

PARTNERRE LTD
Form 10-Q
November 03, 2011
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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, 2011

OR

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

For the transition period from to .

Commission file number 1-14536

PartnerRe Ltd.

(Exact name of registrant as specified in its charter)

Bermuda **Not Applicable**
(State of incorporation) (I.R.S. Employer Identification No.)
90 Pitts Bay Road, Pembroke, HM08, Bermuda
(Address of principal executive offices) (Zip Code)
(441) 292-0888
(Registrant's telephone number, including area code)
Not Applicable
(Former name, former address and former fiscal year, if changed since last report)

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes 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 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 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

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

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PartnerRe Ltd.

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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, 2011, and the related condensed consolidated statements of operations and comprehensive income (loss) for the three-month and nine-month periods ended September 30, 2011 and 2010, and of shareholders' equity, and of cash flows for the nine-month periods ended September 30, 2011 and 2010. These interim condensed consolidated financial statements are the responsibility of the Company's management.

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

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

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

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

Hamilton, Bermuda

November 3, 2011

Table of Contents**PartnerRe Ltd.****Unaudited Condensed Consolidated Balance Sheets**

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

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

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

See accompanying Notes to Unaudited Condensed Consolidated Financial Statements.

Table of Contents**PartnerRe Ltd.****Unaudited Condensed Consolidated Statements of Operations and Comprehensive Income (Loss)**

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

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

Per share data

Net income (loss) per common share:

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

See accompanying Notes to Unaudited Condensed Consolidated Financial Statements.

Table of Contents**PartnerRe Ltd.****Unaudited Condensed Consolidated Statements of Shareholders Equity**

(Expressed in thousands of U.S. dollars)

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

See accompanying Notes to Unaudited Condensed Consolidated Financial Statements.

Table of Contents**PartnerRe Ltd.****Unaudited Condensed Consolidated Statements of Cash Flows**

(Expressed in thousands of U.S. dollars)

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

Cash and cash equivalents end of period	\$ 1,073,432	\$ 1,437,722
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Supplemental cash flow information:

Taxes paid	\$ 136,188	\$ 182,335
Interest paid	\$ 24,630	\$ 18,365

See accompanying Notes to Unaudited Condensed Consolidated Financial Statements.

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

2. Significant Accounting Policies

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

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

Unpaid losses and loss expenses;

Policy benefits for life and annuity contracts;

Gross and net premiums written and net premiums earned;

Recoverability of deferred acquisition costs;

Recoverability of deferred tax assets;

Valuation of goodwill and intangible assets; and

Valuation of certain assets and derivative financial instruments that are measured using significant unobservable inputs.

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

3. New Accounting Pronouncements

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

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

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

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4. Fair Value

(a) Fair Value of Financial Instrument Assets

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

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

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

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

The Company's financial instruments that it measures at fair value using Level 2 inputs generally include: U.S. Treasury bonds; U.S. Government Sponsored Entities bonds; Organization for Economic Co-operation and Development Sovereign Treasury bonds; U.S. state and municipal entities bonds; investment grade and high yield corporate bonds; catastrophe bonds; mortality bonds; mortgage-backed securities; asset-backed securities; certain fixed income mutual funds; foreign exchange forward contracts and over-the-counter derivatives such as foreign currency option contracts, equity put and call options, credit default swaps, non-exchange traded futures and interest rate swaps.

Level 3 inputs Unobservable inputs.

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

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

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

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

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

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

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

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

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

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

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

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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 three months ended September 30, 2011 and 2010 (in thousands of U.S. dollars):

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

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

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

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

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

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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 nine months ended September 30, 2011 and 2010 (in thousands of U.S. dollars):

	Balance at beginning of period	Realized and unrealized investment gains (losses) included in net loss	Purchases and issuances ^(a)	Sales and settlements ^(a)	Net transfers into Level 3 ^(b)	Balance at end of period	Change in unrealized investment gains (losses) relating to assets held at end of period
For the nine months ended September 30, 2011							
Fixed maturities							
U.S. municipals	\$ 55,124	\$ 3,724	\$ 30,064	\$ (67)	\$	\$ 88,845	\$ 3,724
Corporate	76,982						