes were used for general corporate purposes.

Contemporaneously, PartnerRe U.S. Holdings, a wholly-owned subsidiary of the Company, issued a 5.500% promissory note, with a principal amount of $500 million to PartnerRe Finance B. Under the terms of the promissory note, PartnerRe U.S. Holdings promises to pay to PartnerRe Finance B the principal amount on June 1, 2020, unless previously paid. Interest on the promissory note commenced on June 1, 2010 and is payable semi-annually at an annual fixed rate of 5.500%, and cannot be deferred.

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PartnerRe Ltd.

Notes to Unaudited Condensed Consolidated Financial Statements (Continued)

7. Net Income per Share

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

	For the three months ended September 30, 2010	For the three months ended September 30, 2009	For the nine months ended September 30, 2010	For the nine months ended September 30, 2009
Numerator:				
Net income	**$ 524,937**	$ 566,705	**$ 795,518**	$ 1,182,494
Less: preferred dividends	**(8,631)**	(8,631)	**(25,894)**	(25,894)
Net income available to common shareholders	**$ 516,306**	$ 558,074	**$ 769,624**	$ 1,156,600
Denominator:				
Weighted average number of common shares outstanding basic	**75,238.3**	58,118.2	**78,076.6**	57,085.6
Share options and other [(1)]	**1,190.2**	1,010.3	**1,417.6**	892.9
Weighted average number of common and common share equivalents outstanding diluted	**76,428.5**	59,128.5	**79,494.2**	57,978.5
Basic net income per share	**$ 6.86**	$ 9.60	**$ 9.86**	$ 20.26
Diluted net income per share [(1)]	**$ 6.76**	$ 9.44	**$ 9.68**	$ 19.95

(1) At September 30, 2010 and 2009, share options to purchase 897.3 thousand and 875.8 thousand common shares, respectively, were excluded from the calculation of diluted weighted average number of common and common share equivalents outstanding because their exercise prices were greater than the average market price of the common shares.

8. Derivatives

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

Foreign Exchange Forward Contracts

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

Foreign Currency Option Contracts and Futures Contracts

The Company also utilizes foreign currency option contracts to mitigate foreign currency risk. The Company uses exchange traded treasury note futures contracts to manage portfolio duration and commodity and equity futures to hedge certain investments.

Credit Default Swaps

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

The Company also assumes credit risk through credit default swaps to replicate investment positions. The original term of these credit default swaps is generally five years or less and there are no recourse provisions associated with these swaps. While the Company would be required to perform under exposure assumed through credit default swaps in the event of a default on the underlying issuer, no issuer was in default at September 30, 2010. The counterparties on the Company s assumed credit default swaps are all highly rated financial institutions.

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Notes to Unaudited Condensed Consolidated Financial Statements (Continued)

Insurance-Linked Securities

The Company has entered into various weather derivatives, weather futures and longevity total return swaps for which the underlying risks include parametric weather risks for the weather derivatives and 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 and principal finance obligations. The Company has also entered into interest rate swaps to mitigate interest rate risk on certain total return swaps and interest rate derivatives to mitigate exposure to interest rate volatility.

The fair values and the related notional values of derivatives included in the Company s Unaudited Condensed Consolidated Balance Sheets at September 30, 2010 and December 31, 2009 were as follows (in thousands of U.S. dollars):

	September 30, 2010		December 31, 2009	
	Fair Value	Notional Value	Fair Value	Notional Value
Derivatives designated as hedges				
Foreign exchange forward contracts (net investment hedge)	$	$	$ 4,840	$
Interest rate derivatives			6,354	400,000
Total derivatives designated as hedges	$		$ 11,194	
Derivatives not designated as hedges				
Foreign exchange forward contracts	**$ 13,569**	**$ 1,732,462**	$ 1,137	$ 1,333,862
Foreign currency option contracts	**4,675**	**120,527**	1,680	108,205
Futures contracts	**(20,046)**	**1,306,486**	27,866	1,825,297
Credit default swaps (protection purchased)	**(1,741)**	**134,110**	(2,056)	192,996
Credit default swaps (assumed risks)	**(262)**	**27,500**	566	22,500
Insurance-linked securities	**(2,159)**	**118,213**	(149)	48,962
Total return swaps	**(4,020)**	**178,126**	(1,195)	229,165
Interest rate swaps(1)	**(8,629)**		(8,166)	
Other			130	
Total derivatives not designated as hedges	**$ (18,613)**		$ 19,813	
Total derivatives	**$ (18,613)**		$ 31,007	

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

The fair value of all derivatives at September 30, 2010 and December 31, 2009 is recorded in other invested assets in the Company s Unaudited Condensed Consolidated Balance Sheets. The effective portion of net investment hedging derivatives recognized in accumulated other comprehensive income at December 31, 2009 was a loss of $66.3 million. The effective portion of interest rate derivatives recognized in accumulated other comprehensive income at December 31, 2009 was a gain of $6.4 million. There were no net investment hedges or interest rate derivatives outstanding at September 30, 2010.

The gains and losses in the Unaudited Condensed Consolidated Statements of Operations for derivatives not designated as hedges for the three months and nine months ended September 30, 2010 and 2009 were as follows (in thousands of U.S. dollars):

	For the three months ended September 30, 2010	For the three months ended September 30, 2009	For the nine months ended September 30, 2010	For the nine months ended September 30, 2009
Foreign exchange forward contracts	**$ 33,284**	$ 36,058	**$ 43,825**	$ 38,093
Foreign currency option contracts	**4,774**	1,861	**5,908**	4,044
Total included in net foreign exchange gains and losses	**$ 38,058**	$ 37,919	**$ 49,733**	$ 42,137
Futures contracts	**$ (39,092)**	$ (50,148)	**$ (115,207)**	$ (15,948)
Credit default swaps (protection purchased)	**(944)**	(5,121)	**(1,285)**	(13,957)
Credit default swaps (assumed risks)	**1,528**	5,721	**149**	5,798
Insurance-linked securities	**5,020**	120	**8,834**	691
Total return swaps	**4,400**	7,673	**6,809**	26,876
Interest rate swaps	**(857)**	(921)	**(464)**	2,281
Interest rate derivatives			**(3,848)**	
Other	**(88)**		**(154)**	230
Total included in net realized and unrealized investment gains and losses	**$ (30,033)**	$ (42,676)	**$ (105,166)**	$ 5,971
Total derivatives not designated as hedges	**$ 8,025**	$ (4,757)	**$ (55,433)**	$ 48,108

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PartnerRe Ltd.

Notes to Unaudited Condensed Consolidated Financial Statements (Continued)

9. Off-Balance Sheet Arrangements

On April 28, 2010, under the terms of the amendment to the forward sale agreement with the forward counterparty, the remaining $200 million forward sale agreement matured. Subsequent to maturity and commencing on April 28, 2010, there was a 40 day valuation period, whereby the Company could deliver up to 3.4 million common shares over the valuation period, subject to a minimum price per share of $59.05 and a maximum price per share of $84.15. As a result of the Company s share price trading between the minimum and the maximum price per share during the valuation period, the Company did not deliver any common shares to the forward counterparty.

See Off-Balance Sheet Arrangements in Notes 15 and 18 to Consolidated Financial Statements in the Company s Annual Report on Form 10-K for the year ended December 31, 2009.

10. 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 May 14, 2010, the Company entered into an agreement to modify an existing credit facility. Under the terms of the agreement, this credit facility was increased from a $100 million unsecured credit facility to a $250 million combined credit facility, with the initial $100 million being unsecured and any utilization above that being secured. This credit facility matures on May 14, 2011, and can be extended automatically to May 14, 2012.

On July 16, 2010, the Company terminated its existing $660 million five-year syndicated unsecured credit facility, which had a maturity date of September 30, 2010, and entered into a new $750 million three-year syndicated unsecured credit facility. The new facility has the following terms: (i) a maturity date of July 16, 2013, (ii) a $250 million accordion feature, which enables the Company to potentially increase its available credit from $750 million to $1 billion, and (iii) a minimum consolidated tangible net worth requirement. The Company s ability to increase its available credit to $1 billion is subject to the agreement of the credit facility participants. The Company s breach of any of the covenants would result in an event of default, upon which the Company may be required to repay any outstanding borrowings and replace or cash collateralize letters of credit issued under this facility. The Company was in compliance with all of the covenants as of September 30, 2010. The new facility is predominantly used for the issuance of letters of credit, although the Company and its subsidiaries have access to a revolving line of credit of up to $375 million as part of this facility. At September 30, 2010, there were no borrowings under this revolving line of credit.

See Note 21 to the Consolidated Financial Statements included in the Company s Annual Report on Form 10-K for the year ended December 31, 2009 for further information related to the credit facilities available to the Company.

11. Commitments and Contingencies

(a) Concentration of Credit Risk

The Company s investment portfolio is managed following prudent standards of diversification and a prudent investment philosophy. The Company is not exposed to any significant credit concentration risk on its investments, except for debt securities issued or guaranteed by the U.S. government and other AAA rated sovereign governments. As of September 30, 2010, the Company s fixed maturity investments included $882.9 million, or 11.6% of the Company s total shareholders equity, of AAA rated debt securities issued by the government of France. As of December 31, 2009, the Company s fixed maturity investments included $814 million, or 10.6% of the Company s total shareholders equity, of AAA rated debt securities issued by the government of France. The Company keeps cash and cash equivalents in several banks and may keep up to $500 million, excluding custodial accounts, at any point in time in any one bank.

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PartnerRe Ltd.

Notes to Unaudited Condensed Consolidated Financial Statements (Continued)

See Note 19(a) to the Consolidated Financial Statements included in the Company s Annual Report on Form 10-K for the year ended December 31, 2009 for a complete description of the Company s credit risks and the related credit risk management strategies and controls.

(b) Employment Agreements

In April 2010, as part of the Company s integration of PARIS RE (Paris Re), the Company announced a voluntary termination plan (voluntary plan) available to certain eligible employees in France. Employees participating in the voluntary plan have no compulsory notice periods, however, their expected leaving dates are largely through mid 2012. Participating employees will continue to receive salary and other employment benefits until they leave the Company.

On July 12, 2010, the Company announced certain changes in its executive management group. Related to these changes, on July 28, 2010, the Company entered into a separation agreement (letter agreement) with a member of executive management.

During the three months and nine months ended September 30, 2010, the Company recorded pre-tax charges of $9.2 million and $44.4 million, respectively, related to the aggregated costs of the voluntary plan and the letter agreement within other operating expenses. The continuing salary and other employment benefits costs related to employees participating in the voluntary plan and the member of executive management will be expensed as the employee provides service and remains with the Company.

(c) Legal Proceedings

Legal proceedings at September 30, 2010 have not changed significantly since December 31, 2009. See Note 19(e) to the Consolidated Financial Statements included in the Company s Annual Report on Form 10-K for the year ended December 31, 2009.

12. Segment Information

The Company monitors the performance of its operations in three segments, Non-life, Life and Corporate and Other as described in Note 22 to the Consolidated Financial Statements included in the Company s Annual Report on Form 10-K for the year ended December 31, 2009. The Non-life segment is further divided into five sub-segments: U.S., Global (Non-U.S.) P&C, Global (Non-U.S.) Specialty, Catastrophe and Paris Re.

Because the Company does not manage its assets by segment, net investment income is not allocated to the Non-life segment. However, because of the interest-sensitive nature of some of the Company s Life products, net investment income is considered in Management s assessment of the profitability of the Life segment. The following items are not considered in evaluating the results of the Non-life and Life segments: net realized and unrealized investment gains and losses, net realized gain on purchase of CENts, interest expense, 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 (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 revenues and results for the three months and nine months ended September 30, 2010 and 2009 (in millions of U.S. dollars, except ratios):

Segment Information

For the three months ended September 30, 2010

	U.S.	Global (Non-U.S.) P&C	Global (Non-U.S.) Specialty	Catastrophe	Paris Re	Total Non-life Segment	Life Segment	Corporate and Other	Total
Gross premiums written	$ 242	$ 149	$ 276	$ 91	$ 66	$ 824	$ 183	$ 1	$ 1,008
Net premiums written	$ 242	$ 149	$ 269	$ 84	$ 60	$ 804	$ 183	$ 1	$ 988
Decrease in unearned premiums	5	28	19	90	182	324	1		325
Net premiums earned	$ 247	$ 177	$ 288	$ 174	$ 242	$ 1,128	$ 184	$ 1	$ 1,313
Losses and loss expenses and life policy benefits	(115)	(133)	(141)	(58)	(154)	(601)	(147)	(1)	(749)
Acquisition costs	(72)	(46)	(62)	(13)	(35)	(228)	(33)		(261)
Technical result	**$ 60**	**$ (2)**	**$ 85**	**$ 103**	**$ 53**	**$ 299**	**$ 4**	**$**	**$ 303**
Other income						2		1	3
Other operating expenses						(81)	(11)	(26)	(118)
Underwriting result						**$ 220**	**$ (7)**	**n/a**	**$ 188**
Net investment income							17	147	164
Allocated underwriting result (1)							**$ 10**	**n/a**	**n/a**
Net realized and unrealized investment gains								293	293
Interest expense								(12)	(12)
Amortization of intangible assets								(10)	(10)
Net foreign exchange losses								(27)	(27)
Income tax expense								(72)	(72)
Interest in earnings of equity investments								1	1
Net income								**n/a**	**$ 525**
Loss ratio (2)	46.5%	75.0%	49.1%	33.5%	63.6%	53.3%			
Acquisition ratio (3)	29.0	26.1	21.5	7.5	14.7	20.2			
Technical ratio (4)	75.5%	101.1%	70.6%	41.0%	78.3%	73.5%			

Other operating expense ratio (5)	7.2
Combined ratio (6)	80.7 %

(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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Notes to Unaudited Condensed Consolidated Financial Statements (Continued)

Segment Information

For the three months ended September 30, 2009

	U.S.	Global (Non-U.S.) P&C	Global (Non-U.S.) Specialty	Catastrophe	Total Non-life Segment	Life Segment	Corporate and Other	Total
Gross premiums written	$ 279	$ 125	$ 284	$ 47	$ 735	$ 157	$ 2	$ 894
Net premiums written	$ 279	$ 124	$ 283	$ 47	$ 733	$ 157	$ 2	$ 892
Decrease in unearned premiums	33	36	12	112	193	3	2	198
Net premiums earned	$ 312	$ 160	$ 295	$ 159	$ 926	$ 160	$ 4	$ 1,090
Losses and loss expenses and life policy benefits	(171)	(84)	(195)	(9)	(459)	(115)		(574)
Acquisition costs	(80)	(39)	(73)	(12)	(204)	(28)		(232)
Technical result	**$ 61**	**$ 37**	**$ 27**	**$ 138**	**$ 263**	**$ 17**	**$ 4**	**$ 284**
Other income					5		3	8
Other operating expenses					(61)	(13)	(28)	(102)
Underwriting result					**$ 207**	**$ 4**	**n/a**	**$ 190**
Net investment income						16	129	145
Allocated underwriting result						**$ 20**	**n/a**	**n/a**
Net realized and unrealized investment gains							330	330
Interest expense							(6)	(6)
Net foreign exchange losses							(1)	(1)
Income tax expense							(93)	(93)
Interest in earnings of equity investments							2	2
Net income							**n/a**	**$ 567**
Loss ratio	54.9%	52.2%	66.1%	5.6%	49.5%			
Acquisition ratio	25.7	24.5	24.8	7.4	22.0			
Technical ratio	80.6%	76.7%	90.9%	13.0%	71.5%			
Other operating expense ratio					6.6			
Combined ratio					78.1%			

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Segment Information

For the nine months ended September 30, 2010

	U.S.	Global (Non-U.S.) P&C	Global (Non-U.S.) Specialty	Catastrophe	Paris Re	Total Non-life Segment	Life Segment	Corporate and Other	Total
Gross premiums written	$ 704	$ 634	$ 944	$ 462	$ 773	$ 3,517	$ 537	$ 4	$ 4,058
Net premiums written	$ 704	$ 630	$ 906	$ 455	$ 654	$ 3,349	$ 533	$ 3	$ 3,885
(Increase) decrease in unearned premiums	(40)	(114)	(96)	(127)	76	(301)	(12)		(313)
Net premiums earned	$ 664	$ 516	$ 810	$ 328	$ 730	$ 3,048	$ 521	$ 3	$ 3,572
Losses and loss expenses and life policy benefits	(360)	(437)	(499)	(163)	(559)	(2,018)	(447)	(1)	(2,466)
Acquisition costs	(192)	(130)	(176)	(25)	(121)	(644)	(82)		(726)
Technical result	**$ 112**	**$ (51)**	**$ 135**	**$ 140**	**$ 50**	**$ 386**	**$ (8)**	**$ 2**	**$ 380**
Other income						3	2		5
Other operating expenses						(241)	(38)	(127	