PARTNERRE LTD
Form 10-Q
August 10, 2009
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UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 10-Q

x **QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**
FOR THE QUARTERLY PERIOD ENDED JUNE 30, 2009

OR

¨ **TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**
For the transition period from __________ to __________.

Commission file number 1-14536

PartnerRe Ltd.

(Exact name of Registrant as specified in its charter)

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

90 Pitts Bay Road, Pembroke, HM08, Bermuda

(Address of principal executive offices) (Zip Code)

(441) 292-0888

(Registrant s telephone number, including area code)

Not Applicable

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

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

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

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

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

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

The number of the Registrant s common shares (par value $1.00 per share) outstanding, net of treasury shares, as of August 3, 2009 was 58,166,779.

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 June 30, 2009, and the related condensed consolidated statements of operations and comprehensive income for the three-month and six-month periods ended June 30, 2009 and 2008, and of shareholders equity and of cash flows for the six-month periods ended June 30, 2009 and 2008. These interim condensed consolidated financial statements are the responsibility of the Company s management.

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

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

We have previously audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), the consolidated balance sheet of PartnerRe Ltd. and subsidiaries as of December 31, 2008 and the related consolidated statements of operations and comprehensive income, shareholders equity and cash flows for the year then ended (not presented herein); and in our report dated February 27, 2009, we expressed an unqualified opinion on those consolidated financial statements. In our opinion, the information set forth in the accompanying condensed consolidated balance sheet as of December 31, 2008 is fairly stated, in all material respects, in relation to the consolidated balance sheet from which it has been derived.

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

August 10, 2009

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PartnerRe Ltd.

Unaudited Condensed Consolidated Balance Sheets

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

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

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

See accompanying Notes to Unaudited Condensed Consolidated Financial Statements.

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

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

See accompanying Notes to Unaudited Condensed Consolidated Financial Statements.

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PartnerRe Ltd.

Unaudited Condensed Consolidated Statements of Shareholders Equity

(Expressed in thousands of U.S. dollars)

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

See accompanying Notes to Unaudited Condensed Consolidated Financial Statements.

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PartnerRe Ltd.

Unaudited Condensed Consolidated Statements of Cash Flows

(Expressed in thousands of U.S. dollars)

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

Supplemental cash flow information:

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

See accompanying Notes to Unaudited Condensed Consolidated Financial Statements.

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

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

2. Significant Accounting Policies

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

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

- Unpaid losses and loss expenses;
- Policy benefits for life and annuity contracts;
- Gross and net premiums written and net premiums earned;
- Recoverability of deferred acquisition costs;
- Recoverability of deferred tax assets;
- Valuation of goodwill; and
- Valuation of fixed maturity and equity investments that are measured using significant unobservable inputs and valuation of other invested assets, including certain derivative financial instruments.

In the opinion of Management, all adjustments (which include normal recurring adjustments) necessary for a fair presentation of results for the interim periods have been made. As the Company s reinsurance operations are exposed to low-frequency high-severity risk events, some of which are seasonal, results for certain interim periods may include unusually low loss experience, while results for other interim periods may include significant catastrophic losses. Consequently, the Company s results for interim periods are not necessarily indicative of results for the full year. These Condensed Consolidated Financial Statements should be read in conjunction with the Consolidated Financial Statements and notes thereto included in the Company s Annual Report on Form 10-K for the year ended December 31, 2008.

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

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SFAS 165

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

FSP FAS 107-1 and APB 28-1

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

FSP FAS 157-4

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

FSP FAS 157-2

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

SFAS 160

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

EITF 07-05

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

3. New Accounting Pronouncements

SFAS 167

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

SFAS 168

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

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

4. Fair value

(a) SFAS 157

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

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

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

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

Level 3 inputs Unobservable inputs.
The Company s financial instruments that it measures at fair value using Level 3 inputs generally include: unlisted equities including preference shares; unit trusts; private ABS; credit linked notes; loans receivable; total return swaps and weather derivatives.

At June 30, 2009 and December 31 2008, the Company s financial instruments measured at fair value were categorized between Levels 1, 2 and 3 as follows (in thousands of U.S. dollars):

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

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

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

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

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

The following tables are reconciliations of the beginning and ending balances for all financial instruments measured at fair value using Level 3 inputs for the three months ended June 30, 2009 and 2008, respectively (in thousands of U.S. dollars):

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

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

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

The following tables are reconciliations of the beginning and ending balances for all financial instruments measured at fair value using Level 3 inputs for the six months ended June 30, 2009 and 2008, respectively (in thousands of U.S. dollars):

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

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

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

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

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

(b) Fair Value of Financial Instrument Liabilities

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

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

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

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

(3)

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

5. Debt

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

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

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

6. Net Income (Loss) per Share

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

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

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

7. Derivatives

In accordance with SFAS No. 133, Accounting for Derivative Instruments and Hedging Activities (SFAS 133), the Company s derivative instruments are recorded in the Condensed Consolidated Balance Sheets at fair value, with changes in fair value recognized in either net foreign exchange gains and losses or net realized and unrealized investment gains and losses in the Condensed Consolidated Statements of Operations, depending on the nature of the derivative instrument. The Company s objectives for holding or issuing these derivatives are as follows:

Foreign Exchange Forward Contracts

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

Foreign Currency Option Contracts and Futures Contracts

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

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Credit Default Swaps

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

The Company assumes credit risk through credit default swaps to replicate investment positions. The original term of these credit default swaps is generally five years or less and there are no recourse provisions associated with these swaps. While the Company would be required to perform under exposure assumed through credit default swaps in the event of a default on the underlying issuer, no issuer was in default at June 30, 2009. The counterparties on the Company s assumed credit default swaps are all highly rated financial institutions.

Insurance-Linked Securities

The Company has entered into various weather derivatives, a weather future and a longevity total return swap for which the underlying risks include parametric weather risks for the weather derivatives and future and longevity risk for the longevity total return swap.

Total Return and Interest Rate Swaps

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

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

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

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

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

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

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

8. Legal Proceedings

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

9. Segment Information

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

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

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

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The following tables provide a summary of the segment revenues and results for the three months and six months ended June 30, 2009 and 2008 (in millions of U.S. dollars, except ratios):

Segment Information

For the three months ended June 30, 2009

	U.S.	Global (Non-U.S.) P&C	Global (Non-U.S.) Specialty	Catastrophe	Total Non-life Segment	Life Segment	Corporate and Other	Total
Gross premiums written	$ 248	$ 120	$ 232	$ 125	$ 725	$ 116	$ 5	$ 846
Net premiums written	$ 249	$ 118	$ 232	$ 125	$ 724	$ 116	$ 5	$ 845
Decrease (increase) in unearned premiums	9	43		(73)	(21)	7	(5)	(19)
Net premiums earned	$ 258	$ 161	$ 232	$ 52	$ 703	$ 123	$	$ 826
Losses and loss expenses and life policy benefits	(164)	(83)	(152)	22	(377)	(85)	3	(459)
Acquisition costs	(63)	(38)	(50)	(4)	(155)	(27)		(182)
Technical result	**$ 31**	**$ 40**	**$ 30**	**$ 70**	**$ 171**	**$ 11**	**$ 3**	**$ 185**
Other income					1	&n		