PARTNERRE LTD
Form 10-Q
May 03, 2013
Table of Contents

UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 10-Q

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

FOR THE QUARTERLY PERIOD ENDED MARCH 31, 2013

OR

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

For the transition period from _________ to _________.

Commission file number 1-14536

PartnerRe Ltd.

(Exact name of registrant as specified in its charter)

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

90 Pitts Bay Road, Pembroke, HM08, Bermuda

(Address of principal executive offices) (Zip Code)

(441) 292-0888

(Registrant s telephone number, including area code)

Not Applicable

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

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

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

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

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

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

The number of the registrant s common shares (par value $1.00 per share) outstanding, net of treasury shares, as of April 30, 2013 was 57,256,764.

Table of Contents

PartnerRe Ltd.

INDEX TO FORM 10-Q

		Page
	PART I FINANCIAL INFORMATION	
ITEM 1.	Financial Statements	
	Report of Independent Registered Public Accounting Firm	3
	Condensed Consolidated Balance Sheets March 31, 2013 (Unaudited) and December 31, 2012	4
	Condensed Consolidated Statements of Operations and Comprehensive Income Three Months Ended March 31, 2013 and 2012 (Unaudited)	5
	Condensed Consolidated Statements of Shareholders Equity Three Months Ended March 31, 2013 and 2012 (Unaudited)	6
	Condensed Consolidated Statements of Cash Flows Three Months Ended March 31, 2013 and 2012 (Unaudited)	7
	Notes to Condensed Consolidated Financial Statements (Unaudited)	8
ITEM 2.	Management s Discussion and Analysis of Financial Condition and Results of Operations	26
ITEM 3.	Quantitative and Qualitative Disclosures About Market Risk	68
ITEM 4.	Controls and Procedures	71
	PART II OTHER INFORMATION	
ITEM 1.	Legal Proceedings	72
ITEM 1A.	Risk Factors	72
ITEM 2.	Unregistered Sales of Equity Securities and Use of Proceeds	72
ITEM 3.	Defaults upon Senior Securities	72
ITEM 4.	Mine Safety Disclosures	72
ITEM 5.	Other Information	73
ITEM 6.	Exhibits	73
	Signatures	74
	Exhibit Index	75

Table of Contents

PART I FINANCIAL INFORMATION

Item 1. Financial Statements
REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

To the Board of Directors and Shareholders of PartnerRe Ltd.

We have reviewed the accompanying condensed consolidated balance sheet of PartnerRe Ltd. and subsidiaries (the Company) as of March 31, 2013, and the related condensed consolidated statements of operations and comprehensive income for the three-month periods ended March 31, 2013 and 2012, and of shareholders equity, and of cash flows for the three-month periods ended March 31, 2013 and 2012. 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, 2012 and the related consolidated statements of operations and comprehensive income (loss), shareholders equity, and of cash flows for the year then ended (not presented herein); and in our report dated February 26, 2013, 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, 2012 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

May 3, 2013

Table of Contents

PartnerRe Ltd.

Condensed Consolidated Balance Sheets

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

	March 31, 2013 (Unaudited)	December 31, 2012 (Audited)
Assets		
Investments:		
Fixed maturities, trading securities, at fair value (amortized cost: 2013, $13,305,616; 2012, $13,653,615)	**$ 13,969,240**	$ 14,395,315
Short-term investments, trading securities, at fair value (amortized cost: 2013, $115,466; 2012, $150,634)	**115,484**	150,552
Equities, trading securities, at fair value (cost: 2013, $1,005,213; 2012, $1,000,326)	**1,148,921**	1,094,002
Other invested assets	**311,199**	333,361
Total investments	**15,544,844**	15,973,230
Funds held directly managed (cost: 2013, $880,373; 2012, $895,261)	**909,520**	930,741
Cash and cash equivalents, at fair value, which approximates amortized cost	**1,286,898**	1,121,705
Accrued investment income	**181,151**	184,315
Reinsurance balances receivable	**2,393,159**	1,991,991
Reinsurance recoverable on paid and unpaid losses	**400,509**	348,086
Funds held by reinsured companies	**775,486**	805,489
Deferred acquisition costs	**646,178**	568,391
Deposit assets	**253,823**	257,208
Net tax assets	**11,225**	25,098
Goodwill	**456,380**	456,380
Intangible assets	**207,224**	214,270
Other assets	**73,216**	103,528
Total assets	**$ 23,139,613**	$ 22,980,432
Liabilities		
Unpaid losses and loss expenses	**$ 10,323,786**	$ 10,709,371
Policy benefits for life and annuity contracts	**1,763,413**	1,813,244
Unearned premiums	**2,074,370**	1,534,625
Other reinsurance balances payable	**342,423**	238,578
Deposit liabilities	**248,204**	252,217
Net tax liabilities	**358,197**	387,647
Accounts payable, accrued expenses and other	**260,673**	290,265
Debt related to senior notes	**750,000**	750,000
Debt related to capital efficient notes	**70,989**	70,989
Total liabilities	**16,192,055**	16,046,936
Shareholders Equity		
Common shares (par value $1.00; issued: 2013, 86,011,738 shares; 2012, 85,459,905 shares)	**86,012**	85,460
Preferred shares (par value $1.00; issued and outstanding: 2013, 34,150,000 shares and 2012, 35,750,000 shares; aggregate liquidation value: 2013, $853,750 and 2012, $893,750)	**34,150**	35,750
Additional paid-in capital	**3,845,781**	3,861,844
Accumulated other comprehensive (loss) income	**(8,470)**	10,597
Retained earnings	**5,125,173**	4,952,002
Common shares held in treasury, at cost (2013, 28,351,550 shares; 2012, 26,550,530 shares)	**(2,171,932)**	(2,012,157)

Total shareholders equity attributable to PartnerRe Ltd.	**6,910,714**	6,933,496
Noncontrolling interests	**36,844**	
Total shareholders equity	**6,947,558**	6,933,496
Total liabilities and shareholders equity	**$ 23,139,613**	$ 22,980,432

See accompanying Notes to Condensed Consolidated Financial Statements.

4

Table of Contents

PartnerRe Ltd.

Condensed Consolidated Statements of Operations and Comprehensive Income (Unaudited)

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

	For the three months ended March 31, 2013	For the three months ended March 31, 2012
Revenues		
Gross premiums written	**$ 1,756,886**	$ 1,567,483
Net premiums written	**$ 1,636,431**	$ 1,473,286
Increase in unearned premiums	**(489,751)**	(483,456)
Net premiums earned	**1,146,680**	989,830
Net investment income	**123,704**	146,896
Net realized and unrealized investment gains	**22,943**	192,735
Other income	**3,927**	2,746
Total revenues	**1,297,254**	1,332,207
Expenses		
Losses and loss expenses and life policy benefits	**660,952**	576,486
Acquisition costs	**234,200**	211,608
Other operating expenses	**116,040**	98,174
Interest expense	**12,229**	12,220
Amortization of intangible assets	**7,046**	8,893
Net foreign exchange (gains) losses	**(2,043)**	2,589
Total expenses	**1,028,424**	909,970
Income before taxes and interest in earnings of equity investments	**268,830**	422,237
Income tax expense	**41,675**	67,174
Interest in earnings of equity investments	**7,215**	5,078
Net income	**234,370**	360,141
Preferred dividends	**14,699**	15,405
Loss on redemption of preferred shares	**9,135**	
Net income available to common shareholders	**$ 210,536**	$ 344,736
Comprehensive income		
Net income	**$ 234,370**	$ 360,141
Change in currency translation adjustment	**(19,830)**	17,207
Change in unfunded pension obligation, net of tax	**996**	(869)
Change in net unrealized losses on investments	**(233)**	(242)
Total other comprehensive (loss) income, net of tax	**(19,067)**	16,096
Comprehensive income	**$ 215,303**	$ 376,237
Per share data		
Net income per common share:		

Basic net income	**$**	**3.60**	$	5.27
Diluted net income	**$**	**3.53**	$	5.24
Weighted average number of common shares outstanding		**58,423,898**		65,404,227
Weighted average number of common shares and common share equivalents outstanding		**59,590,044**		65,842,819
Dividends declared per common share	**$**	**0.64**	$	0.62

See accompanying Notes to Condensed Consolidated Financial Statements.

5

Table of Contents

PartnerRe Ltd.

Condensed Consolidated Statements of Shareholders Equity (Unaudited)

(Expressed in thousands of U.S. dollars)

	For the three months ended March 31, 2013	For the three months ended March 31, 2012
Common shares		
Balance at beginning of period	**$ 85,460**	$ 84,767
Issuance of common shares	**552**	173
Balance at end of period	**86,012**	84,940
Preferred shares		
Balance at beginning of period	**35,750**	35,750
Issuance of preferred shares	**10,000**	
Redemption of preferred shares	**(11,600)**	
Balance at end of period	**34,150**	35,750
Additional paid-in capital		
Balance at beginning of period	**3,861,844**	3,803,796
Issuance of common shares	**21,937**	11,260
Issuance of preferred shares	**231,265**	
Redemption of preferred shares	**(269,265)**	
Balance at end of period	**3,845,781**	3,815,056
Accumulated other comprehensive (loss) income		
Balance at beginning of period	**10,597**	(12,644)
Currency translation adjustment		
Balance at beginning of period	**32,755**	4,267
Change in currency translation adjustment	**(19,830)**	17,207
Balance at end of period	**12,925**	21,474
Unfunded pension obligation		
Balance at beginning of period	**(27,370)**	(23,076)
Change in unfunded pension obligation	**996**	(869)
Balance at end of period (net of tax: 2013, $7,468; 2012, $6,780)	**(26,374)**	(23,945)
Unrealized losses on investments		
Balance at beginning of period	**5,212**	6,165
Change in unrealized losses on investments	**(233)**	(242)
Balance at end of period (net of tax: 2013 and 2012: $nil)	**4,979**	5,923
Balance at end of period	**(8,470)**	3,452
Retained earnings		
Balance at beginning of period	**4,952,002**	4,035,103
Net income	**234,370**	360,141
Dividends on common shares	**(37,365)**	(40,543)
Dividends on preferred shares	**(14,699)**	(15,405)

Loss on redemption of preferred shares	**(9,135)**	
Balance at end of period	**5,125,173**	4,339,296
Common shares held in treasury		
Balance at beginning of period	**(2,012,157)**	(1,479,230)
Repurchase of common shares	**(159,775)**	(12,393)
Balance at end of period	**(2,171,932)**	(1,491,623)
Noncontrolling interests		
Balance at beginning of period		
Sale of shares to noncontrolling interests	**36,844**	
Balance at end of period	**36,844**	
Total shareholders equity	**$ 6,947,558**	$ 6,786,871

See accompanying Notes to Condensed Consolidated Financial Statements.

Table of Contents

PartnerRe Ltd.

Condensed Consolidated Statements of Cash Flows (Unaudited)

(Expressed in thousands of U.S. dollars)

	For the three months ended March 31, 2013	For the three months ended March 31, 2012
Cash flows from operating activities		
Net income	**$ 234,370**	$ 360,141
Adjustments to reconcile net income to net cash provided by operating activities:		
Amortization of net premium on investments	**42,769**	30,216
Amortization of intangible assets	**7,046**	8,893
Net realized and unrealized investment gains	**(22,943)**	(192,735)
Changes in:		
Reinsurance balances, net	**(396,018)**	(442,507)
Reinsurance recoverable on paid and unpaid losses, net of ceded premiums payable	**91,287**	75,219
Funds held by reinsured companies and funds held directly managed	**6,240**	42,851
Deferred acquisition costs	**(92,334)**	(78,286)
Net tax assets and liabilities	**(4,928)**	25,952
Unpaid losses and loss expenses including life policy benefits	**(242,409)**	(257,827)
Unearned premiums	**489,751**	483,456
Other net changes in operating assets and liabilities	**1,831**	23,650
Net cash provided by operating activities	**114,662**	79,023
Cash flows from investing activities		
Sales of fixed maturities	**1,788,507**	1,621,825
Redemptions of fixed maturities	**259,798**	311,062
Purchases of fixed maturities	**(1,849,579)**	(2,241,991)
Sales and redemptions of short-term investments	**99,769**	36,132
Purchases of short-term investments	**(64,147)**	(32,168)
Sales of equities	**156,123**	332,851
Purchases of equities	**(144,865)**	(236,628)
Other, net	**43,337**	41,224
Net cash provided by (used in) investing activities	**288,943**	(167,693)
Cash flows from financing activities		
Dividends paid to shareholders	**(52,064)**	(55,948)
Repurchase of common shares	**(175,211)**	
Issuance of common shares	**15,193**	5,601
Net proceeds from issuance of preferred shares	**241,265**	
Repurchase of preferred shares	**(290,000)**	
Sale of shares to noncontrolling interests	**36,844**	
Net cash used in financing activities	**(223,973)**	(50,347)
Effect of foreign exchange rate changes on cash	**(14,439)**	6,989
Increase (decrease) in cash and cash equivalents	**165,193**	(132,028)
Cash and cash equivalents beginning of period	**1,121,705**	1,342,257
Cash and cash equivalents end of period	**$ 1,286,898**	$ 1,210,229

Supplemental cash flow information:				
Taxes paid	**$**	**46,525**	$	42,386
Interest paid	**$**		$	

See accompanying Notes to Condensed Consolidated Financial Statements.

Table of Contents

PartnerRe Ltd.

Notes to Condensed Consolidated Financial Statements (Unaudited)

1. Organization

PartnerRe Ltd. (the Company) predominantly provides reinsurance on a worldwide basis, and certain specialty insurance lines, through its principal wholly-owned subsidiaries, including Partner Reinsurance Company Ltd., Partner Reinsurance Europe SE 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, accident 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.

Effective December 31, 2012, the Company completed the acquisition of Presidio Reinsurance Group, Inc. (Presidio), a California-based U.S. specialty accident and health reinsurance and insurance writer. The Condensed Consolidated Statements of Operations and Cash Flows include the results of Presidio from January 1, 2013.

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. 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 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 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, 2012.

3. 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 and real estate investment trusts listed on a major exchange, exchange traded funds and exchange traded derivatives, including futures that are actively traded.

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

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

Level 3 inputs Unobservable inputs.

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

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

Table of Contents

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 March 31, 2013 and December 31, 2012, the Company s financial instruments measured at fair value were classified between Levels 1, 2 and 3 as follows (in thousands of U.S. dollars):

March 31, 2013	Quoted prices in active markets for identical assets (Level 1)	Significant other observable inputs (Level 2)	Significant unobservable inputs (Level 3)	Total
Fixed maturities				
U.S. government and government sponsored enterprises	$	$ 1,064,000	$	$ 1,064,000
U.S. states, territories and municipalities		17,686	232,292	249,978
Non-U.S. sovereign government, supranational and government related		2,295,641		2,295,641
Corporate		6,486,230	100,716	6,586,946
Asset-backed securities		412,932	325,659	738,591
Residential mortgage-backed securities		2,975,904		2,975,904
Other mortgage-backed securities		58,180		58,180
Fixed maturities	$	$ 13,310,573	$ 658,667	$ 13,969,240
Short-term investments	$	$ 115,484	$	$ 115,484
Equities				
Real estate investment trusts	$ 145,783	$	$	$ 145,783
Energy	127,130			127,130
Consumer noncyclical	126,980			126,980
Finance	94,169	10,164	12,553	116,886
Technology	69,976		7,647	77,623
Communications	65,238			65,238
Consumer cyclical	58,863			58,863
Industrials	57,284			57,284
Insurance	37,619			37,619
Other	56,613			56,613
Mutual funds and exchange traded funds	51,048	220,412	7,442	278,902
Equities	$ 890,703	$ 230,576	$ 27,642	$ 1,148,921
Other invested assets				
Derivative assets				
Foreign exchange forward contracts	$	$ 12,816	$	$ 12,816
Foreign currency option contracts		716		716
Futures contracts	7			7
Credit default swaps (assumed risks)		378		378
Total return swaps			5,990	5,990
TBAs		197		197
Other				
Notes and loan receivables and notes securitization			34,058	34,058
Annuities and residuals			35,656	35,656
Private equities			17,764	17,764
Derivative liabilities				
Foreign exchange forward contracts		(11,875)		(11,875)
Foreign currency option contracts		(1,306)		(1,306)
Futures contracts	(16,311)			(16,311)
Credit default swaps (protection purchased)		(614)		(614)
Insurance-linked securities			(2,681)	(2,681)
Total return swaps			(577)	(577)
Interest rate swaps		(7,104)		(7,104)
TBAs		(672)		(672)

Other invested assets	$	(16,304)	$	(7,464)	$	90,210	$	66,442
Funds held directly managed								
U.S. government and government sponsored enterprises	$		$	218,182	$		$	218,182
U.S. states, territories and municipalities						341		341
Non-U.S. sovereign government, supranational and government related				226,371				226,371
Corporate				345,002				345,002
Short-term investments				196				196
Other invested assets						15,468		15,468
Funds held directly managed	$		$	789,751	$	15,809	$	805,560
Total	$	874,399	$	14,438,920	$	792,328	$	16,105,647

10

December 31, 2012	Quoted prices in active markets for identical assets (Level 1)	Significant other observable inputs (Level 2)	Significant unobservable inputs (Level 3)	Total
Fixed maturities				
U.S. government and government sponsored enterprises	$	$ 1,130,924	$	$ 1,130,924
U.S. states, territories and municipalities		10,151	233,235	243,386
Non-U.S. sovereign government, supranational and government related		2,375,673		2,375,673
Corporate		6,554,934	100,904	6,655,838
Asset-backed securities		400,336	323,134	723,470
Residential mortgage-backed securities		3,199,924		3,199,924
Other mortgage-backed securities		66,100		66,100
Fixed maturities	$	$ 13,738,042	$ 657,273	$ 14,395,315
Short-term investments	$	$ 150,552	$	$ 150,552
Equities				
Consumer noncyclical	$ 130,526	$	$	$ 130,526
Energy	118,213			118,213
Finance	79,456	7,472	13,477	100,405
Technology	71,927		6,987	78,914
Real estate investment trusts	66,846			66,846
Communications	65,722			65,722
Consumer cyclical	62,526			62,526
Industrials	59,242			59,242
Insurance	39,132			39,132
Other	60,913			60,913
Mutual funds and exchange traded funds	34,053	270,246	7,264	311,563
Equities	$ 788,556	$ 277,718	$ 27,728	$ 1,094,002
Other invested assets				
Derivative assets				
Foreign exchange forward contracts	$	$ 7,889	$	$ 7,889
Foreign currency option contracts		1,410		1,410
Futures contracts	1,956			1,956
Credit default swaps (protection purchased)		6		6
Credit default swaps (assumed risks)		512		512
Total return swaps			6,630	6,630
TBAs		115		115
Other				
Notes and loan receivables and notes securitization			34,902	34,902
Annuities and residuals			46,882	46,882
Private equities			1,404	1,404
Derivative liabilities				
Foreign exchange forward contracts		(17,395)		(17,395)
Foreign currency option contracts		(186)		(186)
Futures contracts	(1,352)			(1,352)
Credit default swaps (protection purchased)		(807)		(807)
Insurance-linked securities			(2,173)	(2,173)
Total return swaps			(546)	(546)
Interest rate swaps		(7,880)		(7,880)
TBAs		(163)		(163)
Other invested assets	$ 604	$ (16,499)	$ 87,099	$ 71,204
Funds held directly managed				
U.S. government and government sponsored enterprises	$	$ 218,696	$	$ 218,696
U.S. states, territories and municipalities			345	345
		233,987		233,987

Non-U.S. sovereign government, supranational and government related								
Corporate				362,243				362,243
Other invested assets						17,976		17,976
Funds held directly managed	$		$	814,926	$	18,321	$	833,247
Total	$	789,160	$	14,964,739	$	790,421	$	16,544,320

11

At March 31, 2013 and December 31, 2012, the aggregate carrying amounts of items included in Other invested assets that the Company did not measure at fair value were $244.8 million and $262.2 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 $805.6 million and $833.2 million at March 31, 2013 and December 31, 2012, respectively, the funds held directly managed account also included cash and cash equivalents, carried at fair value, of $43.8 million and $53.7 million, respectively, and accrued investment income of $9.7 million and $10.2 million, respectively. At March 31, 2013 and December 31, 2012, the aggregate carrying amounts of items included in the funds held directly managed account that the Company did not measure at fair value were $50.4 million and $33.6 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, 2012).

At March 31, 2013 and December 31, 2012, substantially all of the accrued investment income in the 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 ended March 31, 2013 and 2012, there were no 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 March 31, 2013 and December 31, 2012, the fair values of financial instrument assets recorded in the Condensed Consolidated Balance Sheets not described above, approximate their carrying values.

Table of Contents

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 March 31, 2013 and 2012 (in thousands of U.S. dollars):

For the three months ended March 31, 2013	Balance at beginning of period	Realized and unrealized investment (losses) gains included in net income	Purchases and issuances	Settlements and sales [(1)]	Net transfers (out of)/into Level 3	Balance at end of period	Change in unrealized investment (losses) gains relating to assets held at end of period
Fixed maturities							
U.S. states, territories and municipalities	$ 233,235	$ (849)	$	$ (94)	$	$ 232,292	$ (849)
Corporate	100,904	(188)				100,716	(188)
Asset-backed securities	323,134	1,741	27,156	(26,372)		325,659	1,781
Fixed maturities	$ 657,273	$ 704	$ 27,156	$ (26,466)	$	$ 658,667	$ 744
Equities							
Finance	$ 13,477	$ (924)	$	$	$	$ 12,553	$ (924)
Technology	6,987	660				7,647	660
Mutual funds and exchange traded funds	7,264	178				7,442	178
Equities	$ 27,728	$ (86)	$	$	$	$ 27,642	$ (86)
Other invested assets							
Derivatives, net	$ 3,911	$ (3,679)	$	$ 2,500	$	$ 2,732	$ (3,679)
Notes and loan receivables and notes securitization	34,902	(61)	1,360	(2,143)		34,058	(61)
Annuities and residuals	46,882	336		(11,562)		35,656	826
Private equities	1,404	(3,065)	19,425			17,764	(3,065)
Other invested assets	$ 87,099	$ (6,469)	$ 20,785	$ (11,205)	$	$ 90,210	$ (5,979)
Funds held directly managed							
U.S. states, territories and municipalities	$ 345	$ (4)	$	$	$	$ 341	$ (4)
Other invested assets	17,976	(2,437)		(71)		15,468	(1,373)
Funds held directly managed	$ 18,321	$ (2,441)	$	$ (71)	$	$ 15,809	$ (1,377)
Total	$ 790,421	$ (8,292)	$ 47,941	$ (37,742)	$	$ 792,328	$ (6,698)

(1) Settlements and sales of annuities and residuals include sales of $6.3 million.

13

Table of Contents

For the three months ended March 31, 2012	Balance at beginning of period	Realized and unrealized investment (losses) gains included in net income	Purchases and issuances (1)	Settlements and sales	Net transfers (out of)/into Level 3	Balance at end of period	Change in unrealized investment (losses) gains relating to assets held at end of period
Fixed maturities							
U.S. states, territories and municipalities	$ 111,415	$ (462)	$ 4,700	$ (73)	$	$ 115,580	$ (462)
Corporate	111,700	327	48	(124)		111,951	327
Asset-backed securities	257,415	(1,319)	50,120	(41,760)		264,456	(1,264)
Fixed maturities	$ 480,530	$ (1,454)	$ 54,868	$ (41,957)	$	$ 491,987	$ (1,399)
Equities							
Finance	$ 9,670	$ 3,060	$	$	$	$ 12,730	$ 3,060
Mutual funds and exchange traded funds	6,495	154				6,649	154
Equities	$ 16,165	$ 3,214	$	$	$	$ 19,379	$ 3,214
Other invested assets							
Derivatives, net	$ 5,622	$ 263	$ (3,300)	$	$	$ 2,585	$ 263
Notes and loan receivables and notes securitization	63,565	2,394	28,306	(36,138)		58,127	4,600
Annuities and residuals	27,840	1,435	1,423	(2,290)		28,408	1,124
Other invested assets	$ 97,027	$ 4,092	$ 26,429	$ (38,428)	$	$ 89,120	$ 5,987
Funds held directly managed							
U.S. states, territories and municipalities	$ 334	$ (5)	$	$	$	$ 329	$ (5)
Other invested assets	15,433	2,250				17,683	2,250
Funds held directly managed	$ 15,767	$ 2,245	$	$	$	$ 18,012	$ 2,245
Total	$ 609,489	$ 8,097	$ 81,297	$ (80,385)	$	$ 618,498	$ 10,047

(1) Purchases and issuances of derivatives includes issuances of $3.3 million.

The following tables show the significant unobservable inputs used in the valuation of financial instruments measured at fair value using Level 3 inputs at March 31, 2013 and December 31, 2012 (in thousands of U.S. dollars):

March 31, 2013	Fair value	Valuation techniques	Unobservable inputs	Range (Weighted average)
Fixed maturities				
U.S. states, territories and municipalities	$ 232,292	Discounted cash flow	Credit spreads	2.7% - 4.5% (3.6%)
Asset-backed securities interest only	12,206	Discounted cash flow	Credit spreads	6.1% - 11.2% (8.5%)
			Prepayment speed	20.0% (20.0%)
Asset-backed securities other	313,453	Discounted cash flow	Credit spreads	4.0% - 12.1% (7.7%)
Equities				
Finance	12,553	Weighted market comparables	Net income multiple	14.6 (14.6)
			Tangible book value multiple	1.1 (1.1)

			Liquidity discount	25.0% (25.0%)
Technology	7,647	Weighted market comparables	Revenue multiple	2.0 (2.0)
			Adjusted earnings multiple	12.9 (12.9)
			Liquidity discount	25.0% (25.0%)
Other invested assets				
Total return swaps	5,413	Discounted cash flow	Credit spreads	2.7% - 4.5% (3.3%)
Notes and loan receivables	24,068	Discounted cash flow	Credit spreads	17.5% (17.5%)
			Gross revenue/fair value	1.7 - 2.0 (1.7)
Notes securitization	9,990	Discounted cash flow	Credit spreads	6.7% (6.7%)
Annuities and residuals	35,656	Discounted cash flow	Credit spreads	4.5% - 9.0% (6.0%)
			Prepayment speed	0.0% - 15.0% (7.8%)
			Constant default rate	2.3% - 35.0% (14.4%)
Private equity	15,984	Liquidation analysis	Recoverability of intangible assets	0.0% (0.0%)
Private equity fund	1,780	Lag reported market value	Net asset value, as reported	100.0% (100.0%)
			Market adjustments	-3.5% (-3.5%)
Funds held directly managed				
Other invested assets	15,468	Lag reported market value	Net asset value, as reported	100.0% (100.0%)
			Market adjustments	-19.4% - 0.0% (-7.9%)

Table of Contents

December 31, 2012	Fair value	Valuation techniques	Unobservable inputs	Range (Weighted average)
Fixed maturities				
U.S. states, territories and municipalities	$ 233,235	Discounted cash flow	Credit spreads	2.8% - 4.5% (3.7%)
Asset-backed securities interest only	12,625	Discounted cash flow	Credit spreads	6.8% - 11.7% (9.1%)
			Prepayment speed	20.0% (20.0%)
Asset-backed securities other	310,509	Discounted cash flow	Credit spreads	4.0% - 12.2% (7.6%)
Equities				
Finance	13,477	Weighted market comparables	Comparable return	0.8% (0.8%)
Technology	6,987	Weighted market comparables	Comparable return	-1.5% (-1.5%)
Other invested assets				
Total return swaps	6,084	Discounted cash flow	Credit spreads	2.6% - 4.6% (3.2%)
Notes and loan receivables	24,902	Discounted cash flow	Credit spreads	17.5% (17.5%)
			Gross revenue/fair value	1.7 - 2.1 (1.8)
Notes securitization	10,000	Discounted cash flow	Credit spreads	6.5% (6.5%)
Annuities and residuals	46,882	Discounted cash flow	Credit spreads	4.7% - 9.9% (7.2%)
			Prepayment speed	0.0% - 15.0% (7.6%)
			Constant default rate	2.3% - 35.0% (13.2%)
Private equity fund	1,404	Lag reported market value	Net asset value, as reported	100.0% (100.0%)
			Market adjustments	7.3% (7.3%)
Funds held directly managed				
Other invested assets	17,976	Lag reported market value	Net asset value, as reported	100.0% (100.0%)
			Market adjustments	-38.1% - 0.0% (-12.1%)

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

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

Changes in the fair value of the Company s financial instruments subject to the fair value option during the three months ended March 31, 2013 and 2012 were as follows (in thousands of U.S. dollars):

	For the three months ended March 31, 2013	For the three months ended March 31, 2012
Fixed maturities and short-term investments	**$ (71,670)**	$ 47,821
Equities	**50,066**	50,771
Other invested assets	**(4,834)**	4,550
Funds held directly managed	**(6,043)**	7,116
Total	**$ (32,481)**	$ 110,258

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.

15

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

Fixed maturities

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

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

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

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

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

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

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

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

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

Short term investments

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

Equities

Equity securities include U.S. and foreign common and preferred stocks, mutual funds and exchange traded funds. Equities and exchange traded funds are generally classified in Level 1 as the Company uses prices received from independent pricing sources based on quoted prices in active markets. Equities classified as Level 2 are generally mutual funds invested in fixed income securities, where the net asset value of the fund is provided on a daily basis, and common stocks traded in inactive markets. Equities classified as Level 3 are generally mutual funds invested in securities other than the common stock of publicly traded companies, where the net asset value is not provided on a daily basis, and inactively traded common stocks. The significant unobservable inputs used in the fair value measurement of inactively traded common stocks classified as Level 3 include market return information, weighted using management s judgment, from comparable selected publicly traded companies in the same industry, in a similar region and of a similar size, including net income multiples, tangible book value multiples, revenue multiples and adjusted earnings multiples. Significant increases (decreases) in any of these inputs could result in a significantly higher (lower) fair value measurement. Significant unobservable inputs used in measuring the fair value measurement of inactively traded common stocks also include a liquidity discount. A significant increase (decrease) in the liquidity discount could result in a significantly lower (higher) fair value measurement.

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

Other invested assets

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

Included in the Company s Level 3 classification, in general, are certain inactively traded weather derivatives; notes and loan receivables, notes securitizations, annuities and residuals, private equity funds and longevity and other total return swaps. For Level 3 instruments, the Company will generally (i) receive a price based on a manager s or trustee s valuation for the asset; (ii) develop an internal discounted cash flow model to measure fair value; or (iii) use market return information, adjusted if necessary and weighted using management s judgment, from comparable selected publicly traded equity funds, in a similar region and of a similar size. 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. The significant unobservable inputs used in the fair value measurement of other invested assets classified as Level 3 include credit spreads, prepayment speeds, constant default rates and gross revenue to fair value ratios. Significant increases (decreases) in any of these inputs in isolation could result in a significantly lower (higher) fair value measurement. Significant unobservable inputs used in the fair value measurement of other invested assets classified as Level 3 also include an assessment of the recoverability of intangible assets. Significant increase (decrease) in this input in isolation could result in a significantly higher (lower) fair value measurement. As part of the Company s modeling to determine the fair value of an investment, the Company considers counterparty credit risk as an input to the model, however, the majority of the Company s counterparties are investment grade rated institutions and the failure of any one counterparty would not have a significant impact on the Company s consolidated financial statements.

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

Funds held directly managed

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

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

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

(b) Fair Value of Financial Instrument Liabilities

At March 31, 2013 and December 31, 2012, the fair values of financial instrument liabilities recorded in the Condensed Consolidated Balance Sheets approximate their carrying values, with the exception of the debt related to senior notes (Senior Notes) and the debt related to capital efficient notes (CENts).

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

- the fair value of the Senior Notes was calculated based on discounted cash flow models using observable market yields and contractual cash flows based on the aggregate principal amount outstanding of $250 million from PartnerRe Finance A LLC and $500 million from PartnerRe Finance B LLC at March 31, 2013 and December 31, 2012; and

- the fair value of the CENts was calculated based on discounted cash flow models using observable market yields and contractual cash flows based on the aggregate principal amount outstanding from PartnerRe Finance II Inc. of $63 million at March 31, 2013 and December 31, 2012.

The carrying values and fair values of the Senior Notes and CENts at March 31, 2013 and December 31, 2012 were as follows (in thousands of U.S. dollars):

	March 31, 2013		December 31, 2012	
	Carrying Value	Fair Value	Carrying Value	Fair Value
Debt related to senior notes (1)	**$ 750,000**	**$ 877,891**	$ 750,000	$ 859,367
Debt related to capital efficient notes (2)	**63,384**	**66,181**	63,384	66,990

(1) *PartnerRe Finance A LLC and PartnerRe Finance B LLC, the issuers of the Senior Notes, do not meet consolidation requirements under U.S. GAAP. Accordingly, the Company shows the related intercompany debt of $750 million in its Condensed Consolidated Balance Sheets at March 31, 2013 and December 31, 2012.*

(2) *PartnerRe Finance II Inc., the issuer of the CENts, does not meet consolidation requirements under U.S. GAAP. Accordingly, the Company shows the related intercompany debt of $71 million in its Condensed Consolidated Balance Sheets at March 31, 2013 and December 31, 2012.*

At March 31, 2013, the Company s debt related to the Senior Notes and CENts was classified as Level 2 in the fair value hierarchy.

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

Table of Contents

4. Derivatives

The Company s derivative instruments are recorded in the 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 Condensed Consolidated Statements of Operations or accumulated other comprehensive income or loss in the Condensed Consolidated Balance Sheets, depending on the nature of the derivative instrument. The Company s objectives for holding or issuing these derivatives are as follows:

Foreign Exchange Forward Contracts

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

Foreign Currency Option Contracts and Futures Contracts

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

Credit Default Swaps

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

The Company also assumes credit risk through credit default swaps to replicate investment positions. The original term of these credit default swaps is generally five years or less and there are no recourse provisions associated with these swaps. While the Company would be required to perform under exposure assumed through credit default swaps in the event of a default on the underlying issuer, no issuer was in default at March 31, 2013. The counterparties on the Company s assumed credit default swaps are all investment grade rated financial institutions.

Insurance-Linked Securities

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

Total Return and Interest Rate Swaps and Interest Rate Derivatives

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

To-Be-Announced Mortgage-Backed Securities

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

Table of Contents

The net fair values and the related net notional values of derivatives included in the Company s Condensed Consolidated Balance Sheets at March 31, 2013 and December 31, 2012 were as follows (in thousands of U.S. dollars):

March 31, 2013	Asset derivatives at fair value	Liability derivatives at fair value	Net derivatives Net notional exposure	Net derivatives Fair value
Foreign exchange forward contracts	**$ 12,816**	**$ (11,875)**	**$ 2,110,828**	**$ 941**
Foreign currency option contracts	**716**	**(1,306)**	**150,673**	**(590)**
Futures contracts	**7**	**(16,311)**	**3,980,584**	**(16,304)**
Credit default swaps (protection purchased)		**(614)**	**48,000**	**(614)**
Credit default swaps (assumed risks)	**378**		**17,500**	**378**
Insurance-linked securities [(1)]		**(2,681)**	**133,244**	**(2,681)**
Total return swaps	**5,990**	**(577)**	**68,578**	**5,413**
Interest rate swaps [(2)]		**(7,104)**		**(7,104)**
TBAs	**197**	**(672)**	**247,980**	**(475)**
Total derivatives	**$ 20,104**	**$ (41,140)**		**$ (21,036)**

December 31, 2012	Asset derivatives at fair value	Liability derivatives at fair value	Net derivatives Net notional exposure	Net derivatives Fair value
Foreign exchange forward contracts	$ 7,889	$ (17,395)	$ 2,170,914	$ (9,506)
Foreign currency option contracts	1,410	(186)	133,377	1,224
Futures contracts	1,956	(1,352)	3,981,107	604
Credit default swaps (protection purchased)	6	(807)	55,000	(801)
Credit default swaps (assumed risks)	512		17,500	512
Insurance-linked securities [(1)]		(2,173)	135,964	(2,173)
Total return swaps	6,630	(546)	68,730	6,084
Interest rate swaps [(2)]		(7,880)		(7,880)
TBAs	115	(163)	155,760	(48)
Total derivatives	$ 18,518	$ (30,502)		$ (11,984)

(1) At March 31, 2013 and December 31, 2012, insurance-linked securities include a longevity swap for which the notional amount is not reflective of the overall potential exposure of the swap. As such, the Company has included the probable maximum loss under the swap within the net notional exposure as an approximation of the notional amount.

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

The fair value of all derivatives at March 31, 2013 and December 31, 2012 is recorded in Other invested assets in the Company s Condensed Consolidated Balance Sheets. At March 31, 2013 and December 31, 2012, none of the Company s derivatives were designated as hedges.

Table of Contents

The gains and losses in the Condensed Consolidated Statements of Operations for derivatives not designated as hedges for the three months ended March 31, 2013 and 2012 were as follows (in thousands of U.S. dollars):

	For the three months ended March 31, 2013	For the three months ended March 31, 2012
Foreign exchange forward contracts	**$ 17,530**	$ 3,881
Foreign currency option contracts	**(565)**	3,327
Total included in net foreign exchange gains and losses	**$ 16,965**	$ 7,208
Futures contracts	**$ (6,303)**	$ 21,845
Credit default swaps (protection purchased)	**(98)**	(597)
Credit default swaps (assumed risks)	**107**	1,076
Insurance-linked securities	**(3,019)**	(3,459)
Total return swaps	**(671)**	77
Interest rate swaps	**777**	963
TBAs	**(1,334)**	1,070
Total included in net realized and unrealized investment gains and losses	**$ (10,541)**	$ 20,975
Total derivatives	**$ 6,424**	$ 28,183

Offsetting of Derivatives

The gross and net fair values of derivatives that are subject to offsetting in the Condensed Consolidated Balance Sheets at March 31, 2013 and December 31, 2012 were as follows (in thousands of U.S. dollars):

	Gross amounts recognized (1)	Gross amounts offset in the balance sheet	Net amounts of assets/liabilities presented in the balance sheet	Gross amounts not offset in the balance sheet: Financial instruments	Gross amounts not offset in the balance sheet: Cash collateral received/pledged	Net amount
March 31, 2013						
Total derivative assets	**$ 20,104**	**$**	**$ 20,104**	**$ (14,266)**	**$**	**$ 5,838**
Total derivative liabilities	**$ (41,140)**	**$**	**$ (41,140)**	**$ 14,266**	**$ 1,660**	**$ (25,214)**
December 31, 2012						
Total derivative assets	$ 18,518	$	$ 18,518	$ (12,051)	$	$ 6,467
Total derivative liabilities	$ (30,502)	$	$ (30,502)	$ 12,051	$	$ 18,451

(1) *Amounts include all derivative instruments, irrespective of whether there is a legally enforceable master netting arrangement in place.*
Generally, credit default swaps, total return swaps and interest rate swaps are subject to a master netting or similar agreements as they are entered into using International Swaps and Derivatives Association agreements which provide for the ability to settle the derivative asset and liability with each counterparty on a net basis. Futures contracts and foreign exchange forward contracts are traded on a regulated exchange which permits netting.

5. Shareholders Equity

Series F Non-Cumulative Redeemable Preferred Shares

On February 14, 2013, the Company issued Series F non-cumulative redeemable preferred shares (Series F preferred shares) as follows (in millions of U.S. dollars or shares, except percentage amounts):

		Series F
Date of issuance		February 2013
Number of preferred shares issued		10.0
Annual dividend rate		5.875%
Total consideration	$	242.3
Underwriting discounts and commissions	$	7.7
Aggregate liquidation value	$	250.0

Table of Contents

The net proceeds received were used, together with available cash, to redeem the Series C Cumulative Redeemable Preferred Shares (Series C preferred shares). On or after March 1, 2018, the Company may redeem the Series F preferred shares in whole at any time, or in part from time to time, at $25.00 per share, plus an amount equal to the portion of the quarterly dividend attributable to the then-current dividend period to, but excluding, the redemption date. The Company may also redeem the Series F preferred shares at any time upon the occurrence of a certain capital disqualification event or certain changes in tax law. Dividends on the Series F preferred shares are non-cumulative and are payable quarterly.

In the event of liquidation of the Company, the Series F preferred shares rank on parity with each of the other series of preferred shares and would rank senior to the common shares, and holders thereof would receive a distribution of $25.00 per share, or the aggregate liquidation value, plus declared but unpaid dividends, if any.

Series C Cumulative Redeemable Preferred Shares

On March 18, 2013, the Company redeemed the Series C preferred shares for the aggregate liquidation value of $290 million plus accrued dividends. In connection with the redemption, the Company recognized a loss of $9.1 million related to the original issuance costs of the Series C preferred shares and calculated as a difference between the redemption price and the consideration received after underwriting discounts and commissions. The loss was recognized in determining the net income available to common shareholders.

6. Net Income per Share

The reconciliation of basic and diluted net income per share for the three months ended March 31, 2013 and 2012 is as follows (in thousands of U.S. dollars, except per share amounts):

	For the three months ended March 31, 2013	For the three months ended March 31, 2012
Numerator:		
Net income	**$ 234,370**	$ 360,141
Less: preferred dividends	**(14,699)**	(15,405)
Less: loss on redemption of preferred shares	**(9,135)**	
Net income available to common shareholders	**$ 210,536**	$ 344,736
Denominator:		
Weighted number of common shares outstanding - basic	**58,423,898**	65,404,227
Share options and other [(1)]	**1,166,146**	438,592
Weighted average number of common shares and common share equivalents outstanding - diluted	**59,590,044**	65,842,819
Basic net income per share	**$ 3.60**	$ 5.27
Diluted net income per share[(1)]	**$ 3.53**	$ 5.24

(1) At March 31, 2013 and 2012, share based awards to purchase 103.0 thousand and 2,311.2 thousand common shares, respectively, were excluded from the calculation of diluted weighted average number of common shares and common share equivalents outstanding because their exercise prices were greater than the average market price of the common shares during the three months ended March 31, 2013 and 2012, respectively.

7. Noncontrolling Interests

During March 2013, the Company formed Lorenz Re Ltd. (Lorenz Re), a Bermuda domiciled special purpose insurer to provide additional capacity to the Company for a diversified portfolio of catastrophe reinsurance treaties over a multi-year period on a fully collateralized reinsurance basis. The original business was written by the Company and will be ceded to Lorenz Re effective April 1, 2013.

In conjunction with the formation of Lorenz Re, the Company and third party investors each contributed 50% of Lorenz Re s non-voting redeemable preferred share capital of approximately $75 million. Lorenz Re s preferred shares are expected to be redeemed following the commutation of the portfolio back to the Company on or before June 1, 2016.

Lorenz Re is considered to be a variable interest entity. The Company has concluded that it is the primary beneficiary, as it has the power to direct, and has more than an insignificant economic interest in, the activities of Lorenz Re. Accordingly, Lorenz Re is consolidated by the Company and all inter-company balances and transactions are eliminated. Net income and shareholders equity attributable to Lorenz Re s third party investors are recorded in the Condensed Consolidated Financial Statements as noncontrolling interests.

At March 31, 2013, the assets of Lorenz Re primarily consist of cash of $53.4 million and investments of $21.6 million and are included in Cash and cash equivalents and Investments in the Condensed Consolidated Balance Sheet at March 31, 2013, respectively. The assets of Lorenz Re can only be used to settle the liabilities of Lorenz Re and there is no recourse to the Company for any liabilities of Lorenz Re.

8. Commitments and Contingencies

(a) Concentration of Credit Risk

Financing receivables

Included in the Company s Other invested assets are certain notes receivable which meet the definition of financing receivables and are accounted for using the cost method of accounting. These notes receivable are collateralized by commercial or residential property. The Company utilizes a third party consultant to determine the initial investment criteria and to monitor the subsequent performance of the notes receivable. The process undertaken prior to the investment in these notes receivable includes an examination of the underlying collateral. The Company reviews its receivable positions on at least a quarterly basis using actual redemption experience. At March 31, 2013 and December 31, 2012, based on the latest available information, the Company recorded an allowance for credit losses related to these notes receivable of $2.9 million and $3.0 million, respectively.

The Company monitors the performance of the notes receivable based on the type of underlying collateral and by assigning a performing or a non-performing indicator of credit quality to each individual receivable. At March 31, 2013, the Company s notes receivable of $34.2 million were all performing and were collateralized by residential property and commercial property of $23.8 million and $10.4 million, respectively. At December 31, 2012, the Company s notes receivable of $46.7 million were all performing and were collateralized by residential property and commercial property of $31.3 million and $15.4 million, respectively.

The Company purchased $0.2 million and $nil of financing receivables during the three months ended March 31, 2013 and 2012, respectively. There were no sales of financing receivables during the three months ended March 31, 2013 and 2012, however, the outstanding balances were reduced by settlements of the underlying debt.

(b) Legal Proceedings

There has been no significant change in legal proceedings at March 31, 2013 compared to December 31, 2012. See Note 17(e) to the Consolidated Financial Statements included in the Company s Annual Report on Form 10-K for the year ended December 31, 2012.

9. Segment Information

The Company monitors the performance of its operations in three segments, Non-life, Life and Health and Corporate and Other as described in Note 20 to the Consolidated Financial Statements included in the Company s Annual Report on Form 10-K for the year ended December 31, 2012. The Non-life segment is further divided into four sub-segments: North America, Global (Non-U.S.) P&C, Global Specialty and Catastrophe. Following the acquisition of Presidio on December 31, 2012, Presidio s results are included in the Life and Health segment. Effective January 1, 2013, the Life segment is referred to as Life and Health to reflect the inclusion of Presidio s results following its acquisition and the Global (Non-U.S.) Specialty sub-segment is referred to as Global Specialty.

Since 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 and Health products, net investment income is considered in Management s assessment of the profitability of the Life and Health segment. The following items are not considered in evaluating the results of the Non-life and Life and Health segments: net realized and unrealized investment gains and losses, interest expense, amortization of intangible assets, net foreign exchange gains and losses, income tax expense or benefit and interest in earnings and losses of equity investments. Segment results are shown before consideration of intercompany transactions.

Management measures results for the Non-life segment on the basis of the loss ratio, acquisition ratio, technical ratio, other operating expense ratio and combined ratio (all defined below). Management measures results for the Non-life sub-segments on the basis of the loss ratio, acquisition ratio and technical ratio. Management measures results for the Life and Health 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 Health, and expenses from life policy benefits, acquisition costs and other operating expenses.

Table of Contents

The following tables provide a summary of the segment results for the three months ended March 31, 2013 and 2012 (in millions of U.S. dollars, except ratios):

Segment Information

For the three months ended March 31, 2013

	North America	Global (Non-U.S.) P&C	Global Specialty	Catastrophe	Total Non-life segment	Life and Health segment	Corporate and Other	Total
Gross premiums written	$ 447	$ 372	$ 445	$ 238	$ 1,502	$ 254	$ 1	$ 1,757
Net premiums written	$ 446	$ 368	$ 361	$ 211	$ 1,386	$ 249	$ 1	$ 1,636
Increase in unearned premiums	(113)	(202)	(24)	(124)	(463)	(25)	(1)	(489)
Net premiums earned	$ 333	$ 166	$ 337	$ 87	$ 923	$ 224	$	$ 1,147
Losses and loss expenses and life policy benefits	(240)	(67)	(184)	11	(480)	(182)	1	(661)
Acquisition costs	(72)	(50)	(75)	(11)	(208)	(27)		(235)
Technical result	**$ 21**	**$ 49**	**$ 78**	**$ 87**	**$ 235**	**$ 15**	**$ 1**	**$ 251**
Other income						3	1	4
Other operating expenses					(66)	(18)	(32)	(116)
Underwriting result					**$ 169**	**$**	**n/a**	**$ 139**
Net investment income						16	108	124
Allocated underwriting result [(1)]						**$ 16**	**n/a**	**n/a**
Net realized and unrealized investment gains							23	23
Interest expense							(12)	(12)
Amortization of intangible assets							(7)	(7)
Net foreign exchange gains							2	2
Income tax expense							(42)	(42)
Interest in earnings of equity investments							7	7
Net income							**n/a**	**$ 234**
Loss ratio [(2)]	72.0%	40.4%	54.6%	(12.8)%	52.0%			
Acquisition ratio [(3)]	21.6	30.1	22.4	12.3	22.6			
Technical ratio [(4)]	93.6%	70.5%	77.0%	(0.5)%	74.6%			
Other operating expense ratio [(5)]					7.1			
Combined ratio [(6)]					81.7%			

(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.

Table of Contents

Segment Information

For the three months ended March 31, 2012

	North America	Global (Non-U.S.) P&C	Global Specialty	Catastrophe	Total Non-life segment	Life and Health segment	Corporate and Other	Total
Gross premiums written	$ 341	$ 347	$ 417	$ 242	$ 1,347	$ 217	$ 3	$ 1,567
Net premiums written	$ 341	$ 346	$ 353	$ 215	$ 1,255	$ 215	$ 3	$ 1,473
Increase in unearned premiums	(103)	(187)	(45)	(125)	(460)	(21)	(2)	(483)
Net premiums earned	$ 238	$ 159	$ 308	$ 90	$ 795	$ 194	$ 1	$ 990
Losses and loss expenses and life policy benefits	(133)	(98)	(194)	(2)	(427)	(149)		(576)
Acquisition costs	(66)	(38)	(70)	(9)	(183)	(29)		(212)
Technical result	**$ 39**	**$ 23**	**$ 44**	**$ 79**	**$ 185**	**$ 16**	**$ 1**	**$ 202**
Other income					1		1	2
Other operating expenses					(63)	(12)	(23)	(98)
Underwriting result					**$ 123**	**$ 4**	**n/a**	**$ 106**
Net investment income						17	130	147
Allocated underwriting result						**$ 21**	**n/a**	**n/a**
Net realized and unrealized investment gains							193	193
Interest expense							(12)	(12)
Amortization of intangible assets							(9)	(9)
Net foreign exchange losses							(3)	(3)
Income tax expense							(67)	(67)
Interest in earnings of equity investments							5	5
Net income							**n/a**	**$ 360**
Loss ratio	55.9%	61.6%	63.2%	2.1%	53.8%			
Acquisition ratio	27.5	23.9	22.6	10.5	23.0			
Technical ratio	83.4%	85.5%	85.8%	12.6%	76.8%			
Other operating expense ratio					7.9			
Combined ratio					84.7%			

10. Subsequent Events

In April 2013, the Company announced the restructuring of its business support operations into a single integrated worldwide support platform and changes to the structure of its Global Non-life Operations. The restructuring includes involuntary and voluntary employee termination plans in certain jurisdictions (collectively, termination plans). Employees affected by the termination plans have varying leaving dates, largely through to mid-2014. The continuing salary and other employment benefits costs related to the affected employees will be expensed as the employee provides service and remains with the Company. The Company expects to incur a charge, totalling between $60 and $70 million related to the restructuring and certain real estate costs primarily in the second and third quarters of 2013 with the remainder expected to be incurred during 2014. No charges were recorded in the Company s results for the three months ended March 31, 2013.

On April 18, 2013, the Company modified its existing three-year syndicated unsecured credit facility to reduce the available facility from $500 million to $50 million and reduce its access to a revolving line of credit from $375 million to $50 million. All other terms remained unchanged. See Note 18 to the Consolidated Financial Statements included in the Company s Annual Report on Form 10-K for the year ended December 31, 2012 for further information related to the credit facilities available to the Company.

Table of Contents

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

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

Successful risk management is the foundation of the Company s value proposition, with diversification of risks at the core of its risk management strategy. The Company s ability to succeed in the risk assumption and management business is dependent on its ability to accurately analyze and quantify risk, to understand volatility and how risks aggregate or correlate, and to establish the appropriate capital requirements and limits for the risks assumed. All risks, whether they are reinsurance related risks or capital market risks, are managed by the Company within an integrated framework of policies and processes to ensure the intelligent and consistent evaluation and valuation of risk, and to ultimately provide an appropriate return to shareholders. The Company s Risk Management framework is discussed in Risk Management in Item 1 of Part I of the Company s Annual Report on Form 10-K for the year ended December 31, 2012.

A discussion of the Company s long-term objective and annualized growth in Diluted Tangible Book Value per Share plus dividends, the metric that Management uses to measure its success in achieving its long-term objective, are described and defined below in Key Financial Measures.

Overview of the Results of Operations for the Three Months Ended March 31, 2013

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

As the Company s reinsurance operations are exposed to low frequency and high severity risk events, some of which are seasonal, results for certain periods may include unusually low loss experience, while results for other periods may include significant catastrophic losses. Consequently, the Company s results for interim periods may be volatile from period to period and are not necessarily indicative of results for the full year. The results for the three months ended March 31, 2013 and 2012 include no significant catastrophic losses.

The results for the three months ended March 31, 2013 and 2012 were impacted by the volatility in the capital markets primarily as a result of modest increases in risk-free interest rates during 2013 compared to narrowing spreads in 2012.

Effective December 31, 2012, the Company completed the acquisition of Presidio Reinsurance Group, Inc. (Presidio), a California-based U.S. specialty accident and health reinsurance and insurance writer. The Condensed Consolidated Statements of Operations and Cash Flows, and the Life and Health segment, include the results of Presidio from January 1, 2013.

Net income, preferred dividends, loss on redemption of preferred shares, net income available to common shareholders and diluted net income per share for the three months ended March 31, 2013 and 2012 were as follows (in millions of U.S. dollars, except per share data):

	For the three months ended March 31, 2013	% Change	For the three months ended March 31, 2012
Net income	**$ 234**	**(35)%**	$ 360
Less: preferred dividends	**15**	**(5)**	15
Less: loss on redemption of preferred shares	**9**	**NM**	
Net income available to common shareholders	**$ 210**	**(39)**	$ 345
Diluted net income per share	**$ 3.53**	**(33)**	$ 5.24

NM: not meaningful

Table of Contents

The decrease in net income of $126 million, from $360 million in the three months ended March 31, 2012 to $234 million in the same period of 2013 resulted primarily from:

- a decrease of $170 million in pre-tax net realized and unrealized investment gains, primarily as a result of modest increases in risk-free interest rates during 2013 compared to narrowing spreads in 2012; and
- a decrease of $23 million in net investment income, driven by lower reinvestment rates; partially offset by
- an increase of $46 million in the Non-life underwriting result, which was mainly driven by an increase in favorable prior year loss development and lower loss picks in certain of the Company s sub-segments; and
- a decrease of $25 million in income tax expense, resulting from a lower pre-tax net income.

The decrease in net income available to common shareholders and diluted net income per share for the three months ended March 31, 2013 compared to the same period of 2012 was primarily due to the above factors. For diluted net income per share specifically, the decrease was partially offset by a decrease in the diluted number of common shares and common share equivalents outstanding as a result of share repurchases.

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

In April 2013, the Company announced the restructuring of its business support operations into a single integrated worldwide support platform and changes to the structure of its Global Non-life Operations. The restructuring includes involuntary and voluntary employee termination plans in certain jurisdictions (collectively, termination plans). Employees affected by the termination plans have varying leaving dates, largely through to mid 2014. The continuing salary and other employment benefits costs related to the affected employees will be expensed as the employee provides service and remains with the Company. The Company expects to incur a charge, totalling between $60 and $70 million related to the restructuring and certain real estate costs primarily in the second and third quarters of 2013 with the remainder expected to be incurred during 2014. No charges were recorded in the Company s results for the three months ended March 31, 2013.

Key Financial Measures

In addition to the Condensed Consolidated Balance Sheets and Condensed Consolidated Statements of Operations and Comprehensive Income, Management uses certain key measures to evaluate its financial performance and the overall growth in value generated for the Company s common shareholders.

The Company s long-term objective is to manage a portfolio of diversified risks that will create total shareholder value. The Company measures its success in achieving its long-term objective by targeting a return, which is variable and can be adjusted by Management, in excess of a referenced risk-free rate over the reinsurance cycle. The return, which is currently targeted at 700 basis points in excess of the referenced risk-free rate, is calculated using compound annual growth in diluted tangible book value per common share and common share equivalents outstanding plus dividends per common share (annualized growth in Diluted Tangible Book Value per Share plus dividends). Management uses annualized growth in Diluted Tangible Book Value per Share plus dividends as its prime measure of long-term financial performance and believes this measure aligns the Company s stated long-term objective with the measure most investors use to evaluate total shareholder value creation given that it focuses on the tangible value of total shareholder returns, excluding the impact of goodwill and intangibles. Given the Company s profitability in any particular quarterly or annual period can be significantly affected by the level of large catastrophic losses, Management assesses this long-term objective over the reinsurance cycle as the Company s performance during any particular quarterly or annual period is not necessarily indicative of its performance over the longer-term reinsurance cycle.

Table of Contents

While annualized growth in Diluted Tangible Book Value per Share plus dividends is the Company s prime financial measure, Management also uses other key financial measures to monitor performance as set forth below, together with definitions of their calculations, at March 31, 2013 and December 31, 2012 and for the three months ended March 31, 2013 and 2012:

	March 31, 2013	December 31, 2012
Diluted tangible book value per common share and common share equivalents outstanding[(1)]	**$ 92.91**	$ 90.86
Annualized growth in diluted tangible book value per common share and common share equivalents outstanding plus dividends[(2)]	**11.8%**	
	For the three months ended March 31, 2013	**For the three months ended March 31, 2012**
Operating earnings available to common shareholders (in millions of U.S. dollars)[(3)]	**$ 202**	$ 182
Annualized operating return on beginning diluted book value per common share and common share equivalents outstanding[(4)]	**13.5%**	13.0%
Combined ratio[(5)]	**81.7%**	84.7%

(1) *Diluted tangible book value per common share and common share equivalents outstanding (Diluted Tangible Book Value per Share) is calculated using common shareholders equity attributable to PartnerRe Ltd. (shareholders equity less the aggregate liquidation value of preferred shares) less goodwill and intangible assets, net of tax, divided by the weighted average number of common shares and common share equivalents outstanding (assuming exercise of all stock-based awards and other dilutive securities). The presentation of Diluted Tangible Book Value per Share is a non-GAAP financial measure within the meaning of Regulation G (see Comment on Non-GAAP Measures below) and is reconciled to the most directly comparable GAAP financial measure below.*

(2) *Annualized growth in diluted tangible book value per share and common share equivalents outstanding plus dividends (annualized growth in Diluted Tangible Book Value per Share plus dividends) is calculated using Diluted Tangible Book Value per Share plus dividends per common share divided by Diluted Tangible Book Value per Share at the beginning of the year and annualizing. The presentation of annualized growth in Diluted Tangible Book Value per Share plus dividends is a non-GAAP financial measure within the meaning of Regulation G (see Comment on Non-GAAP Measures below) and is reconciled to the most directly comparable GAAP financial measure below.*

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

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

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

Diluted Tangible Book Value per Share: Diluted Tangible Book Value per Share focuses on the underlying fundamentals of the Company s financial position and performance without the impact of goodwill or intangible assets. As discussed above, the Company uses this measure as the basis for its prime measure of long-term shareholder value creation, growth in Diluted Tangible Book Value per Share plus dividends. Management believes that Diluted Tangible Book Value per Share aligns the Company s stated long-term objectives with the measure most investors use to evaluate total shareholder value creation and that it focuses on the tangible value of shareholder returns, excluding the impact of goodwill and intangibles. Diluted Tangible Book Value per Share is impacted by the Company s net income or loss, capital resources management and external factors such as foreign exchange, interest rates, credit spreads and equity markets, which can drive changes in realized and unrealized gains or losses on its investment portfolio.

Table of Contents

The following table shows the Diluted Tangible Book Value per Share at March 31, 2013 and December 31, 2012, and the calculation of the annualized growth in Diluted Tangible Book Value per Share plus dividends for the three months ended March 31, 2013. As described above, this metric is a long-term performance measure, however, the below table shows the annualized total shareholder value creation for the current period in order to monitor performance.

	March 31, 2013	December 31, 2012
Diluted tangible book value per common share and share equivalents outstanding	**$ 92.91**	$ 90.86
Dividends per common share	**0.64**	
Diluted tangible book value per share plus dividends	**$ 93.55**	
Annualized growth in diluted tangible book value per share plus dividends	**11.8%**	

The Company s Diluted Tangible Book Value per Share increased by 2% to $92.91 at March 31, 2013 from $90.86 at December 31, 2012 primarily due to comprehensive income of $215 million and was partially offset by dividends on the common and preferred shares. The comprehensive income was mainly driven by net income of $234 million in the three months ended March 31, 2013, which is described in Review of Net Income below. The annualized growth in Diluted Tangible Book Value per Share plus dividends was 11.8% for the three months ended March 31, 2013. The growth was driven by the comprehensive income and was partially offset by preferred dividends.

Over the past five years, since March 31, 2008, the Company has generated a compound annualized growth in Diluted Tangible Book Value per Share plus dividends in excess of 10%.

The presentation of Diluted Tangible Book Value per Share is a non-GAAP financial measure within the meaning of Regulation G and should be considered in addition to, and not as a substitute for, measures of financial performance prepared in accordance with GAAP (see Comment on Non-GAAP Measures). The table below provides a reconciliation of Diluted Tangible Book Value per Share to the most directly comparable GAAP financial measure, diluted book value per common share and common share equivalents outstanding, at March 31, 2013 and December 31, 2012 (in millions of U.S. dollars):

	March 31, 2013	December 31, 2012
Diluted book value per common share and common share equivalents outstanding(1)	**$ 102.96**	$ 100.84
Less: goodwill and other intangible assets, net of tax	**10.05**	9.98
Diluted tangible book value per share	**$ 92.91**	$ 90.86

(1) Diluted book value per common share and common share equivalents outstanding (Diluted Book Value per Share) is calculated using common shareholders equity attributable to PartnerRe Ltd. (shareholders equity less noncontrolling interests and the aggregate liquidation value of preferred shares) divided by the weighted average number of common shares and common share equivalents outstanding (assuming exercise of all stock-based awards and other dilutive securities).

Operating earnings available to common shareholders (operating earnings): Management uses operating earnings to measure its financial performance as this measure focuses on the underlying fundamentals of the Company s operations by excluding net realized and unrealized gains or losses on investments (except where the Company has made a strategic investment in an investee whose operations are insurance or reinsurance related and where the Company does not control the investee s activities), net foreign exchange gains or losses, loss on redemption of preferred shares and certain interest in earnings or losses of equity investments (except where the Company has made a strategic investment in an investee whose operations are insurance or reinsurance related and where the Company does not control the investee s activities). Net realized and unrealized gains or losses on investments in any particular period are not indicative of the performance of, and distort trends in, the Company s business as they predominantly result from general economic and financial market conditions, and the timing of realized gains or losses on investments is largely opportunistic. Interest in earnings or losses of equity investments are also not indicative of the performance of, or trends in, the Company s business where the investee s operations are not insurance or reinsurance related and where the Company does not control the investee companies activities. Net foreign exchange gains or losses are not indicative of the performance of, and distort trends in,

Table of Contents

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

Operating earnings increased by $20 million, from $182 million in the three months ended March 31, 2012 to $202 million in the same period of 2013. The increase was primarily due to an increase in the Non-life underwriting result and a decrease in income tax expense on the lower level of pre-tax net income, as described above. The increases in operating earnings were partially offset by a decrease in net investment income, due to lower reinvestment rates, and an increase in operating expenses.

The other lesser factors contributing to the increases or decreases in operating earnings in the three months ended March 31, 2013 compared to the same period of 2012 are further described in Review of Net Income below.

The presentation of operating earnings or loss available to common shareholders is a non-GAAP financial measure within the meaning of Regulation G and should be considered in addition to, and not as a substitute for, measures of financial performance prepared in accordance with GAAP (see Comment on Non-GAAP Measures). The table below provides a reconciliation of operating earnings or loss to the most directly comparable GAAP financial measure for the three months ended March 31, 2013 and 2012 (in millions of U.S. dollars):

	For the three months ended March 31, 2013	For the three months ended March 31, 2012
Net income	**$ 234**	$ 360
Less:		
Net realized and unrealized investment gains, net of tax	**12**	159
Net foreign exchange losses, net of tax	**(1)**	(1)
Interest in earnings of equity investments, net of tax	**6**	5
Dividends to preferred shareholders	**15**	15
Operating earnings available to common shareholders	**$ 202**	$ 182

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

Annualized Operating ROE increased from 13.0% in the three months ended March 31, 2012 to 13.5% in the same period of 2013. The increase in annualized Operating ROE was primarily due to the increase in operating earnings in the three months compared to the same period of 2012, as described above. The factors contributing to increases or decreases in operating earnings are described further in Review of Net Income below.

Table of Contents

The presentation of Operating ROE is a non-GAAP financial measure within the meaning of Regulation G and should be considered in addition to, and not as a substitute for, measures of financial performance prepared in accordance with GAAP (see Comment on Non-GAAP Measures). The table below provides a reconciliation of Operating ROE to the most directly comparable GAAP financial measure for the three months ended March 31, 2013 and 2012:

	For the three months ended March 31, 2013	For the three months ended March 31, 2012
Annualized return on beginning diluted book value per common share calculated with net income per share available to common shareholders	**14.0%**	24.7%
Less:		
Annualized net realized and unrealized investment gains, net of tax, on beginning diluted book value per common share	**0.8**	11.4
Annualized net foreign exchange losses, net of tax, on beginning diluted book value per common share	**(0.1)**	(0.1)
Annualized net interest in earnings of equity investments, net of tax, on beginning diluted book value per common share	**0.4**	0.4
Annualized loss on redemption of preferred shares, on beginning diluted book value per common share	**(0.6)**	
Annualized operating return on beginning diluted book value per common share	**13.5%**	13.0%

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

The Non-life combined ratio decreased by 3.0 points, from 84.7% in the three months ended March 31, 2012 to 81.7% in the same period of 2013. The decrease in the combined ratio for the three months ended March 31, 2013 compared to the same period of 2012 primarily reflected an improvement in the Non-life underwriting result of $46 million, which was driven by an increase in favorable prior year loss development and lower loss picks in certain of the Company s sub-segments, and also reflected higher net premiums earned in the three months ended March 31, 2013 compared to the same period of 2012.

The other lesser factors contributing to increases or decreases in the combined ratio are described further in Review of Net Income below.

The Company uses the combined ratio to measure its overall underwriting profitability for its Non-life segment as a whole. Given the Company does not allocate operating expenses to its Non-life sub-segments, Management measures the underwriting profitability of the Non-life sub-segments by using the technical result and technical ratio as described in Results by Segment below.

Other Key Financial Measures

In addition to using the annualized growth in Diluted Tangible Book Value per Share plus dividends as the Company s prime financial long-term measure, and diluted tangible book value per common share and common share equivalents outstanding (Diluted Tangible Book Value per Share) as the basis for this measure, the Company uses other metrics to monitor its financial performance and to measure total shareholder value. Other such metrics used by Management include, but are not limited to, diluted book value per common share and common share equivalents outstanding (Diluted Book Value per Share) and Diluted Tangible Book Value per Share plus the discount in Non-life loss reserves per common share and common share equivalents outstanding (Diluted Tangible Book Value plus the discount in Non-life reserves). Diluted Book Value per Share is a similar metric to Diluted Tangible Book Value per Share, except that it includes the impact on book value of goodwill and intangible assets. Diluted Tangible Book Value plus the discount in Non-life loss reserves is a shorter-term metric that adjusts the Company s Diluted Tangible Book Value per Share for the impact that changes in interest rates have on the time value of money that is embedded in the Company s Non-life loss reserves.

Comment on Non-GAAP Measures

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

Risk Management

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

All business decisions entail a risk/return trade-off, and these decisions are applicable to the Company s risks. In the context of assumed business risks, this requires an accurate evaluation of risks to be assumed, and a determination of the appropriate economic returns required as fair compensation for such risks.

The Company s results are primarily determined by how well the Company understands, prices and manages assumed risk. Management also believes that every organization faces numerous risks that could threaten the successful achievement of a company s goals and objectives. These include choice of strategy and markets, economic and business cycles, competition, changes in regulation, data quality and security, fraud, business interruption and management continuity; all factors which can be viewed as either strategic, financial, or operational risks that are common to any industry. See Risk Factors in Item 1A of Part I of the Company s Annual Report on Form 10-K for the year ended December 31, 2012. For additional information related to the Company s risk management approach, see Business Risk Management in Item 1 of Part I of the Company s Annual Report on Form 10-K for the year ended December 31, 2012.

Assumed Risks

Central to the Company s assumed risk framework is its risk appetite. The Company s risk appetite is a statement of how much and how often the Company will tolerate operating losses and economic losses during an annual period. The Company s risk appetite is expressed as the maximum operating loss and the maximum economic loss that the Board is willing to incur. The Company s risk appetite is approved by the Board on an annual basis.

The Company establishes key risk limits for any risk source deemed by Management to have the potential to cause operating losses or economic losses greater than the Company s risk appetite. The Risk and Finance Committee of the Board (Risk and Finance Committee) approves the key risk limits. Executive and Business Unit Management may set additional specific and aggregate risk limits within the key risk limits approved by the Risk and Finance Committee. The actual level of risk is dependent on current market conditions and the need for balance in the Company s portfolio of risks. On a periodic basis, Management reviews and reports to the Risk and Finance Committee the actual limits deployed against the approved limits.

Management has established key risk limits that are approved by the Risk and Finance Committee for eight risk sources. For a detailed discussion of each of these eight risk sources see Business Risk Management in Item 1 of Part I of the Company s Annual Report on Form 10-K for the year ended December 31, 2012.

The following table shows the limits approved by the Risk and Finance Committee and the actual limits deployed at March 31, 2013 and December 31, 2012:

	March 31, 2013		**December 31, 2012**	
	Limit approved	**Actual deployed**	**Limit approved**	**Actual deployed**
Natural Catastrophe Risk	**$ 2.3 billion**	**$ 1.6 billion**	$ 2.3 billion	$ 1.6 billion
Long Tail Reinsurance Risk	**$ 1.2 billion**	**$ 0.7 billion**	$ 1.2 billion	$ 0.7 billion
Market Risk	**$ 3.4 billion**	**$ 2.5 billion**	$ 3.4 billion	$ 2.5 billion
Equity and equity-like sublimit	**$ 2.8 billion**	**$ 1.8 billion**	$ 2.8 billion	$ 1.7 billion
Interest Rate Risk (duration)	**5.0 years**	**2.9 years**	5.0 years	2.7 years
Default and Credit Spread Risk	**$ 9.5 billion**	**$ 7.1 billion**	$ 9.5 billion	$ 7.1 billion
Trade Credit Underwriting Risk	**$ 0.9 billion**	**$ 0.6 billion**	$ 0.9 billion	$ 0.6 billion
Longevity Risk	**$ 2.0 billion**	**$ 1.1 billion**	$ 2.0 billion	$ 1.1 billion

Pandemic Risk	**$ 1.3 billion**	**$ 0.6 billion**	$ 1.3 billion	$ 0.6 billion

Table of Contents

With respect to the Natural Catastrophe Risk, see Natural Catastrophe Probable Maximum Loss (PML) below for a discussion of the Company s estimated exposures for selected peak industry natural catastrophe perils at March 31, 2013.

For a discussion of operational and financial risks, other underwriting risks and exposure controls, retrocessions and claims, see Business Risk Management in Item 1 of Part I of the Company s Annual Report on Form 10-K for the year ended December 31, 2012.

Natural Catastrophe Probable Maximum Loss (PML)

The following discussion of the Company s natural catastrophe probable maximum loss (PML) information contains forward-looking statements based upon assumptions and expectations concerning the potential effect of future events that are subject to uncertainties. See Item 1A of Part I of the Company s Annual Report on Form 10-K for the year ended December 31, 2012 for a list of the Company s risk factors. Any of these risk factors could result in actual losses that are materially different from the Company s PML estimates below.

Natural catastrophe risk is a source of significant aggregate exposure for the Company and is managed by setting risk appetite and limits, as discussed above. The peril zones in the disclosure below are major peril zones for the industry. The Company has exposures in other peril zones that can potentially generate losses greater than the PML estimates below. The Company s PMLs represent an estimate of loss for a single event for a given return period. The table below discloses the Company s 1-in-250 and 1-in-500 year return period estimated loss for a single occurrence of a natural catastrophe event in a one-year period. For risk management purposes, the Company focuses more on the 1-in-250 PML estimate for wind perils and the 1-in-500 PML for earthquake perils.

The PML estimates below include all significant exposure from our Non-life and Life business operations. This includes coverage for property, marine, energy, aviation, engineering, workers compensation and mortality. In addition, the PML estimates include the contractual limits of insurance-linked securities. The PML estimates do not include casualty coverage that could be exposed as a result of a catastrophic event. In addition, they do not include estimates for contingent losses to insureds that are not directly impacted by the event (e.g. loss of earnings due to disruption in supply lines).

For additional information related to the Company s natural catastrophe PML information and definitions, see Business Natural Catastrophe Probable Maximum Loss (PML) in Item 1 of Part I of the Company s Annual Report on Form 10-K for the year ended December 31, 2012.

The table below shows the Company s single occurrence estimated net PML exposures (pre-tax and net of retrocession and reinstatement premiums) for certain selected peak industry natural catastrophe perils at January 1, 2013 (in millions of U.S. dollars):

		Single Occurrence Estimated Net Exposure	
Zone	**Peril**	**1-in-250 year PML**	**1-in-500 year PML (Earthquake Perils Only)**
U.S. Southeast	Hurricane	$ 1,143	
U.S. Northeast	Hurricane	1,124	
U.S. Gulf Coast	Hurricane	1,041	
Caribbean	Hurricane	293	
Europe	Windstorm	850	
Japan	Typhoon	192	
California	Earthquake	722	$ 906
British Columbia	Earthquake	314	564
Japan	Earthquake	503	564
Australia	Earthquake	468	583
New Zealand	Earthquake	276	299

The Company estimates that the incremental loss at the 1-in-250 year return period from a U.S. hurricane impacting more than one of the three hurricane risk zones in the U.S. would be 20% higher than the PML of the largest zone impacted. In addition, there is the potential for a hurricane to impact the Caribbean peril zone and one or more U.S. hurricane peril zones.

Critical Accounting Policies and Estimates

Critical Accounting Policies and Estimates of the Company at March 31, 2013 have not changed materially compared to December 31, 2012. The following discussion updates specific information related to the Company s estimates for losses and loss expenses and life policy benefits and valuation of investments and funds held directly managed, including certain derivative

financial instruments. See Critical Accounting Policies and Estimates in Management s Discussion and Analysis of Financial Condition and Results of Operations in Item 7 of Part II of the Company s Annual Report on Form 10-K for the year ended December 31, 2012 for a discussion of the Company s other critical accounting policies which are not specifically updated in this report given they have not changed materially compared to December 31, 2012.

Losses and Loss Expenses and Life Policy Benefits

Losses and Loss Expenses

Because a significant amount of time can elapse between the assumption of risk, occurrence of a loss event, the reporting of the event to an insurance company (the primary company or the cedant), the subsequent reporting to the reinsurance company (the reinsurer) and the ultimate payment of the claim on the loss event by the reinsurer, the Company s liability for unpaid losses and loss expenses (loss reserves) is based largely upon estimates. The Company categorizes loss reserves into three types of reserves: reported outstanding loss reserves (case reserves), additional case reserves (ACRs) and incurred but not reported (IBNR) reserves. The Company updates its estimates for each of the aforementioned categories on a quarterly basis using information received from its cedants. The Company also estimates the future unallocated loss adjustment expenses (ULAE) associated with the loss reserves and these form part of the Company s loss adjustment expense reserves. The Company s Non-life loss reserves for each category and sub-segment are reported in the table included later in this section.

The amount of time that elapses before a claim is reported to the cedant and then subsequently reported to the reinsurer is commonly referred to in the industry as the reporting tail. For all lines, the Company s objective is to estimate ultimate losses and loss expenses. Total loss reserves are then calculated by subtracting losses paid. Similarly, IBNR reserves are calculated by subtraction of case reserves and ACRs from total loss reserves.

The Company analyzes its ultimate losses and loss expenses after consideration of the loss experience of various reserving cells. The Company assigns treaties to reserving cells and allocates losses from the treaty to the reserving cell. The reserving cells are selected in order to ensure that the underlying treaties have homogeneous loss development characteristics (e.g., reporting tail) but are large enough to make estimation of trends credible. The selection of reserving cells is reviewed annually and changes over time as the business of the Company evolves. For each reserving cell, the Company s estimates of loss reserves are reached after a review of the results of several commonly accepted actuarial projection methodologies. In selecting its best estimate, the Company considers the appropriateness of each methodology to the individual circumstances of the reserving cell and underwriting year for which the projection is made.

See Critical Accounting Policies and Estimates Losses and Loss Expenses and Life Policy Benefits in Item 7 of Part II of the Company s Annual Report on Form 10-K for the year ended December 31, 2012 for additional information on the reserving methodologies employed by the Company, the principal reserving methods used for the reserving lines, the principal parameter assumptions underlying the methods and the main underlying factors upon which the estimates of reserving parameters are predicated.

The Company s best estimate of total loss reserves is typically in excess of the midpoint of the actuarial ultimate liability estimate. The Company believes that there is potentially significant risk in estimating loss reserves for long-tail lines of business and for immature underwriting years that may not be adequately captured through traditional actuarial projection methodologies as these methodologies usually rely heavily on projections of prior year trends into the future. In selecting its best estimate of future liabilities, the Company considers both the results of actuarial point estimates of loss reserves as well as the potential variability of these estimates as captured by a reasonable range of actuarial liability estimates. The selected best estimates of reserves are always within the reasonable range of estimates indicated by the Company s actuaries.

Table of Contents

During the three months ended March 31, 2013 and 2012, the Company reviewed its estimate for prior year losses for the Non-life segment (defined below in Results by Segment) and, in light of developing data, adjusted its ultimate loss ratios for prior accident years. The following table summarizes the net prior year favorable loss development for each sub-segment of the Company s Non-life segment for the three months ended March 31, 2013 and 2012 (in millions of U.S. dollars):

	For the three months ended March 31, 2013	For the three months ended March 31, 2012
Net Non-life prior year favorable loss development:		
North America	**$ 30**	$ 62
Global (Non-U.S.) P&C	**58**	28
Global Specialty	**60**	55
Catastrophe	**35**	19
Total net Non-life prior year favorable loss development	**$ 183**	$ 164

The net Non-life prior year favorable loss development for the three months ended March 31, 2013 and 2012 was driven by the following factors (in millions of U.S. dollars):

	For the three months ended March 31, 2013	For the three months ended March 31, 2012
Net Non-life prior year (adverse) favorable loss development:		
Net prior year loss development due to changes in premiums[(1)]	**$ (11)**	$ (26)
Net prior year loss development due to all other factors[(2)]	**194**	190
Total net Non-life prior year favorable loss development	**$ 183**	$ 164

(1) Net prior year loss development due to changes in premiums includes, but it is not limited to, the impact to prior years reserves associated with (increases) decreases in the estimated or actual premium exposure reported by cedants.

(2) Net prior year loss development due to all other factors includes, but is not limited to, loss experience, changes in assumptions and changes in methodology.

For a discussion of net prior year favorable loss development by Non-life sub-segment, see Results by Segment below. See Critical Accounting Policies and Estimates Losses and Loss Expenses and Life Policy Benefits in Item 7 of Part II of the Company s Annual Report on Form 10-K for the year ended December 31, 2012 for additional information by reserving lines.

The following table shows the gross reserves reported by cedants (case reserves), those estimated by the Company (ACRs and IBNR reserves) and the total gross, ceded and net loss reserves recorded at March 31, 2013 for each Non-life sub-segment (in millions of U.S. dollars):

	Case reserves	ACRs	IBNR reserves	Total gross loss reserves recorded	Ceded loss reserves	Total net loss reserves recorded
North America	$ 971	$ 141	$ 2,168	$ 3,280	$ (23)	$ 3,257
Global (Non-U.S.) P&C	1,327	9	1,077	2,413	(17)	2,396
Global Specialty	1,978	42	1,768	3,788	(203)	3,585
Catastrophe	517	182	144	843	(50)	793
Total Non-life reserves	$ 4,793	$ 374	$ 5,157	$ 10,324	$ (293)	$ 10,031

The net loss reserves represent the Company s best estimate of future losses and loss expense amounts based on the information available at March 31, 2013. Loss reserves rely upon estimates involving actuarial and statistical projections at a given time that reflect the Company s expectations of the costs of the ultimate settlement and administration of claims. Estimates of ultimate liabilities are contingent on many future events and the eventual outcome of these events may be different from the assumptions underlying the reserve estimates. These estimates are continually reviewed and the ultimate liability may be in excess of, or less than, the amounts provided, for which any adjustments will be reflected in the period in which the need for an adjustment is determined.

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

Table of Contents

The point estimates related to net loss reserves recorded by the Company and the range of actuarial estimates at March 31, 2013 were as follows for each sub-segment of the Non-life segment (in millions of U.S. dollars):

	Recorded Point Estimate	High	Low
Net Non-life sub-segment loss reserves:			
North America	**$ 3,257**	**$ 3,401**	**$ 2,568**
Global (Non-U.S.) P&C	**2,396**	**2,513**	**2,049**
Global Specialty	**3,585**	**3,723**	**3,142**
Catastrophe	**793**	**807**	**645**

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

Of the Company s $10,031 million of net Non-life loss reserves at March 31, 2013, net loss reserves for accident years 2005 and prior of $790 million are guaranteed by Colisée Re, pursuant to the Reserve Agreement. The Company is not subject to any loss reserve variability associated with the guaranteed reserves. See Business Reserves in Item 1 of Part I of the Company s Annual Report on Form 10-K for the year ended December 31, 2012 for a discussion of the Reserve Agreement.

A significant amount of judgment was used to estimate the range of potential losses related to the earthquakes that occurred in New Zealand in September 2010, February 2011 and June 2011 (the 2010 and the February and June 2011 New Zealand Earthquakes) and the Japan Earthquake (collectively, 2011 catastrophic events) and there remains a considerable degree of uncertainty related to the range of possible ultimate losses. These risks and uncertainties include the ongoing cedant revisions of loss estimates for each of these events, the degree to which inflation impacts construction materials required to rebuild affected properties, the characteristics of the Company s program participation for certain affected cedants and potentially affected cedants, and the expected length of the claims settlement period for 2011 catastrophic events. In addition, there is additional complexity related to the 2010 and the February and June 2011 New Zealand Earthquakes given multiple earthquakes have occurred in the same region in a relatively short time period, resulting in cedants continuing to revise their allocation of losses between the various events impacting different treaties, under which the Company may provide different amounts of coverage. Loss estimates arising from earthquakes are inherently more uncertain than those from other catastrophic events and the Company believes there remains a high degree of uncertainty related to its loss estimates for the 2011 catastrophic events, and the ultimate losses arising from these events may be materially in excess of, or less than, the amounts provided for in the Consolidated Balance Sheet at March 31, 2013.

Based upon information currently available and the estimated range of potential ultimate liabilities, the Company believes that unpaid loss and loss expense reserves contemplate a reasonable provision for exposure related to the 2011 catastrophic events. In addition to the sum of the point estimates recorded for each of the 2011 catastrophic events, at December 31, 2011 the Company recorded additional gross reserves of $50 million (net reserves of $48 million after the impact of retrocession), specifically related to these events within its Catastrophe sub-segment. The additional gross reserves recorded were in consideration of the number of events, the complexity of certain events and the continuing uncertainties in estimating the ultimate losses for these events in the aggregate. The Company continues to evaluate the additional gross reserves that were recorded as part of its periodic reserving process and changes to the amounts recorded may either result in: i) the reallocation of some or all of the additional reserves to one or more of the 2011 catastrophic events; or ii) the release of some or all of the additional reserves to net income in future periods; or iii) an increase in additional reserves recorded. At March 31, 2013, the Company decided to reduce the additional gross reserves by $5 million based on updated information from cedants, while still remaining cautious due to the uncertainties related to the specific factors regarding the 2011 catastrophic events.

Life Policy Benefits

Policy benefits for life and annuity contracts relate to the business in the Company s Life and Health segment, which predominantly includes reinsurance of longevity, subdivided into standard and non-standard annuities, and mortality business, which includes death and disability covers (with various riders) primarily written in Continental Europe, term assurance and critical illness (TCI) primarily written in the United Kingdom and Ireland, and guaranteed minimum death benefit (GMDB) business primarily written in Continental Europe. Effective December 31, 2012, following the acquisition of Presidio, the Company writes specialty accident and health business, predominantly in the U.S. Presidio s primary lines of business include HMO reinsurance, medical reinsurance and provider and employer excess of loss programs.

The Company categorizes life reserves into three types of reserves: reported outstanding loss reserves (case reserves), IBNR reserves and reserves for future policy benefits. Such liabilities are established based on methods and underlying assumptions in accordance with U.S. GAAP and applicable actuarial standards. Principal assumptions used in the establishment of reserves for future policy benefits have been determined based upon information reported by ceding companies, supplemented by the Company s actuarial estimates of mortality, critical illness, persistency and future investment income, with appropriate provision to reflect uncertainty. Case reserves, IBNR reserves and reserves for future policy benefits are generally calculated at the treaty level. The Company updates its estimates for each of the aforementioned categories on a periodic basis using information received from its cedants.

Table of Contents

The Company s reserving practices begin with the categorization of the contracts written as short duration, long duration, or universal life business for U.S. GAAP reserving purposes. This categorization determines the Company s reserving methodology. See Critical Accounting Policies and Estimates Losses and Loss Expenses and Life Policy Benefits Life Policy Benefits in Item 7 of Part II of the Company s Annual Report on Form 10-K for the year ended December 31, 2012 for additional information on the reserving methodologies employed by the Company for its longevity, mortality and accident and health lines.

The following table provides the Company s gross and net policy benefits for life and annuity contracts by reserving line at March 31, 2013 (in millions of U.S. dollars):

	Case reserves	IBNR reserves	Reserves for future policy benefits	Total gross Life reserves recorded	Ceded reserves	Total net Life reserves recorded
Accident and health	$ 8	$ 73	$	$ 81	$ (1)	$ 80
Longevity	1	93	410	504	(4)	500
Mortality	197	484	497	1,178	(4)	1,174
Total policy benefits for life and annuity contracts	$ 206	$ 650	$ 907	$ 1,763	$ (9)	$ 1,754

Valuation of Investments and Funds Held Directly Managed, including certain Derivative Financial Instruments

The Company defines fair value as the price received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. The Company measures the fair value of its financial instruments according to a fair value hierarchy that prioritizes the information used to measure fair value into three broad levels.

Under the fair value hierarchy, Management uses certain assumptions and judgments to derive the fair value of its investments, particularly for those assets with significant unobservable inputs, commonly referred to as Level 3 assets. At March 31, 2013, the Company s financial instruments that were measured at fair value and categorized as Level 3 were as follows (in millions of U.S. dollars):

	March 31, 2013
Fixed maturities	$ 659
Equities	27
Other invested assets (including certain derivatives)	90
Funds held - directly managed account	16
Total	$ 792

For additional information on the valuation techniques, methods and assumptions that were used by the Company to estimate the fair value of its fixed maturities, short-term investments, equities, other invested assets and investments underlying the funds held directly managed account, see Note 3 to Condensed Consolidated Financial Statements included in Item 1 of Part I of this report. For information on the Company s use of derivative financial instruments, see Note 4 to Condensed Consolidated Financial Statements included in Item 1 of Part I of this report.

Results of Operations for the Three Months Ended March 31, 2013 and 2012

The following discussion of Results of Operations contains forward-looking statements based upon assumptions and expectations concerning the potential effect of future events that are subject to uncertainties. See Item 1A of Part I of the Company s Annual Report on Form 10-K for the year ended December 31, 2012 for a complete list of the Company s risk factors. Any of these risk factors could cause actual results to differ materially from those reflected in such forward-looking statements.

The Company s reporting currency is the U.S. dollar. The Company s significant subsidiaries and branches have one of the following functional currencies: U.S. dollar, euro or Canadian dollar. As a significant portion of the Company s operations is transacted in foreign currencies, fluctuations in foreign exchange rates may affect year over year comparisons. To the extent that fluctuations in foreign exchange rates affect comparisons, their impact has been quantified, when possible, and discussed in each of the relevant sections. See Note 2(m) to Consolidated Financial Statements in Item 8 of Part II of the Company s Annual Report on Form 10-K for the year ended December 31, 2012 for a discussion

of translation of foreign currencies.

Table of Contents

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

the U.S. dollar average exchange rate was weaker against most currencies in the three months ended March 31, 2013 compared to the same period of 2012; and

the U.S. dollar ending exchange rate strengthened against most currencies at March 31, 2013 compared to December 31, 2012.

Review of Net Income

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

The components of net income for the three months ended March 31, 2013 and 2012 were as follows (in millions of U.S. dollars):

	For the three months ended March 31, 2013	% Change	For the three months ended March 31, 2012
Underwriting result:			
Non-life	**$ 169**	**37%**	$ 123
Life and Health		**(20)**	4
Investment result:			
Net investment income	**124**	**(16)**	147
Net realized and unrealized investment gains	**23**	**(88)**	193
Interest in earnings of equity investments[1]	**7**	**42**	5
Corporate and Other:			
Technical result[2]	**1**	**(6)**	1
Other income [2]	**1**	**18**	1
Other operating expenses	**(32)**	**40**	(23)
Interest expense	**(12)**		(12)
Amortization of intangible assets[3]	**(7)**	**(21)**	(9)
Net foreign exchange gains (losses)	**2**	**NM**	(3)
Income tax expense	**(42)**	**(38)**	(67)
Net income	**$ 234**	**(35)**	$ 360

NM: not meaningful

(1) Interest in earnings of equity investments represents the Company s aggregate share of earnings related to several private placement investments and limited partnerships within the Corporate and Other segment.

(2) Technical result and other income primarily relate to income on insurance-linked securities and principal finance transactions within the Corporate and Other segment.

(3) Amortization of intangible assets relates to intangible assets acquired in the acquisition of Paris Re in 2009 and Presidio in 2012.

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

Table of Contents

The following table provides the components of the underwriting result and combined ratio for the Non-life segment for the three months ended March 31, 2013 and 2012 and the components are discussed further below (in millions of U.S. dollars):

	For the three months ended March 31, 2013		For the three months ended March 31, 2012	
Current accident year technical result and ratio	**$ 52**	**94.4%**	$ 21	97.4%
Prior accident years technical result and ratio				
Net favorable prior year loss development	**183**	**(19.8)**	164	(20.6)
Technical result and ratio, as reported	**$ 235**	**74.6%**	$ 185	76.8%
Other income			1	
Other operating expenses	**(66)**	**7.1**	(63)	7.9
Underwriting result and combined ratio, as reported	**$ 169**	**81.7%**	$ 123	84.7%

The underwriting result for the Non-life segment increased by $46 million (corresponding to a decrease of 3.0 points on the combined ratio), from $123 million (84.7 points on the combined ratio) in the three months ended March 31, 2012 to $169 million (81.7 points on the combined ratio) in the same period of 2013. The increase in the Non-life underwriting result and the corresponding decrease in the combined ratio in the three months ended March 31, 2013 compared to the same period of 2012 was primarily attributable to:

The current accident year technical result - an increase of $31 million (a decrease of 3.0 points on the technical ratio) from $21 million (97.4 points on the technical ratio) in the three months ended March 31, 2012 to $52 million (94.4 points on the technical ratio) in the same period of 2013. The increase was primarily driven by the inclusion of prior year premium adjustments and related acquisition costs of $18 million in the three months ended March 31, 2012 in the agriculture line of business of the North America sub-segment which were directly associated with favorable prior year loss development on the 2011 underwriting year. Adjusting for this impact, the increase in the current accident year technical result was due to lower loss picks in certain lines of the Global (Non-U.S.) P&C and Global Specialty sub-segments.

Net favorable prior year loss development an increase of $19 million (an increase of 0.8 points on the technical ratio) from $164 million (20.6 points on the technical ratio) in the three months ended March 31, 2012 to $183 million (19.8 points on the combined ratio) in the same period of 2013. The increase in net favorable prior year loss development was primarily driven by the Global (Non-U.S.) P&C and Catastrophe sub-segments, which was partially offset by a decrease in the North America sub-segment. While net favorable prior year loss development increased in the three months ended March 31, 2013 compared to the same period of 2012, this had a reduced impact on the technical ratio as a result of higher net premiums earned. The components of the net favorable prior year loss development are described in more detail in the discussion of individual sub-segments in Results by Segment below.

The underwriting result for the Life and Health segment, which does not include allocated investment income, decreased by $4 million, from a gain of $4 million in the three months ended March 31, 2012 to breakeven in the same period of 2013. The decrease in the Life underwriting result was primarily due to a modest decline in net favorable prior year loss development. See Results by Segment below.

Net investment income decreased by $23 million, from $147 million in the three months ended March 31, 2012 to $124 million in the same period of 2013. The decrease in net investment income was primarily attributable to a decrease in net investment income from fixed maturities due to lower reinvestment rates. See Corporate and Other Net Investment Income below for more details.

Net realized and unrealized investment gains decreased by $170 million, from $193 million in the three months ended March 31, 2012 to $23 million in the same period of 2013. The net realized and unrealized investment gains of $23 million in the three months ended March 31, 2013 were primarily due to growth in worldwide equity markets, which were partially offset by modest increases in U.S. and European risk-free interest rates. See Corporate and Other Net Realized and Unrealized Investment Gains below for more details.

Other operating expenses included in Corporate and Other increased by $9 million, from $23 million in the three months ended March 31, 2012 to $32 million in the same period of 2013. The increase was primarily due to an increase in personnel expenses.

Interest expense in the three months ended March 31, 2013 was comparable to the same period of 2012.

Net foreign exchange gains increased by $5 million, from a loss of $3 million in the three months ended March 31, 2012 to a gain of $2 million in the same period of 2013. The net foreign exchange gain for the three months ended March 31, 2013 resulted primarily from gains related to currency movements on certain unhedged equity securities and the difference in the forward points embedded in the Company s hedges.

Table of Contents

Income tax expense decreased by $25 million, from $67 million in the three months ended March 31, 2012 to $42 million in the same period of 2013 reflecting the decrease in the net pre-tax income. See Corporate and Other Income Taxes below for more details.

Results by Segment

The Company monitors the performance of its operations in three segments, Non-life, Life and Health and Corporate and Other. The Non-life segment is further divided into four sub-segments, North America, Global (Non-U.S.) Property and Casualty (Global (Non-U.S.) P&C), Global Specialty and Catastrophe. Segments and sub-segments represent markets that are reasonably homogeneous in terms of geography, client types, buying patterns, underlying risk patterns and approach to risk management. See the description of the Company s segments and sub-segments as well as a discussion of how the Company measures its segment results in Note 20 to Consolidated Financial Statements included in Item 8 of Part II of Form 10-K for the year ended December 31, 2012 and in Note 9 to Consolidated Financial Statements included in Item 1 of Part I of this report. Effective January 1, 2013, the Life segment is referred to as Life and Health to reflect the inclusion of Presidio s results following its acquisition on December 31, 2012 and the Global (Non-U.S.) Specialty sub-segment is referred to as Global Specialty.

Non-life Segment

North America

The North America sub-segment is comprised of lines of business that are considered to be either short, medium or long-tail. The short-tail lines consist primarily of agriculture, property and motor business. Casualty is considered to be long-tail, while credit/surety and multiline are considered to have a medium tail. The casualty line typically tends to have a higher loss ratio and a lower technical result, due to the long-tail nature of the risks involved. Casualty treaties typically provide for investment income on premiums invested over a longer period as losses are typically paid later than for other lines. Investment income, however, is not considered in the calculation of technical result.

The following table provides the components of the technical result and the corresponding ratios for this sub-segment for the three months ended March 31, 2013 and 2012 (in millions of U.S. dollars):

	For the three months ended March 31, 2013	% Change	For the three months ended March 31, 2012
Gross premiums written	**$ 447**	**31%**	$ 341
Net premiums written	**446**	**31**	341
Net premiums earned	**$ 333**	**40**	$ 238
Losses and loss expenses	**(240)**	**81**	(133)
Acquisition costs	**(72)**	**10**	(66)
Technical result[1]	**$ 21**	**(46)**	$ 39
Loss ratio[2]	**72.0%**		55.9%
Acquisition ratio[3]	**21.6**		27.5
Technical ratio[4]	**93.6%**		83.4%

(1) Technical result is defined as net premiums earned less losses and loss expenses and acquisition costs.
(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.

Premiums

The North America sub-segment represented 27% and 23% of total net premiums written in the three months ended March 31, 2013 and 2012, respectively. The following table summarizes the net premiums written and net premiums earned by line of business for this sub-segment for the three months ended March 31, 2013 and 2012 (in millions of U.S. dollars):

	For the three months ended March 31, 2013				For the three months ended March 31, 2012			
	Net premiums written		**Net premiums earned**		Net premiums written		Net premiums earned	
Agriculture	**$ 101**	**23%**	**$ 99**	**30%**	$ 19	5%	$ 17	7%
Casualty	**178**	**40**	**138**	**41**	161	47	116	49
Credit/Surety	**10**	**2**	**7**	**2**	16	5	13	6
Motor	**17**	**4**	**10**	**3**	23	7	25	10
Multiline	**44**	**10**	**22**	**7**	40	12	20	8
Property	**72**	**16**	**47**	**14**	74	22	43	18
Other	**24**	**5**	**10**	**3**	8	2	4	2
Total	**$ 446**	**100%**	**$ 333**	**100%**	$ 341	100%	$ 238	100%

Gross and net premiums written increased by 31% and net premiums earned increased by 40% in the three months ended March 31, 2013 compared to the same period of 2012. The increases in gross and net premiums written and net premiums earned were primarily attributable to the agriculture and casualty lines of business. The increase in the agriculture line of business was primarily driven by new business written, differences in the timing of renewals between periods and downward premium adjustments in the three months ended March 31, 2012. The increase in the casualty line of business was driven by new business written. The increase in net premiums earned was higher than the increases in gross and net premiums written due to the increases in the agriculture line of business being fully reflected in both net premiums written and net premiums earned, with a more significant percentage impact on net premiums earned due to net premiums earned being lower than net premiums written in the three months ended March 31, 2012. Notwithstanding the diverse conditions prevailing in various markets within this sub-segment, the Company was able to write business that met its portfolio objectives.

Technical result and technical ratio

The following table provides the components of the technical result and ratio for this sub-segment for the three months ended March 31, 2013 and 2012 (in millions of U.S. dollars):

	For the three months ended March 31, 2013		For the three months ended March 31, 2012	
Current accident year technical result and ratio	**$ (9)**	**102.6%**	$ (23)	109.4%
Prior accident years technical result and ratio				
Net favorable prior year loss development	**30**	**(9.0)**	62	(26.0)
Technical result and ratio, as reported	**$ 21**	**93.6%**	$ 39	83.4%

The decrease of $18 million in the technical result (and the corresponding increase of 10.2 points on the technical ratio) in the three months ended March 31, 2013 compared to the same period of 2012 was primarily attributable to:

Net favorable prior year loss development a decrease of $32 million (increase of 17.0 points on the technical ratio) from $62 million (26.0 points on the technical ratio) in the three months ended March 31, 2012 to $30 million (9.0 points on the technical ratio) in the same period of 2013. The net favorable loss development for prior accident years in the three months ended March 31, 2013 was driven by most lines of business, with the casualty line being the most pronounced, while the agriculture and multiline lines experienced combined adverse loss development for prior accident years of $16 million. The

net favorable loss development for prior accident years of $62 million in the three months ended March 31, 2012 was predominantly driven by the casualty and agriculture lines of business.

This factor driving the decrease in the technical result in the three months ended March 31, 2013 compared to the same period of 2012 was partially offset by:

The current accident year technical result an increase in the technical result (and corresponding decrease in the technical ratio) primarily due to the inclusion of prior year premium adjustments and related acquisition costs of approximately $18 million in the agriculture line of business in the three months ended March 31, 2012, which were directly associated with favorable prior year loss development on the 2011 underwriting year. Adjusting for this impact, the current accident year technical result modestly decreased in the three months ended March 31, 2013 compared to the same period of 2012. This decrease was due to a modestly higher level of mid-sized loss activity, which was partially offset by a decrease in acquisition costs as a result of the change in the mix of business towards the agriculture line.

Global (Non-U.S.) P&C

The Global (Non-U.S.) P&C sub-segment is composed of short-tail business, in the form of property and proportional motor business, that represented approximately 77% and 80% of net premiums written in the three months ended March 31, 2013 and 2012, respectively, and long-tail business, in the form of casualty and non-proportional motor business, that represented the balance of net premiums written. The following table provides the components of the technical result and the corresponding ratios for this sub-segment for the three months ended March 31, 2013 and 2012 (in millions of U.S. dollars):

	For the three months ended March 31, 2013	% Change	For the three months ended March 31, 2012
Gross premiums written	**$ 372**	**7%**	$ 347
Net premiums written	**368**	**6**	346
Net premiums earned	**$ 166**	**4**	$ 159
Losses and loss expenses	**(67)**	**(32)**	(98)
Acquisition costs	**(50)**	**30**	(38)
Technical result	**$ 49**	**112**	$ 23
Loss ratio	**40.4%**		61.6%
Acquisition ratio	**30.1**		23.9
Technical ratio	**70.5%**		85.5%

Premiums

The Global (Non-U.S.) P&C sub-segment represented 23% of total net premiums written in the three months ended March 31, 2013 and 2012. The following table summarizes the net premiums written and net premiums earned by line of business for this sub-segment for the three months ended March 31, 2013 and 2012 (in millions of U.S. dollars):

	For the three months ended March 31, 2013				For the three months ended March 31, 2012			
	Net premiums written		Net premiums earned		Net premiums written		Net premiums earned	
Casualty	**$ 39**	**10%**	**$ 18**	**10%**	$ 38	11%	$ 15	10%
Motor	**125**	**34**	**48**	**29**	93	27	35	22
Property	**204**	**56**	**100**	**61**	215	62	109	68
Total	**$ 368**	**100%**	**$ 166**	**100%**	$ 346	100%	$ 159	100%

Business reported in this sub-segment is, to a significant extent, originally denominated in foreign currencies and is reported in U.S. dollars. The U.S. dollar can fluctuate significantly against other currencies and this should be considered when making period to period comparisons. The following table summarizes the effect of a weaker U.S. dollar compared to most other currencies on gross and net premiums written and net premiums earned in the three months ended March 31, 2013 compared to the same period of 2012:

	Gross premiums written	Net premiums written	Net premiums earned
Increase in original currency	**6%**	**5%**	**3%**
Foreign exchange effect	**1**	**1**	**1**
Increase as reported in U.S. dollars	**7%**	**6%**	**4%**

Gross and net premiums written and net premiums earned increased by 6%, 5% and 3% on a constant foreign exchange basis, respectively, in the three months ended March 31, 2013 compared to the same period of 2012. The increases in gross and net premiums written and net

premiums earned resulted primarily from new business written in the motor line of business and were partially offset by cancellations and non-renewals in the property line of business. Notwithstanding the continued competitive conditions in most markets, the Company was able to write business that met its portfolio objectives.

Technical result and technical ratio

The following table provides the components of the technical result and ratio for this sub-segment for the three months ended March 31, 2013 and 2012 (in millions of U.S. dollars):

	For the three months ended March 31, 2013		For the three months ended March 31, 2012	
Current accident year technical result and ratio	**$ (9)**	**105.3%**	$ (5)	102.9%
Prior accident years technical result and ratio				
Net favorable prior year loss development	**58**	**(34.8)**	28	(17.4)
Technical result and ratio, as reported	**$ 49**	**70.5%**	$ 23	85.5%

The increase of $26 million in the technical result (and the corresponding decrease of 15.0 points on the technical ratio) in the three months ended March 31, 2013 compared to the same period of 2012 was primarily attributable to:

Net favorable prior year loss development an increase of $30 million (decrease of 17.4 points on the technical ratio) from $28 million (17.4 points on the technical ratio) in the three months ended March 31, 2012 to $58 million (34.8 points on the technical ratio) in the same period of 2013. The net favorable loss development for prior accident years in the three months ended March 31, 2013 was driven by all lines of business, with the property line being the most pronounced and included favorable loss emergence related to certain catastrophic and large loss events. The net favorable loss development for prior accident years of $28 million in the three months ended March 31, 2012 was driven by all lines of business.

This factor driving the increase in the technical result in the three months ended March 31, 2013 compared to the same period of 2012 was partially offset by:

The current accident year technical result a decrease in the technical result due to an increase in acquisition costs, which were driven by higher profit commissions reported by cedants in the property line and by the new business in the motor line. These decreases in the current accident year technical result were partially offset by lower loss picks in certain lines of business and normal fluctuations in profitability in the three months ended March 31, 2013 compared to the same period of 2012.

Global Specialty

The Global Specialty sub-segment is primarily comprised of lines of business that are considered to be either short, medium or long-tail. The short-tail lines consist of agriculture, energy and specialty property. Aviation/space, credit/surety, engineering and marine are considered to have a medium tail, while specialty casualty is considered to be long-tail. The following table provides the components of the technical result and the corresponding ratios for this sub-segment for the three months ended March 31, 2013 and 2012 (in millions of U.S. dollars):

	For the three months ended March 31, 2013	% Change	For the three months ended March 31, 2012
Gross premiums written	**$ 445**	**7%**	$ 417
Net premiums written	**361**	**2**	353
Net premiums earned	**$ 337**	**9**	$ 308
Losses and loss expenses	**(184)**	**(5)**	(194)
Acquisition costs	**(75)**	**8**	(70)
Technical result	**$ 78**	**78**	$ 44
Loss ratio	**54.6%**		63.2%
Acquisition ratio	**22.4**		22.6
Technical ratio	**77.0%**		85.8%

Premiums

The Global Specialty sub-segment represented 22% and 24% of total net premiums written in the three months ended March 31, 2013 and 2012, respectively. The following table summarizes the net premiums written and net premiums earned by line of business for this sub-segment for the three months ended March 31, 2013 and 2012 (in millions of U.S. dollars):

	For the three months ended March 31, 2013				For the three months ended March 31, 2012			
	Net premiums written		Net premiums earned		Net premiums written		Net premiums earned	
Aviation/Space	**$ 37**	**10%**	**$ 46**	**14%**	$ 51	14%	$ 54	18%
Credit/Surety	**76**	**21**	**67**	**20**	74	21	56	18
Energy	**15**	**4**	**25**	**7**	14	4	23	7
Engineering	**44**	**12**	**48**	**14**	40	11	47	15
Marine	**73**	**20**	**72**	**21**	70	20	60	20
Specialty casualty	**50**	**14**	**24**	**7**	48	14	22	7
Specialty property	**20**	**6**	**36**	**11**	31	9	34	11
Other	**46**	**13**	**19**	**6**	25	7	12	4
Total	**$ 361**	**100%**	**$ 337**	**100%**	$ 353	100%	$ 308	100%

Business reported in this sub-segment is, to a significant extent, originally denominated in foreign currencies and is reported in U.S. dollars. The U.S. dollar can fluctuate significantly against other currencies and this should be considered when making period to period comparisons. The following table summarizes the effect of a weaker U.S. dollar compared to most other currencies on gross and net premiums written and net premiums earned in the three months ended March 31, 2013 compared to the same period of 2012:

	Gross premiums written	Net premiums written	Net premiums earned
Increase in original currency	**6%**	**1%**	**9%**
Foreign exchange effect	**1**	**1**	

Increase as reported in U.S. dollars	**7%**	**2%**	**9%**

Gross and net premiums written and net premiums earned increased by 6%, 1% and 9% on a constant foreign exchange basis, respectively, in the three months ended March 31, 2013 compared to the same period of 2012. The increase in gross premiums written was primarily driven by new business written in the marine line of business and increases in most of the other lines of business due to new business and positive premium adjustments. These increases in gross premiums written were partially offset by non-renewals and downward premium adjustments in the specialty property and aviation/space lines of business. The increase in gross premiums written was higher than the increase in net premiums written due to an increase in the ceded premiums written during the three months ended March 31, 2013 compared to the same period of 2012. These ceded reinsurance covers are primarily written on a non-proportional basis, with the ceded premiums fully written on inception and earned over the risk period. The increase in net premiums earned was higher than the increases in gross and net premiums written due to the earning of new business written during 2012. Notwithstanding the diverse conditions prevailing in various markets within this sub-segment, the Company was able to write business that met its portfolio objectives.

Table of Contents

Technical result and technical ratio

The following table provides the components of the technical result and ratio for this sub-segment for the three months ended March 31, 2013 and 2012 (in millions of U.S. dollars):

	For the three months ended March 31, 2013		For the three months ended March 31, 2012	
Current accident year technical result and ratio	**$ 18**	**94.9%**	$ (11)	103.8%
Prior accident years technical result and ratio				
Net favorable prior year loss development	**60**	**(17.9)**		