

PARTNERRE LTD
Form 10-Q
August 01, 2014

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

FORM 10-Q

QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT
OF 1934
FOR THE QUARTERLY PERIOD ENDED JUNE 30, 2014
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
(State of incorporation)

Not Applicable
(I.R.S. Employer
Identification No.)

90 Pitts Bay Road, Pembroke, HM08, Bermuda
(Address of principal executive offices) (Zip Code)
(441) 292-0888
(Registrant's telephone number, including area code)

Not Applicable
(Former name, former address and former fiscal year, if changed since last report)

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

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

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

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

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

The number of the registrant's common shares (par value \$1.00 per share) outstanding, net of treasury shares, as of July 28, 2014 was 49,690,065.

PartnerRe Ltd.
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PART I—FINANCIAL INFORMATION

REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

To the Board of Directors and Shareholders of PartnerRe Ltd.

We have reviewed the accompanying condensed consolidated balance sheet of PartnerRe Ltd. and subsidiaries (the “Company”) as of June 30, 2014, and the related condensed consolidated statements of operations and comprehensive income (loss) for the three-month and six-month periods ended June 30, 2014 and 2013, and of shareholders’ equity, and of cash flows for the six-month periods ended June 30, 2014 and 2013. These condensed consolidated interim 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, 2013, 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 27, 2014, 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, 2013 is fairly stated, in all material respects, in relation to the consolidated balance sheet from which it has been derived.

/s/ Deloitte Ltd.
Deloitte Ltd.

Hamilton, Bermuda
August 1, 2014

PartnerRe Ltd.

Condensed Consolidated Balance Sheets

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

	June 30, 2014 (Unaudited)	December 31, 2013 (Audited)
Assets		
Investments:		
Fixed maturities, at fair value (amortized cost: 2014, \$13,546,261; 2013, \$13,376,455)	\$ 14,006,770	\$ 13,593,303
Short-term investments, at fair value (amortized cost: 2014, \$31,851; 2013, \$13,543)	31,849	13,546
Equities, at fair value (cost: 2014, \$1,024,756; 2013, \$1,009,286)	1,253,082	1,221,053
Other invested assets	293,127	320,981
Total investments	15,584,828	15,148,883
Funds held – directly managed (cost: 2014, \$661,069; 2013, \$778,569)	669,713	785,768
Cash and cash equivalents	1,208,220	1,496,485
Accrued investment income	170,508	185,717
Reinsurance balances receivable	3,015,727	2,465,713
Reinsurance recoverable on paid and unpaid losses	358,804	308,892
Funds held by reinsured companies	863,491	843,081
Deferred acquisition costs	755,769	644,952
Deposit assets	95,133	351,905
Net tax assets	23,231	14,133
Goodwill	456,380	456,380
Intangible assets	173,085	187,090
Other assets	71,584	149,296
Total assets	\$ 23,446,473	\$ 23,038,295
Liabilities		
Unpaid losses and loss expenses	\$ 10,399,775	\$ 10,646,318
Policy benefits for life and annuity contracts	2,127,412	1,974,133
Unearned premiums	2,357,544	1,723,767
Other reinsurance balances payable	254,750	202,549
Deposit liabilities	74,265	328,588
Net tax liabilities	237,302	284,442
Accounts payable, accrued expenses and other	217,033	291,350
Debt related to senior notes	750,000	750,000
Debt related to capital efficient notes	70,989	70,989
Total liabilities	16,489,070	16,272,136
Shareholders' Equity		
Common shares (par value \$1.00; issued: 2014, 87,107,093 shares; 2013, 86,657,045 shares)	87,107	86,657
Preferred shares (par value \$1.00; issued and outstanding: 2014 and 2013, 34,150,000 shares; aggregate liquidation value: 2014 and 2013, \$853,750)	34,150	34,150
Additional paid-in capital	3,928,468	3,901,627
Accumulated other comprehensive loss	(10,898) (12,238
Retained earnings	5,891,822	5,406,797

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Common shares held in treasury, at cost (2014, 37,284,611 shares; 2013, 34,213,611 shares)	(3,020,602)	(2,707,461)
Total shareholders' equity attributable to PartnerRe Ltd.	6,910,047	6,709,532
Noncontrolling interests	47,356	56,627
Total shareholders' equity	6,957,403	6,766,159
Total liabilities and shareholders' equity	\$23,446,473	\$23,038,295
See accompanying Notes to Condensed Consolidated Financial Statements.		

PartnerRe Ltd.

Condensed Consolidated Statements of Operations and Comprehensive Income (Loss)

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

(Unaudited)

	For the three months ended June 30, 2014	For the three months ended June 30, 2013	For the six months ended June 30, 2014	For the six months ended June 30, 2013
Revenues				
Gross premiums written	\$1,462,307	\$1,340,582	\$3,334,047	\$3,097,467
Net premiums written	\$1,418,665	\$1,309,318	\$3,157,159	\$2,945,750
Increase in unearned premiums	(65,596)	(100,682)	(550,308)	(590,434)
Net premiums earned	1,353,069	1,208,636	2,606,851	2,355,316
Net investment income	129,967	124,503	246,834	248,207
Net realized and unrealized investment gains (losses)	165,717	(299,215)	307,888	(276,272)
Other income	9,265	3,878	9,669	7,805
Total revenues	1,658,018	1,037,802	3,171,242	2,335,056
Expenses				
Losses and loss expenses and life policy benefits	883,846	866,843	1,633,303	1,527,794
Acquisition costs	302,573	241,743	567,181	475,942
Other operating expenses	107,072	144,833	218,534	260,874
Interest expense	12,240	12,232	24,477	24,460
Amortization of intangible assets	7,003	7,045	14,005	14,091
Net foreign exchange (gains) losses	(2,023)	10,584	(2,693)	8,543
Total expenses	1,310,711	1,283,280	2,454,807	2,311,704
Income (loss) before taxes and interest in earnings (losses) of equity method investments	347,307	(245,478)	716,435	23,352
Income tax expense (benefit)	78,440	(74,569)	140,746	(32,894)
Interest in earnings (losses) of equity method investments	4,925	(3,479)	10,989	3,736
Net income (loss)	273,792	(174,388)	586,678	59,982
Net income attributable to noncontrolling interests	(1,951)	(1,183)	(4,995)	(1,183)
Net income (loss) attributable to PartnerRe Ltd.	271,841	(175,571)	581,683	58,799
Preferred dividends	14,184	14,796	28,367	29,494
Loss on redemption of preferred shares	—	—	—	9,135
Net income (loss) attributable to PartnerRe Ltd. common shareholders	\$257,657	\$(190,367)	\$553,316	\$20,170
Comprehensive income (loss)				
Net income (loss) attributable to PartnerRe Ltd.	\$271,841	\$(175,571)	\$581,683	\$58,799
Change in currency translation adjustment	17,020	(11,514)	1,797	(31,344)
Change in unfunded pension obligation, net of tax	(9)	(130)	(10)	866
Change in unrealized losses on investments, net of tax	(222)	(230)	(447)	(463)
Total other comprehensive income (loss), net of tax	16,789	(11,874)	1,340	(30,941)
Comprehensive income (loss) attributable to PartnerRe Ltd.	\$288,630	\$(187,445)	\$583,023	\$27,858
Per share data attributable to PartnerRe Ltd. common shareholders				

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Net income (loss) per common share:

Basic net income (loss)	\$5.13	\$(3.37)	\$10.86	\$0.35
Diluted net income (loss)	\$5.02	\$(3.37)	\$10.64	\$0.34
Weighted average number of common shares outstanding	50,241,216	56,485,882	50,942,980	57,449,528
Weighted average number of common shares and common share equivalents outstanding	51,328,761	56,485,882	52,024,451	58,534,526
Dividends declared per common share	\$0.67	\$0.64	\$1.34	\$1.28

See accompanying Notes to Condensed Consolidated Financial Statements.

PartnerRe Ltd.

Condensed Consolidated Statements of Shareholders' Equity

(Expressed in thousands of U.S. dollars)

(Unaudited)

	For the six months ended June 30, 2014	For the six months ended June 30, 2013	
Common shares			
Balance at beginning of period	\$86,657	\$85,460	
Issuance of common shares	450	905	
Balance at end of period	87,107	86,365	
Preferred shares			
Balance at beginning of period	34,150	35,750	
Issuance of preferred shares	—	10,000	
Redemption of preferred shares	—	(11,600)
Balance at end of period	34,150	34,150	
Additional paid-in capital			
Balance at beginning of period	3,901,627	3,861,844	
Issuance of common shares	26,841	48,278	
Issuance of preferred shares	—	231,265	
Redemption of preferred shares	—	(269,265)
Balance at end of period	3,928,468	3,872,122	
Accumulated other comprehensive loss			
Balance at beginning of period	(12,238	) 10,597	
Currency translation adjustment			
Balance at beginning of period	977	32,755	
Change in currency translation adjustment	1,797	(31,344)
Balance at end of period	2,774	1,411	
Unfunded pension obligation			
Balance at beginning of period	(17,509	) (27,370)
Change in unfunded pension obligation, net of tax	(10	) 866	
Balance at end of period (net of tax: 2014, \$5,034; 2013, \$7,494)	(17,519	) (26,504)
Unrealized gain on investments			
Balance at beginning of period	4,294	5,212	
Change in unrealized losses on investments, net of tax	(447	) (463)
Balance at end of period (net of tax: 2014 and 2013: \$nil)	3,847	4,749	
Balance at end of period	(10,898	) (20,344)
Retained earnings			
Balance at beginning of period	5,406,797	4,952,002	
Net income	586,678	59,982	
Net income attributable to noncontrolling interests	(4,995	) (1,183)
Dividends on common shares	(68,291	) (73,800)
Dividends on preferred shares	(28,367	) (29,494)
Loss on redemption of preferred shares	—	(9,135)
Balance at end of period	5,891,822	4,898,372	

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Common shares held in treasury			
Balance at beginning of period	(2,707,461)	(2,012,157)
Repurchase of common shares	(313,141	)	(491,551)
Balance at end of period	(3,020,602	)	(2,503,708)
Total shareholders' equity attributable to PartnerRe Ltd.	\$6,910,047		\$6,366,957
Noncontrolling interests	47,356		48,319
Total shareholders' equity	\$6,957,403		\$6,415,276
See accompanying Notes to Condensed Consolidated Financial Statements.			

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PartnerRe Ltd.

Condensed Consolidated Statements of Cash Flows

(Expressed in thousands of U.S. dollars)

(Unaudited)

	For the six months ended June 30, 2014	For the six months ended June 30, 2013	
Cash flows from operating activities			
Net income	\$586,678	\$59,982	
Adjustments to reconcile net income to net cash provided by operating activities:			
Amortization of net premium on investments	54,783	82,147	
Amortization of intangible assets	14,005	14,091	
Net realized and unrealized investment (gains) losses	(307,888	) 276,272	
Changes in:			
Reinsurance balances, net	(518,432	) (555,356)
Reinsurance recoverable on paid and unpaid losses, net of ceded premiums payable	46,768	101,696	
Funds held by reinsured companies and funds held – directly managed	115,224	62,440	
Deferred acquisition costs	(105,900	) (121,359)
Net tax assets and liabilities	(55,879	) (144,342)
Unpaid losses and loss expenses including life policy benefits	(131,400	) (181,198)
Unearned premiums	550,308	590,434	
Other net changes in operating assets and liabilities	(27,380	) 45,951)
Net cash provided by operating activities	220,887	230,758	
Cash flows from investing activities			
Sales of fixed maturities	4,276,812	3,844,517	
Redemptions of fixed maturities	338,238	772,227	
Purchases of fixed maturities	(4,683,829	) (4,198,801)
Sales and redemptions of short-term investments	31,405	226,390	
Purchases of short-term investments	(49,706	) (105,446)
Sales of equities	122,296	539,498	
Purchases of equities	(103,688	) (582,231)
Other, net	(17,980	) (7,122)
Net cash (used in) provided by investing activities	(86,452	) 489,032)
Cash flows from financing activities			
Dividends paid to common and preferred shareholders	(96,658	) (103,294)
Repurchase of common shares	(316,091	) (496,023)
Issuance of common shares, net of taxes paid	6,156	34,416	
Net proceeds from issuance of preferred shares	—	241,265	
Repurchase of preferred shares	—	(290,000)
(Distribution) sale of shares to noncontrolling interests	(14,266	) 47,136)
Net cash used in financing activities	(420,859	) (566,500)
Effect of foreign exchange rate changes on cash	(1,841	) (13,455)
(Decrease) increase in cash and cash equivalents	(288,265) 139,835)
Cash and cash equivalents—beginning of period	1,496,485	1,121,705	

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Cash and cash equivalents—end of period	\$1,208,220	\$1,261,540
Supplemental cash flow information:		
Taxes paid	\$195,261	\$112,671
Interest paid	24,630	24,630
See accompanying Notes to Condensed Consolidated Financial Statements.		

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PartnerRe Ltd.

Notes to Condensed Consolidated Financial Statements

(Unaudited)

1. Organization

PartnerRe Ltd. (PartnerRe or the Company) predominantly provides reinsurance and certain specialty insurance lines on a worldwide basis through its principal wholly-owned subsidiaries, including Partner Reinsurance Company Ltd. (PartnerRe Bermuda), 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. (subsequently renamed and referred to as PartnerRe Health), a California-based U.S. specialty accident and health reinsurance and insurance writer. The Condensed Consolidated Statements of Operations and Cash Flows include PartnerRe Health's results 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.

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, 2013.

3. Recent Accounting Pronouncements

In January 2014, the Financial Accounting Standards Board (FASB) issued updated guidance on the accounting for investments in affordable housing projects that qualify for low-income housing tax credits by entities that manage or

invest in such projects. The update modifies the conditions that an entity must meet to elect the effective yield or proportional amortization method to account for such investments. The guidance is effective for interim and annual periods beginning after December 15, 2014, with early adoption permitted. The Company does not expect the adoption of this guidance to have a significant impact on its Consolidated Financial Statements or disclosures. In June 2014, the FASB issued updated guidance on the accounting for share-based payments when the terms of an award provide that a performance target could be achieved after the requisite service period. The guidance is effective for interim and annual periods beginning after December 15, 2015, with early adoption permitted. The Company does not expect the adoption of this guidance to have a significant impact on its Consolidated Financial Statements or disclosures.

4. Fair Value

(a) Fair Value of Financial Instrument Assets

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

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

Level 1 inputs—Unadjusted, quoted prices in active markets for identical assets or liabilities that the Company has the ability to access.

The Company's financial instruments that it measures at fair value using Level 1 inputs generally include: equities 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, credit default 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.

The Company's financial instruments measured at fair value include investments and the segregated investment portfolio underlying the funds held – directly managed account. At June 30, 2014 and December 31, 2013, 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):

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June 30, 2014	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	\$ —	\$ 1,855,443	\$ —	\$1,855,443
U.S. states, territories and municipalities	—	97,830	123,617	221,447
Non-U.S. sovereign government, supranational and government related	—	2,288,627	—	2,288,627
Corporate	—	5,980,652	—	5,980,652
Asset-backed securities	—	725,466	489,106	1,214,572
Residential mortgage-backed securities	—	2,394,941	—	2,394,941
Other mortgage-backed securities	—	51,088	—	51,088
Fixed maturities	\$ —	\$ 13,394,047	\$ 612,723	\$14,006,770
Short-term investments	\$ —	\$ 31,849	\$ —	\$31,849
Equities				
Real estate investment trusts	\$ 224,501	\$ —	\$ —	\$224,501
Energy	154,368	—	—	154,368
Finance	98,254	9,718	19,564	127,536
Insurance	122,864	—	—	122,864
Consumer noncyclical	100,022	—	—	100,022
Communications	78,556	—	2,067	80,623
Technology	52,429	—	7,645	60,074
Industrials	49,759	—	—	49,759
Consumer cyclical	41,279	—	—	41,279
Utilities	35,141	—	—	35,141
Other	19,845	—	7	19,852
Mutual funds and exchange traded funds	47,003	181,814	8,246	237,063
Equities	\$ 1,024,021	\$ 191,532	\$ 37,529	\$1,253,082
Other invested assets				
Derivative assets				
Foreign exchange forward contracts	\$ —	\$ 2,410	\$ —	\$2,410
Foreign currency option contracts	—	746	—	746
Futures contracts	2,706	—	—	2,706
Total return swaps	—	—	408	408
TBAs	—	1,728	—	1,728
Other				
Notes and loan receivables and notes securitization	—	—	38,603	38,603
Annuities and residuals	—	—	17,134	17,134
Private equities	—	—	54,928	54,928
Derivative liabilities				
Foreign exchange forward contracts	—	(4,171	) —	(4,171)
Futures contracts	(407	) —	—	(407)
Insurance-linked securities	—	—	(950	) (950)
Total return swaps	—	—	(310	) (310)
Interest rate swaps	—	(9,145	) —	(9,145)
Other invested assets	\$ 2,299	\$ (8,432) \$ 109,813	\$103,680
Funds held – directly managed	\$ —	\$ 154,590	\$ —	\$154,590

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U.S. government and government sponsored enterprises				
U.S. states, territories and municipalities	—	—	305	305
Non-U.S. sovereign government, supranational and government related	—	128,323	—	128,323
Corporate	—	214,482	—	214,482
Other invested assets	—	—	15,800	15,800
Funds held – directly managed	\$ —	\$ 497,395	\$ 16,105	\$ 513,500
Total	\$ 1,026,320	\$ 14,106,391	\$ 776,170	\$ 15,908,881

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December 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	\$ —	\$ 1,623,859	\$ —	\$ 1,623,859
U.S. states, territories and municipalities	—	16,207	108,380	124,587
Non-U.S. sovereign government, supranational and government related	—	2,353,699	—	2,353,699
Corporate	—	6,048,663	—	6,048,663
Asset-backed securities	—	691,654	446,577	1,138,231
Residential mortgage-backed securities	—	2,268,517	—	2,268,517
Other mortgage-backed securities	—	35,747	—	35,747
Fixed maturities	\$ —	\$ 13,038,346	\$ 554,957	\$ 13,593,303
Short-term investments	\$ —	\$ 13,546	\$ —	\$ 13,546
Equities				
Real estate investment trusts	\$ 175,796	\$ —	\$ —	\$ 175,796
Energy	159,509	—	—	159,509
Insurance	144,020	—	—	144,020
Finance	108,944	9,556	20,207	138,707
Consumer noncyclical	108,663	—	—	108,663
Communications	70,792	—	2,199	72,991
Technology	53,768	—	7,752	61,520
Industrials	47,677	—	—	47,677
Consumer cyclical	45,915	—	—	45,915
Utilities	37,151	—	—	37,151
Other	19,993	—	—	19,993
Mutual funds and exchange traded funds	61,902	139,322	7,887	209,111
Equities	\$ 1,034,130	\$ 148,878	\$ 38,045	\$ 1,221,053
Other invested assets				
Derivative assets				
Foreign exchange forward contracts	\$ —	\$ 1,249	\$ —	\$ 1,249
Futures contracts	41,031	—	—	41,031
Total return swaps	—	—	79	79
Interest rate swaps	—	2,147	—	2,147
TBAs	—	2	—	2
Other				
Notes and loan receivables and notes securitization	—	—	41,446	41,446
Annuities and residuals	—	—	24,064	24,064
Private equities	—	—	39,131	39,131
Derivative liabilities				
Foreign exchange forward contracts	—	(8,648	) —	(8,648)
Foreign currency option contracts	—	(535	) —	(535)
Credit default swaps (protection purchased)	—	(71	) —	(71)
Insurance-linked securities	—	—	(268)	(268)
Total return swaps	—	—	(599)	(599)
Interest rate swaps	—	(2,558) —	(2,558)
TBAs	—	(1,331) —	(1,331)
Other invested assets	\$ 41,031	\$ (9,745) \$ 103,853	\$ 135,139

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Funds held – directly managed				
U.S. government and government sponsored enterprises	\$ —	\$ 157,296	\$ —	\$ 157,296
U.S. states, territories and municipalities	—	—	286	286
Non-U.S. sovereign government, supranational and government related	—	137,186	—	137,186
Corporate	—	248,947	—	248,947
Short-term investments	—	2,426	—	2,426
Other invested assets	—	—	15,165	15,165
Funds held – directly managed	\$ —	\$ 545,855	\$ 15,451	\$ 561,306
Total	\$ 1,075,161	\$ 13,736,880	\$ 712,306	\$ 15,524,347

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At June 30, 2014 and December 31, 2013, the aggregate carrying amounts of items included in Other invested assets that the Company did not measure at fair value were \$189.4 million and \$185.8 million, respectively, which related to the Company's investments that are accounted for using the cost method of accounting or equity method of accounting. In addition to the investments underlying the funds held – directly managed account held at fair value of \$513.5 million and \$561.3 million at June 30, 2014 and December 31, 2013, respectively, the funds held – directly managed account also included cash and cash equivalents, carried at fair value, of \$41.0 million and \$84.8 million, respectively, and accrued investment income of \$6.2 million and \$6.7 million, respectively. At June 30, 2014 and December 31, 2013, the aggregate carrying amounts of items included in the funds held – directly managed account that the Company did not measure at fair value were \$109.0 million and \$133.0 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, 2013).

At June 30, 2014 and December 31, 2013, substantially all of the accrued investment income in the Condensed Consolidated Balance Sheets relate to the Company's investments and the investments underlying the funds held – directly managed account for which the fair value option was elected.

During the three months and six months ended June 30, 2014 and 2013, 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 June 30, 2014 and December 31, 2013, the fair values of financial instrument assets recorded in the Condensed Consolidated Balance Sheets not described above, approximate their carrying values.

The reconciliations of the beginning and ending balances for all financial instruments measured at fair value using Level 3 inputs for the three months ended June 30, 2014 and 2013, were as follows (in thousands of U.S. dollars):

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For the three months ended June 30, 2014	Balance at beginning of period	Realized and unrealized investment gains (losses) included in net income	Purchases and issuances ⁽¹⁾	Settlements and sales	Net transfers into/ (out of) Level 3	Balance at end of period	Change in unrealized investment gains (losses) relating to assets held at end of period
Fixed maturities							
U.S. states, territories and municipalities	\$ 113,467	\$ 5,960	\$ 4,260	\$ (70)	\$ —	\$ 123,617	\$ 5,959
Asset-backed securities	447,701	3,141	68,035	(29,771)	—	489,106	3,184
Fixed maturities	\$561,168	\$ 9,101	\$ 72,295	\$ (29,841)	\$ —	\$ 612,723	\$ 9,143
Equities							
Finance	\$22,706	\$ (3,142)	\$ —	\$ —	\$ —	\$ 19,564	\$ (3,142)
Communications	2,111	(44)	—	—	—	2,067	(44)
Technology	7,400	245	—	—	—	7,645	245
Other	—	(1)	8	—	—	7	(1)
Mutual funds and exchange traded funds	8,053	193	—	—	—	8,246	193
Equities	\$40,270	\$ (2,749)	\$ 8	\$ —	\$ —	\$ 37,529	\$ (2,749)
Other invested assets							
Derivatives, net	\$ (1,042)	\$ 398	\$ (208)	\$ —	\$ —	\$ (852)	\$ 398
Notes and loan receivables and notes securitization	42,243	2,967	2,196	(8,803)	—	38,603	4,486
Annuities and residuals	18,945	302	—	(2,113)	—	17,134	303
Private equities	42,655	(2,264)	15,478	(941)	—	54,928	(2,264)
Other invested assets	\$ 102,801	\$ 1,403	\$ 17,466	\$ (11,857)	\$ —	\$ 109,813	\$ 2,923
Funds held – directly managed							
U.S. states, territories and municipalities	\$ 301	\$ 4	\$ —	\$ —	\$ —	\$ 305	\$ 4
Other invested assets	15,223	577	—	—	—	15,800	577
Funds held – directly managed	\$ 15,524	\$ 581	\$ —	\$ —	\$ —	\$ 16,105	\$ 581
Total	\$ 719,763	\$ 8,336	\$ 89,769	\$ (41,698)	\$ —	\$ 776,170	\$ 9,898

(1) Purchases and issuances of derivatives include issuances of \$0.2 million.

For the three months ended June 30, 2013	Balance at beginning of period	Realized and unrealized investment (losses) gains included in net loss	Purchases and issuances (1)	Settlements and sales	Net transfers into/(out of) 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	\$232,292	\$ (13,009)	\$—	\$ (120)	\$—	\$219,163	\$ (13,009)
Corporate	100,716	(820)	—	—	—	99,896	(820)
Asset-backed securities	325,659	(6,063)	128,009	(21,317)	—	426,288	(5,921)
Fixed maturities	\$658,667	\$ (19,892)	\$128,009	\$ (21,437)	\$—	\$745,347	\$ (19,750)
Equities							
Finance	\$12,553	\$ 447	\$—	\$—	\$—	\$13,000	\$ 447
Technology	7,647	365	—	—	—	8,012	365
Communications	—	—	2,040	—	—	2,040	—
Mutual funds and exchange traded funds	7,442	107	—	—	—	7,549	107
Equities	\$27,642	\$ 919	\$2,040	\$—	\$—	\$30,601	\$ 919
Other invested assets							
Derivatives, net	\$2,732	\$ (520)	\$121	\$—	\$—	\$2,333	\$ (3,020)
Notes and loan receivables and notes securitization	34,058	(1,322)	11,990	(502)	—	44,224	(1,322)
Annuities and residuals	35,656	(243)	—	(4,858)	—	30,555	(510)
Private equities	17,764	(447)	3,783	—	—	21,100	(447)
Other invested assets	\$90,210	\$ (2,532)	\$15,894	\$ (5,360)	\$—	\$98,212	\$ (5,299)
Funds held – directly managed							
U.S. states, territories and municipalities	\$341	\$ (4)	\$—	\$—	\$—	\$337	\$ (4)
Other invested assets	15,468	(261)	—	—	—	15,207	(261)
Funds held – directly managed	\$15,809	\$ (265)	\$—	\$—	\$—	\$15,544	\$ (265)
Total	\$792,328	\$ (21,770)	\$145,943	\$ (26,797)	\$—	\$889,704	\$ (24,395)

(1) Purchases and issuances of derivatives include issuances of \$0.8 million.

The reconciliations of the beginning and ending balances for all financial instruments measured at fair value using Level 3 inputs for the six months ended June 30, 2014 and 2013, were as follows (in thousands of U.S. dollars):

For the six months ended June 30, 2014	Balance at beginning of period	Realized and unrealized gains (losses) included in net income	Purchases and issuances (1)	Settlements and sales	Net transfers into/(out of) Level 3	Balance at end of period	Change in unrealized investment gains (losses) relating to assets held at end of period
Fixed maturities							
U.S. states, territories and municipalities	\$ 108,380	\$ 6,852	\$ 8,525	\$(140)	\$ —	\$ 123,617	\$ 6,849
Asset-backed securities	446,577	9,137	127,453	(94,061)	—	489,106	9,444
Fixed maturities	\$ 554,957	\$ 15,989	\$ 135,978	\$(94,201)	\$ —	\$ 612,723	\$ 16,293
Equities							
Finance	\$ 20,207	\$(643)	\$ —	\$ —	\$ —	\$ 19,564	\$(643)
Communications	2,199	(132)	—	—	—	2,067	(132)
Technology	7,752	(107)	—	—	—	7,645	(107)
Other	—	(1)	8	—	—	7	(1)
Mutual funds and exchange traded funds	7,887	359	—	—	—	8,246	359
Equities	\$ 38,045	\$(524)	\$ 8	\$ —	\$ —	\$ 37,529	\$(524)
Other invested assets							
Derivatives, net	\$(788)	\$ 864	\$(928)	\$ —	\$ —	\$(852)	\$ 864
Notes and loan receivables and notes securitization	41,446	3,567	2,916	(9,326)	—	38,603	5,086
Annuities and residuals	24,064	391	—	(7,321)	—	17,134	431
Private equities	39,131	(1,831)	20,544	(2,916)	—	54,928	(1,863)
Other invested assets	\$ 103,853	\$ 2,991	\$ 22,532	\$(19,563)	\$ —	\$ 109,813	\$ 4,518
Funds held – directly managed							
U.S. states, territories and municipalities	\$ 286	\$ 19	\$ —	\$ —	\$ —	\$ 305	\$ 19
Other invested assets	15,165	380	255	—	—	15,800	380
Funds held – directly managed	\$ 15,451	\$ 399	\$ 255	\$ —	\$ —	\$ 16,105	\$ 399
Total	\$ 712,306	\$ 18,855	\$ 158,773	\$(113,764)	\$ —	\$ 776,170	\$ 20,686

(1) Purchases and issuances of derivatives include issuances of \$0.9 million.

For the six months ended June 30, 2013	Balance at beginning of period	Realized and unrealized investment (losses) gains included in net income	Purchases and issuances (1)	Settlements and sales (2)	Net transfers into/(out of) 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	\$ (13,858)	\$—	\$ (214)	\$ —	\$219,163	\$ (13,858)
Corporate	100,904	(1,008)	—	—	—	99,896	(1,008)
Asset-backed securities	323,134	(4,322)	155,165	(47,689)	—	426,288	(4,140)
Fixed maturities	\$657,273	\$ (19,188)	\$155,165	\$ (47,903)	\$ —	\$745,347	\$ (19,006)
Equities							
Finance	\$13,477	\$ (477)	\$—	\$—	\$ —	\$13,000	\$ (477)
Technology	6,987	1,025	—	—	—	8,012	1,025
Communications	—	—	2,040	—	—	2,040	—
Mutual funds and exchange traded funds	7,264	285	—	—	—	7,549	285
Equities	\$27,728	\$ 833	\$2,040	\$—	\$ —	\$30,601	\$ 833
Other invested assets							
Derivatives, net	\$3,911	\$ (4,199)	\$121	\$ 2,500	\$ —	\$2,333	\$ (3,698)
Notes and loan receivables and notes securitization	34,902	(1,383)	13,350	(2,645)	—	44,224	(1,383)
Annuities and residuals	46,882	93	—	(16,420)	—	30,555	316
Private equities	1,404	(3,512)	23,208	—	—	21,100	(3,512)
Other invested assets	\$87,099	\$ (9,001)	\$36,679	\$ (16,565)	\$ —	\$98,212	\$ (8,277)
Funds held – directly managed							
U.S. states, territories and municipalities	\$345	\$ (8)	\$—	\$—	\$ —	\$337	\$ (8)
Other invested assets	17,976	(2,698)	—	(71)	—	15,207	(1,634)
Funds held – directly managed	\$18,321	\$ (2,706)	\$—	\$ (71)	\$ —	\$15,544	\$ (1,642)
Total	\$790,421	\$ (30,062)	\$193,884	\$ (64,539)	\$ —	\$889,704	\$ (28,092)

(1) Purchases and issuances of derivatives include issuances of \$0.8 million.

(2) Settlement and sales of annuities and residuals include sales of \$6.3 million.

The significant unobservable inputs used in the valuation of financial instruments measured at fair value using Level 3 inputs at June 30, 2014 and December 31, 2013 were as follows (fair value in thousands of U.S. dollars):

June 30, 2014	Fair value	Valuation techniques	Unobservable inputs	Range (Weighted average)
Fixed maturities				
U.S. states, territories and municipalities	\$123,617	Discounted cash flow	Credit spreads	2.6% – 10.0% (5.2%)
Asset-backed securities – interest only	11	Discounted cash flow	Credit spreads	5.2% – 10.3% (6.9%)
Asset-backed securities – other	489,095	Discounted cash flow	Credit spreads	3.9% – 12.0% (6.8%)
Equities				
Finance	13,782	Weighted market comparables	Net income multiple	19.0 (19.0)
			Tangible book value multiple	1.3 (1.3)
			Liquidity discount	25.0% (25.0%)
			Comparable return	0% (0%)
Finance	5,782	Profitability analysis	Projected return on equity	14.0% (14.0%)
Communications	2,067	Weighted market comparables	Adjusted earnings multiple	9.4 (9.4)
			Comparable return	-6.0% (-6.0%)
Technology	7,645	Weighted market comparables	Revenue multiple	1.5 (1.5)
			Adjusted earnings multiple	9.0 (9.0)
Other invested assets				
Total return swaps	98	Discounted cash flow	Credit spreads	3.7% – 17.4% (9.6%)
Notes and loan receivables	16,984	Discounted cash flow	Credit spreads	17.5% (17.5%)
			Gross revenue/fair value	1.3 – 1.5 (1.5)
Notes securitization	21,619	Discounted cash flow	Credit spreads	4.0% – 5.9% (5.8%)
Annuities and residuals	17,134	Discounted cash flow	Credit spreads	4.0% – 7.4% (5.9%)
			Prepayment speed	0% – 15.0% (5.6%)
			Constant default rate	0.3% – 23.0% (8.2%)
Private equity – direct	10,657	Discounted cash flow and weighted market comparables	Net income multiple	9.2 (9.2)
			Tangible book value multiple	1.6 (1.6)
			Recoverability of intangible assets	0% (0%)
Private equity funds	14,447	Lag reported market value	Net asset value, as reported	100.0% (100.0%)
			Market adjustments	1.0% – 6.1% (2.4%)
Private equity – other	29,824	Discounted cash flow	Effective yield	5.8% (5.8%)
Funds held – directly managed				
Other invested assets	15,800	Lag reported market value	Net asset value, as reported	100.0% (100.0%)
			Market adjustments	-18.7% – 0% (-12.4%)

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December 31, 2013	Fair value	Valuation techniques	Unobservable inputs	Range (Weighted average)
Fixed maturities				
U.S. states, territories and municipalities	\$108,380	Discounted cash flow	Credit spreads	2.9% – 9.9% (5.3%)
Asset-backed securities – interest only	21	Discounted cash flow	Credit spreads	5.5% – 10.7% (8.8%)
Asset-backed securities – other	446,556	Discounted cash flow	Credit spreads	4.0% – 12.2% (7.1%)
Equities				
Finance	15,483	Weighted market comparables	Net income multiple	14.6 (14.6)
			Tangible book value multiple	1.1 (1.1)
			Liquidity discount	25.0% (25.0%)
			Comparable return	8.5% (8.5%)
Finance	4,724	Profitability analysis	Projected return on equity	14.0% (14.0%)
Communications	2,199	Weighted market comparables	Adjusted earnings multiple	9.4 (9.4)
			Comparable return	0% (0%)
Technology	7,752	Weighted market comparables	Revenue multiple	0.9 (0.9)
			Adjusted earnings multiple	4.4 (4.4)
Other invested assets				
Total return swaps	(520)	Discounted cash flow	Credit spreads	2.8% – 18.9% (17.0%)
Notes and loan receivables	21,280	Discounted cash flow	Credit spreads	17.5% (17.5%)
			Gross revenue/fair value	1.5 (1.5)
Notes securitization	20,166	Discounted cash flow	Credit spreads	6.2% (6.2%)
Annuities and residuals	24,064	Discounted cash flow	Credit spreads	4.0% – 7.9% (5.8%)
			Prepayment speed	0% – 15.0% (6.4%)
			Constant default rate	0.3% – 35.0% (12.4%)
Private equity – direct	11,742	Discounted cash flow and weighted market comparables	Net income multiple	8.3 (8.3)
			Tangible book value multiple	1.6 (1.6)
			Recoverability of intangible assets	0% (0%)
			Net asset value, as reported	100.0% (100.0%)
Private equity funds	8,993	Lag reported market value	Market adjustments	1.8% – 9.8% (8.3%)
Private equity – other	18,396	Discounted cash flow	Credit spreads	3.8% (3.8%)
Funds held – directly managed				
Other invested assets	15,165	Lag reported market value	Net asset value, as reported	100.0% (100.0%)
			Market adjustments	-22.9% – 0% (-15.5%)

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 mutual fund investments (included within equities).

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 significant securities that are classified as Level 3. The Valuation Committee is comprised of members of the Company's senior management team and meets on a quarterly basis. The Company's invested asset valuation policy is monitored by the Company's Audit Committee of the Board of Directors (Board) and approved annually by the Company's Risk and Finance Committee of the Board.

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Changes in the fair value of the Company's financial instruments subject to the fair value option during the three months and six months ended June 30, 2014 and 2013 were as follows (in thousands of U.S. dollars):

	For the three months ended June 30, 2014	For the three months ended June 30, 2013	For the six months ended June 30, 2014	For the six months ended June 30, 2013
Fixed maturities and short-term investments	\$123,434	\$(395,757)	\$243,233	\$(467,427)
Equities	6,322	(57,715)	16,647	(7,649)
Other invested assets	2,515	(2,234)	3,558	(7,068)
Funds held – directly managed	741	(15,372)	1,477	(21,415)
Total	\$133,012	\$(471,078)	\$264,915	\$(503,559)

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

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 and corporate debt securities issued by government sponsored enterprises and federally owned or established corporations. 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 and the Federal Home Loan Mortgage Corporation. 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 and the Federal Home Loan Mortgage Corporation 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.

Asset-backed securities—Asset-backed securities primarily consist of bonds issued by U.S. and foreign corporations that are predominantly 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 input used in the fair value measurement of these asset-backed securities classified as Level 3 is credit spreads. Significant increases (decreases) in 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. 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 primarily 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, real estate investment trusts, mutual funds and exchange traded funds. Equities, real estate investment trusts 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, comparable returns, revenue multiples, adjusted earnings multiples and projected return on equity ratios. 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, credit default 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 equities 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, gross revenue to fair value ratios, net income multiples, effective yields, tangible book value multiples and other valuation 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 and 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. Significant increase (decrease) in these inputs 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 June 30, 2014 and December 31, 2013, 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 methods and assumptions 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 were as follows:

the fair value of the Senior Notes was calculated based on discounted cash flow models using observable market yields and contractual cash flows based on the aggregate principal amount outstanding of \$250 million from PartnerRe Finance A LLC and \$500 million from PartnerRe Finance B LLC at June 30, 2014 and December 31, 2013; 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 of \$63 million from PartnerRe Finance II Inc. at June 30, 2014 and December 31, 2013.

The carrying values and fair values of the Senior Notes and CENts at June 30, 2014 and December 31, 2013 were as follows (in thousands of U.S. dollars):

	June 30, 2014		December 31, 2013	
	Carrying Value	Fair Value	Carrying Value	Fair Value
Debt related to senior notes ⁽¹⁾	\$750,000	\$865,321	\$750,000	\$844,331
Debt related to capital efficient notes ⁽²⁾	63,384	62,015	63,384	61,094

PartnerRe Finance A LLC and PartnerRe Finance B LLC, the issuers of the Senior Notes, do not meet (1) consolidation requirements under U.S. GAAP. Accordingly, the Company shows the related intercompany debt of \$750 million in its Condensed Consolidated Balance Sheets at June 30, 2014 and December 31, 2013.

PartnerRe Finance II Inc., the issuer of the CENts, does not meet consolidation requirements under U.S. GAAP. (2) Accordingly, the Company shows the related intercompany debt of \$71 million in its Condensed Consolidated Balance Sheets at June 30, 2014 and December 31, 2013.

At June 30, 2014 and December 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.

5. Derivatives

The Company's derivative instruments are recorded in the Condensed Consolidated Balance Sheets at fair value, with changes in fair value recognized in either net foreign exchange gains and losses or net realized and unrealized investment gains and losses in the Condensed Consolidated Statements of Operations 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 equity futures to hedge certain investments.

Credit Default Swaps

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

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

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 and certain fixed maturity investments. 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.

The net fair values and the related net notional values of derivatives included in the Company's Condensed Consolidated Balance Sheets at June 30, 2014 and December 31, 2013 were as follows (in thousands of U.S. dollars):

	Asset derivatives at fair value	Liability derivatives at fair value	Net derivatives Net notional exposure	Fair value
June 30, 2014				
Foreign exchange forward contracts	\$2,410	\$(4,171)	\$2,130,049	\$(1,761)
Foreign currency option contracts	746	—	85,547	746
Futures contracts	2,706	(407)	2,987,520	2,299
Insurance-linked securities ⁽¹⁾	—	(950)	170,969	(950)
Total return swaps	408	(310)	42,605	98
Interest rate swaps ⁽²⁾	—	(9,145)	202,116	(9,145)
TBAs	1,728	—	154,210	1,728
Total derivatives	\$7,998	\$(14,983)		\$(6,985)
	Asset derivatives at fair value	Liability derivatives at fair value	Net derivatives Net notional exposure	Fair value
December 31, 2013				
Foreign exchange forward contracts	\$1,249	\$(8,648)	\$1,957,409	\$(7,399)
Foreign currency option contracts	—	(535)	87,620	(535)
Futures contracts	41,031	—	3,266,004	41,031
Credit default swaps (protection purchased)	—	(71)	14,000	(71)
Insurance-linked securities ⁽¹⁾	—	(268)	168,724	(268)
Total return swaps	79	(599)	31,740	(520)
Interest rate swaps ⁽²⁾	2,147	(2,558)	202,859	(411)
TBAs	2	(1,331)	183,835	(1,329)
Total derivatives	\$44,508	\$(14,010)		\$30,498

(1) At June 30, 2014 and December 31, 2013, 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.

The Company enters into interest rate swaps to mitigate notional exposures on certain total return swaps and (2)certain fixed maturities. Only the notional value of interest rate swaps on fixed maturities is presented separately in the table.

The fair value of all derivatives at June 30, 2014 and December 31, 2013 is recorded in Other invested assets in the Company's Condensed Consolidated Balance Sheets. At June 30, 2014 and December 31, 2013, none of the Company's derivatives were designated as hedges.

The gains and losses in the Condensed Consolidated Statements of Operations for derivatives for the three months and six months ended June 30, 2014 and 2013 were as follows (in thousands of U.S. dollars):

	For the three months ended June 30, 2014	For the three months ended June 30, 2013	For the six months ended June 30, 2014	For the six months ended June 30, 2013
Foreign exchange forward contracts	\$637	\$(54,004)	\$8,892	\$(36,474)
Foreign currency option contracts	753	(3,275)	1,148	(3,840)
Total included in net foreign exchange gains and losses	\$1,390	\$(57,279)	\$10,040	\$(40,314)
Futures contracts	\$(34,428)	\$91,679	\$(50,501)	\$85,376
Credit default swaps (protection purchased)	—	(22)	(3)	(120)
Credit default swaps (assumed risks)	—	8	—	115
Insurance-linked securities	13	2,469	256	(550)
Total return swaps	400	(2,988)	618	(3,659)
Interest rate swaps	(3,348)	2,399	(8,734)	3,176
TBAs	4,367	(8,363)	8,114	(9,697)
Total included in net realized and unrealized investment gains and losses	\$(32,996)	\$85,182	\$(50,250)	\$74,641
Total derivatives	\$(31,606)	\$27,903	\$(40,210)	\$34,327
Offsetting of Derivatives				

The gross and net fair values of derivatives that are subject to offsetting in the Condensed Consolidated Balance Sheets at June 30, 2014 and December 31, 2013 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		Net amount
				Financial instruments	Cash collateral received/pledged	
June 30, 2014						
Total derivative assets	\$7,998	\$—	\$7,998	\$(616)	\$—	\$7,382
Total derivative liabilities	\$(14,983)	\$—	\$(14,983)	\$616	\$—	\$(14,367)
December 31, 2013						
Total derivative assets	\$44,508	\$—	\$44,508	\$(2)	\$—	\$44,506
Total derivative liabilities	\$(14,010)	\$—	\$(14,010)	\$2	\$4,341	\$(9,667)

(1) Amounts include all derivative instruments, irrespective of whether there is a legally enforceable master netting arrangement in place.

6. Net Income (Loss) per Share

The reconciliation of basic and diluted net income (loss) per share for the three months and six months ended June 30, 2014 and 2013 is as follows (in thousands of U.S. dollars, except share and per share data):

	For the three months ended June 30, 2014	For the three months ended June 30, 2013	For the six months ended June 30, 2014	For the six months ended June 30, 2013
Numerator:				
Net income (loss) attributable to PartnerRe Ltd.	\$271,841	\$(175,571)	\$581,683	\$58,799
Less: preferred dividends	14,184	14,796	28,367	29,494
Less: loss on redemption of preferred shares	—	—	—	9,135
Net income (loss) attributable to PartnerRe Ltd. common shareholders	\$257,657	\$(190,367)	\$553,316	\$20,170
Denominator:				
Weighted number of common shares outstanding – basic	50,241,216	56,485,882	50,942,980	57,449,528
Share options and other ^{(1) (2)}	1,087,545	—	1,081,471	1,084,998
Weighted average number of common shares and common share equivalents outstanding – diluted	51,328,761	56,485,882	52,024,451	58,534,526
Basic net income (loss) per share	\$5.13	\$(3.37)	\$10.86	\$0.35
Diluted net income (loss) per share ^{(1) (2)}	\$5.02	\$(3.37)	\$10.64	\$0.34
Anti-dilutive common shares excluded from weighted average number of common shares and common share equivalents outstanding - diluted ⁽¹⁾	149,600	142,479	119,870	104,920

Where the exercise price of share based awards is greater than the average market price of the common shares, the (1) common shares are considered anti-dilutive and are excluded from the calculation of weighted average number of common shares and common share equivalents outstanding - diluted.

Dilutive securities, in the form of share options and other, of 1,003,849 shares were not included in the weighted (2) average number of common shares and common share equivalents outstanding - diluted, for the purpose of computing the diluted net loss per share because to do so would have been anti-dilutive for the three months ended June 30, 2013.

7. Noncontrolling Interests

In March 2013, the Company formed with other third party investors, 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 was ceded to Lorenz Re effective April 1, 2013.

Lorenz Re's non-voting redeemable preferred share capital is redeemable at the option of the Company and is expected to be redeemed following the commutation of the portfolio back to the Company on or before June 1, 2016.

At June 30, 2014 and December 31, 2013, the total assets of Lorenz Re were \$98.2 million and \$99.6 million, respectively, primarily consisting of cash and investments. At June 30, 2014 and December 31, 2013, the total liabilities were \$23.5 million and \$11.1 million, respectively, primarily consisting of unearned premiums and unpaid

losses and loss expenses. 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.

The reconciliation of the beginning and ending balance of the noncontrolling interests in Lorenz Re for the six months ended June 30, 2014 and 2013 was as follows (in thousands of U.S. dollars):

	For the six months ended June 30, 2014	For the six months ended June 30, 2013
Balance at beginning of period	\$56,627	\$—
Net income attributable to noncontrolling interests	4,995	1,183
Distribution to noncontrolling interests	(14,266) —
Sale of shares to noncontrolling interests	—	47,136
Balance at end of period	\$47,356	\$48,319

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 June 30, 2014 and December 31, 2013, based on the latest available information, the Company recorded an allowance for credit losses related to these notes receivable of \$2.2 million and \$2.8 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 June 30, 2014 the Company's notes receivable of \$12.9 million were all performing and were collateralized by residential property and commercial property of \$10.9 million and \$2.0 million, respectively. At December 31, 2013, the Company's notes receivable of \$24.5 million were all performing and were collateralized by residential property and commercial property of \$19.8 million and \$4.7 million, respectively.

The Company purchased \$2.2 million and \$2.3 million of financing receivables during the three months and six months ended June 30, 2014, respectively. The Company purchased \$27.0 million and \$27.2 million of financing receivables during the three months and six months ended June 30, 2013, respectively. There were no significant sales of financing receivables during the three months and six months ended June 30, 2014 and 2013, 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 June 30, 2014 compared to December 31, 2013. See Note 18(f) to the Consolidated Financial Statements included in the Company's Annual Report on Form 10-K for the year ended December 31, 2013.

(c) Other

At June 30, 2014, there were no restrictions on the Company's ability to pay common and preferred shareholders' dividends from retained earnings. The declaration of dividends by PartnerRe Bermuda is subject to prior regulatory approval through December 31, 2014.

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 21 to the Consolidated Financial Statements included in the Company's Annual Report on Form 10-K for the year ended December 31, 2013. The Non-life segment is further divided into four sub-segments: North America, Global (Non-U.S.) P&C, Global Specialty and Catastrophe.

The North America sub-segment includes agriculture, casualty, credit/surety, motor, multiline, property and other risks generally originating in the United States. The Global (Non-U.S.) P&C sub-segment includes casualty, motor and property business generally originating outside of the United States. The Global Specialty sub-segment is comprised of business that is generally considered to be specialized due to the sophisticated technical underwriting required to analyze risks, and is global in nature. This sub-segment consists of several lines of business for which the Company believes it has developed specialized knowledge and underwriting capabilities. These lines of business include agriculture, aviation/space, credit/surety, energy, engineering, marine, specialty casualty, specialty property and other lines. The Catastrophe sub-segment is comprised of the Company's catastrophe line of business. The Life and Health segment includes mortality, longevity and accident and health lines of business. Corporate and Other is comprised of the capital markets and investment related activities of the Company, including principal finance transactions, insurance-linked securities and strategic investments, and its corporate activities, including other operating expenses.

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 method 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.

The segment results for the three months and six months ended June 30, 2014 and 2013, were as follows (in millions of U.S. dollars, except ratios):

Segment Information

For the three months ended June 30, 2014

	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	\$400	\$155	\$438	\$143	\$1,136	\$326	\$—	\$1,462
Net premiums written	\$392	\$148	\$432	\$136	\$1,108	\$311	\$—	\$1,419
(Increase) decrease in unearned premiums	(2)	39	(26)	(77)	(66)	—	—	(66)
Net premiums earned	\$390	\$187	\$406	\$59	\$1,042	\$311	\$—	\$1,353
Losses and loss expenses and life policy benefits	(240)	(103)	(270)	(19)	(632)	(252)	—	(884)
Acquisition costs	(102)	(52)	(98)	(8)	(260)	(43)	—	(303)
Technical result	\$48	\$32	\$38	\$32	\$150	\$16	\$—	\$166
Other income					1	3	5	9
Other operating expenses					(61)	(16)	(30)	(107)
Underwriting result					\$90	\$3	n/a	\$68
Net investment income						15	115	130
Allocated underwriting result ⁽¹⁾						\$18	n/a	n/a
Net realized and unrealized investment gains							166	166
Interest expense							(12)	(12)
Amortization of intangible assets							(7)	(7)
Net foreign exchange gains							2	2
Income tax expense							(78)	(78)
Interest in earnings of equity method investments							5	5
Net income							n/a	\$274
Loss ratio ⁽²⁾	61.5	% 54.6	% 66.5	% 33.4	% 60.6	%		
Acquisition ratio ⁽³⁾	26.1	27.9	24.2	13.0	25.0			
Technical ratio ⁽⁴⁾	87.6	% 82.5	% 90.7	% 46.4	% 85.6	%		
Other operating expense ratio ⁽⁵⁾					5.9			
Combined ratio ⁽⁶⁾					91.5	%		

(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.

Segment Information

For the three months ended June 30, 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	\$372	\$160	\$413	\$161	\$1,106	\$233	\$2	\$1,341
Net premiums written	\$360	\$158	\$409	\$149	\$1,076	\$232	\$1	\$1,309
(Increase) decrease in unearned premiums	(3)	11	(37)	(70)	(99)	—	(1)	(100)
Net premiums earned	\$357	\$169	\$372	\$79	\$977	\$232	\$—	\$1,209
Losses and loss expenses and life policy benefits	(245)	(106)	(284)	(51)	(686)	(181)	—	(867)
Acquisition costs	(79)	(34)	(90)	(6)	(209)	(33)	—	(242)
Technical result	\$33	\$29	\$(2)	\$22	\$82	\$18	\$—	\$100
Other income					—	3	1	4
Other operating expenses					(60)	(17)	(68)	(145)
Underwriting result					\$22	\$4	n/a	\$(41)
Net investment income						15	110	125
Allocated underwriting result						\$19	n/a	n/a
Net realized and unrealized investment losses							(299)	(299)
Interest expense							(12)	(12)
Amortization of intangible assets							(7)	(7)
Net foreign exchange losses							(11)	(11)
Income tax benefit							75	75
Interest in losses of equity method investments							(4)	(4)
Net loss							n/a	\$(174)
Loss ratio	68.6	% 62.9	% 76.6	% 64.1	% 70.3	%		
Acquisition ratio	22.1	19.9	24.1	8.5	21.4			
Technical ratio	90.7	% 82.8	% 100.7	% 72.6	% 91.7	%		
Other operating expense ratio					6.1			
Combined ratio					97.8	%		

Segment Information

For the six months ended June 30, 2014

	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	\$930	\$519	\$917	\$353	\$2,719	\$615	\$—	\$3,334
Net premiums written	\$919	\$508	\$822	\$315	\$2,564	\$593	\$—	\$3,157
Increase in unearned premiums	(151)	(141)	(61)	(177)	(530)	(20)	—	(550)
Net premiums earned	\$768	\$367	\$761	\$138	\$2,034	\$573	\$—	\$2,607
Losses and loss expenses and life policy benefits	(499)	(196)	(471)	1	(1,165)	(468)	—	(1,633)
Acquisition costs	(194)	(107)	(178)	(15)	(494)	(73)	—	(567)
Technical result	\$75	\$64	\$112	\$124	\$375	\$32	\$—	\$407
Other income					2	4	4	10
Other operating expenses					(126)	(34)	(59)	(219)
Underwriting result					\$251	\$2	n/a	\$198
Net investment income						30	217	247
Allocated underwriting result						\$32	n/a	n/a
Net realized and unrealized investment gains							308	308
Interest expense							(25)	(25)
Amortization of intangible assets							(14)	(14)
Net foreign exchange gains							3	3
Income tax expense							(141)	(141)
Interest in earnings of equity method investments							11	11
Net income							n/a	\$587
Loss ratio	65.0	% 53.5	% 61.9	% (0.9)	% 57.3	%		
Acquisition ratio	25.2	29.0	23.4	11.4	24.3			
Technical ratio	90.2	% 82.5	% 85.3	% 10.5	% 81.6	%		
Other operating expense ratio					6.2			
Combined ratio					87.8	%		

Segment Information

For the six months ended June 30, 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	\$ 819	\$532	\$857	\$399	\$2,607	\$486	\$4	\$3,097
Net premiums written	\$ 807	\$525	\$771	\$360	\$2,463	\$481	\$2	\$2,946
Increase in unearned premiums	(117)	(190)	(62)	(195)	(564)	(25)	(2)	(591)
Net premiums earned	\$ 690	\$335	\$709	\$165	\$1,899	\$456	\$—	\$2,355
Losses and loss expenses and life policy benefits	(485)	(173)	(469)	(39)	(1,166)	(363)	1	(1,528)
Acquisition costs	(151)	(84)	(165)	(17)	(417)	(59)	—	(476)
Technical result	\$ 54	\$78	\$75	\$109	\$316	\$34	\$1	\$351
Other income					—	6	2	8
Other operating expenses					(126)	(35)	(100)	(261)
Underwriting result					\$190	\$5	n/a	\$98
Net investment income						30	218	248
Allocated underwriting result						\$35	n/a	n/a
Net realized and unrealized investment losses							(276)	(276)
Interest expense							(24)	(24)
Amortization of intangible assets							(14)	(14)
Net foreign exchange losses							(9)	(9)
Income tax benefit							33	33
Interest in earnings of equity method investments							4	4
Net income							n/a	\$60
Loss ratio	70.2 %	51.8 %	66.1 %	23.8 %	61.4 %			
Acquisition ratio	21.9	24.9	23.3	10.5	22.0			
Technical ratio	92.1 %	76.7 %	89.4 %	34.3 %	83.4 %			
Other operating expense ratio					6.6			
Combined ratio					90.0 %			

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

Executive Overview

The Company is a leading global reinsurer and insurer, with a broadly diversified and balanced portfolio of traditional reinsurance and insurance 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, 2013.

For 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, see below in Key Financial Measures.

Overview of the Results of Operations for the Three Months and Six Months Ended June 30, 2014

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 attributable to PartnerRe Ltd. common shareholders by the weighted average number of common shares and common share equivalents outstanding. Net income or loss attributable to PartnerRe Ltd. common shareholders is defined as net income or loss less preferred dividends and loss on redemption of preferred shares. The Company also utilizes certain non-GAAP measures to assess performance (see the discussion of these non-GAAP measures and the reconciliation of those non-GAAP measures to the most directly comparable GAAP measures in Key Financial Measures below).

Key Factors Affecting Period over Period Comparability

The following key factors affected the period over period comparison of the Company's results and may continue to affect our results of operations and financial condition in the future. These factors are discussed in more detail in Review of Net Income (Loss) below.

The results for the three months and six months ended June 30, 2014 and 2013 were primarily impacted by the volatility in the capital markets, mainly as a result of decreases in U.S. and European longer-term risk-free interest rates during 2014 and increases in risk-free interest rates during 2013.

As the Company's reinsurance operations are exposed to low frequency and high severity risk events, some of which are seasonal, results for certain periods may include unusually low loss experience, while results for other periods may include significant catastrophic losses. Consequently, the Company's results for interim periods may be volatile from period to period and are not necessarily indicative of results for the full year. The results for the three months and six months ended June 30, 2014 and 2013 demonstrate this volatility. While the results for the three months and six months ended June 30, 2014 included no significant catastrophic losses, during the three months and six months ended June 30, 2013 the Company incurred losses of \$112 million, net of retrocession, reinstatement premiums and profit commissions, related to the combined impact of the floods that impacted large areas of Central Europe in June 2013 (European Floods) and the extensive flooding in Alberta, Canada (Alberta Floods) in June 2013.

The combined impact of the European and Alberta Floods on the Company's technical result, pre-tax net loss (income), loss ratio, technical ratio and combined ratio by segment and sub-segment, and the large catastrophic losses by event for the three months and six months ended June 30, 2013 was as follows (in millions of U.S. dollars):

Three months and six months ended June 30, 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 losses and loss expenses and life policy benefits	\$8	\$14	\$23	\$89	\$134	\$—	\$—	\$134
Reinsurance recoverable	—	—	—	(7)	(7)	—	—	(7)
Net losses and loss expenses and life policy benefits	\$8	\$14	\$23	\$82	\$127	\$—	\$—	\$127
Reinstatement premiums	—	—	—	(15)	(15)	—	—	(15)
Impact on technical result and pre-tax net (loss) income	\$8	\$14	\$23	\$67	\$112	\$—	\$—	\$112

Three months ended June 30, 2013

Impact on the loss ratio	2.2	% 8.3	% 6.2	% 111.8	% 11.8	%	
Impact on the technical ratio	2.2	% 8.3	% 6.2	% 111.8	% 11.8	%	
Impact on the combined ratio					11.7	%	

Six months ended June 30, 2013

Impact on the loss ratio	1.2	% 4.2	% 3.2	% 51.2	% 6.1	%	
Impact on the technical ratio	1.2	% 4.2	% 3.2	% 51.2	% 6.1	%	
Impact on the combined ratio					6.0	%	

Three months and six months ended June 30, 2013

European Floods								Total ⁽¹⁾
Alberta Floods								\$57
Impact on pre-tax net (loss) income								\$5
								\$112

(1) Large catastrophic losses are shown net of any reinsurance, reinstatement premiums and profit commissions. The results for the three months and six months ended June 30, 2013 were also impacted by the restructuring of the Company's business support operations into a single integrated worldwide support platform and changes to the structure of its Global Non-life Operations (the restructuring) announced in April 2013. The restructuring included involuntary and voluntary employee termination plans in certain jurisdictions (collectively, termination plans) and certain real estate related costs. During the three months and six months ended June 30, 2013, the Company recorded a pre-tax charge of \$43 million related to the costs of the restructuring, which was primarily related to the termination plans, within Other operating expenses. During the three months and six months ended June 30, 2014, the Company recorded a pre-tax charge of \$2 million related to the restructuring.

Overview of Net Income (Loss)

Net income (loss), net income attributable to noncontrolling interests, preferred dividends, loss on redemption of preferred shares, net income (loss) attributable to PartnerRe Ltd. common shareholders and diluted net income (loss) per share for the three months and six months ended June 30, 2014 and 2013 were as follows (in millions of U.S. dollars, except per share data):

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	For the three months ended June 30, 2014	For the three months ended June 30, 2013	For the six months ended June 30, 2014	For the six months ended June 30, 2013
Net income (loss)	\$274	\$(174)	\$587	\$60
Net income attributable to noncontrolling interests	(2)	(1)	(5)	(1)
Net income (loss) attributable to PartnerRe Ltd.	\$272	\$(175)	\$582	\$59
Less: preferred dividends	14	15	29	30
Less: loss on redemption of preferred shares	—	—	—	9
Net income (loss) attributable to PartnerRe Ltd. common shareholders	\$258	\$(190)	\$553	\$20
Diluted net income (loss) per share attributable to PartnerRe Ltd. common shareholders	\$5.02	\$(3.37)	\$10.64	\$0.34

Three-month result

The increase in net income of \$448 million, from a loss of \$174 million in the three months ended June 30, 2013 to an income of \$274 million in the same period of 2014 resulted primarily from:

- an increase of \$465 million in pre-tax net realized and unrealized investment gains, mainly as a result of decreases in U.S. and European longer-term risk-free interest rates in the three months ended June 30, 2014 compared to modest increases in risk-free interest rates in the same period of 2013;

- an increase of \$68 million in the Non-life underwriting result, which was mainly driven by a decrease in large catastrophic losses and an increase in favorable prior year loss development, partially offset by a decrease in the current accident year technical result which was primarily related to the North America sub-segment and an increase in adverse prior quarter loss development; and

- a decrease of \$38 million in other operating expenses included in Corporate and Other, primarily driven by the charge related to the restructuring in 2013, described above; partially offset by an increase of \$153 million in income tax expense, primarily due to an increase in the Company's pre-tax net income.

The increase in net income attributable to PartnerRe Ltd. common shareholders and diluted net income per share for the three months ended June 30, 2014 compared to the same period of 2013 was primarily due to the above factors. For diluted net income per share specifically, the increase was also due to the accretive impact of a reduction in the diluted number of common shares and common share equivalents outstanding as a result of share repurchases.

Six-month result

The increase in net income of \$527 million, from \$60 million in the six months ended June 30, 2013 to \$587 million in the same period of 2014 resulted primarily from:

- an increase of \$584 million in pre-tax net realized and unrealized investment gains, mainly as a result of modest decreases in U.S. and European longer-term risk-free interest rates in the six months ended June 30, 2014 compared to increases in risk-free interest rates in the same period of 2013;

- an increase of \$61 million in the Non-life underwriting result, which was mainly driven by a decrease in large catastrophic losses, partially offset by an increase in the acquisition cost ratio in the North America and Global (Non-U.S.) P&C sub-segments and a modestly higher level of mid-sized loss activity in the Global Specialty sub-segment; and

- a decrease of \$41 million in other operating expenses included in Corporate and Other, driven by the charge related to the restructuring in 2013; partially offset by

- an increase of \$174 million in income tax expense, primarily due to an increase in the Company's pre-tax net income.

The increase in net income attributable to PartnerRe Ltd. common shareholders and diluted net income per share for the six months ended June 30, 2014 compared to the same period of 2013 was primarily due to the above factors. For

diluted net income per share specifically, the increase was also due to the accretive impact of a reduction in the diluted number of common shares and common share equivalents outstanding as a result of share repurchases.

Key Financial Measures

In addition to the Condensed Consolidated Balance Sheets and Condensed Consolidated Statements of Operations and Comprehensive Income (Loss), Management uses certain other key measures, some of which are non-GAAP financial measures within the meaning of Regulation G (see below), 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 to exceed 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.

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. At June 30, 2014 and December 31, 2013 and for the three months and six months ended June 30, 2014 and 2013 these were as follows:

	June 30, 2014	December 31, 2013			
Diluted tangible book value per common share and common share equivalents outstanding ⁽¹⁾	\$107.80	\$98.49			
Annualized growth in diluted tangible book value per common share and common share equivalents outstanding plus dividends ⁽²⁾	21.6	%			
	For the three months ended June 30, 2014	For the three months ended June 30, 2013	For the six months ended June 30, 2014	For the six months ended June 30, 2013	
Operating earnings attributable to PartnerRe Ltd. common shareholders (in millions of U.S. dollars) ⁽³⁾	\$134	\$51	\$310	\$253	
Diluted operating earnings per common share and common share equivalents outstanding ⁽³⁾	\$2.60	\$0.90	\$5.97	\$4.32	
Annualized operating return on beginning diluted book value per common share and common share equivalents outstanding ⁽⁴⁾	9.5	% 3.6	% 10.9	% 8.6	%
Combined ratio ⁽⁵⁾	91.5	% 97.8	% 87.8	% 90.0	%

(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. (total shareholders' equity less noncontrolling interests and 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.

Annualized growth in diluted tangible book value per common 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 (2) 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.

Operating earnings or loss attributable to PartnerRe Ltd. common shareholders (operating earnings or loss) is calculated as net income or loss available to PartnerRe Ltd. common shareholders excluding net realized and unrealized gains or losses on investments, net of tax (except where the Company has made a strategic investment (3) 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 or losses of equity method 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. Operating earnings or loss per common share and common share equivalent outstanding (diluted operating earnings or loss per share) are calculated using operating earnings or loss for the period divided by the weighted average number of common shares and common share equivalents outstanding. The presentation of operating earnings or loss and diluted operating earnings or loss per share are non-GAAP financial measures within the meaning of Regulation G (see Comment on Non-GAAP Measures below) and are reconciled to the most directly comparable GAAP financial measure below.

Annualized operating return on beginning diluted book value per common share and common share equivalents outstanding (Operating ROE) is calculated using annualized operating earnings or loss, as defined above, per diluted common share and common share equivalents outstanding, divided by diluted book value per common (4) 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.

The combined ratio of the Non-life segment is calculated as the sum of the technical ratio (losses and loss expenses (5) 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.

Diluted Tangible Book Value per Share at June 30, 2014 and December 31, 2013 and the calculation of the annualized growth in Diluted Tangible Book Value per Share plus dividends for the six months ended June 30, 2014 were as follows. 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 for the shareholders to monitor performance.

	June 30, 2014	December 31, 2013
Diluted tangible book value per share	\$107.80	\$98.49
Dividends per common share for the six months ended June 30, 2014	1.34	
Diluted tangible book value per share plus dividends	\$109.14	
Annualized growth in diluted tangible book value per share plus dividends	21.6	%

The Company's Diluted Tangible Book Value per Share increased by 9.5%, from \$98.49 at December 31, 2013 to \$107.80 at June 30, 2014, primarily due to net income attributable to PartnerRe Ltd. and the accretive impact of share repurchases, which was partially offset by dividends on the common and preferred shares. The annualized growth in Diluted Tangible Book Value per Share plus dividends was 21.6% during the six months ended June 30, 2014. This growth was driven by net income attributable to PartnerRe Ltd. and dividends on the common shares.

Over the past five years, since June 30, 2009, the Company has generated a compound annualized growth in Diluted Tangible Book Value per Share plus dividends in excess of 13%.

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

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prepared in accordance with GAAP (see Comment on Non-GAAP Measures). The 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 June 30, 2014 and December 31, 2013 was as follows (in millions of U.S. dollars):

	June 30, 2014	December 31, 2013
Diluted book value per common share and common share equivalents outstanding ⁽¹⁾	\$ 118.96	\$ 109.26
Less: goodwill and other intangible assets, net of tax, per share	11.16	10.77
Diluted tangible book value per share	\$ 107.80	\$ 98.49

Diluted book value per common share and common share equivalents outstanding (Diluted Book Value per Share) (1) is calculated using common shareholders' equity attributable to PartnerRe Ltd. (total 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 or loss attributable to PartnerRe Ltd. common shareholders (operating earnings or loss) and operating earnings or loss per common share and common share equivalent outstanding (diluted operating earnings or loss per share): Management uses operating earnings or loss and diluted operating earnings or loss per share to measure its financial performance as these measures focus 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 method 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. Net foreign exchange gains or losses are not indicative of the performance of, and distort trends in, the Company's business as they predominantly result from general economic and foreign exchange market conditions. 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 method 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 and diluted operating earnings or loss per share 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 these measures follow industry practice and, therefore, allow 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 \$83 million, from \$51 million in the three months ended June 30, 2013 to \$134 million in the same period of 2014. The increase in operating earnings was primarily due to:

an increase of \$68 million in the Non-life underwriting result, which was mainly driven by a decrease in large catastrophic losses and an increase in favorable prior year loss development, partially offset by a decrease in the current accident year technical result which was primarily related to the North America sub-segment and an increase in adverse prior quarter loss development; and

- a decrease of \$38 million in other operating expenses included in Corporate and Other, primarily driven by the charge related to the restructuring in 2013, described above; partially offset by an increase of \$31 million in income tax expense on pre-tax operating earnings, driven by the increase in pre-tax operating earnings primarily due to the above two factors and by a higher distribution of the pre-tax operating earnings in the taxable jurisdictions relative to non-taxable jurisdictions.

Diluted operating earnings per share increased by \$1.70, from \$0.90 in the three months ended June 30, 2013 to \$2.60 in the same period of 2014, primarily due to the increase in operating earnings and the accretive impact of the share repurchases.

Operating earnings increased by \$57 million, from \$253 million in the six months ended June 30, 2013 to \$310 million in the same period of 2014. The increase in operating earnings was primarily due to:

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an increase of \$61 million in the Non-life underwriting result, which was mainly driven by a decrease in large catastrophic losses, partially offset by an increase in the acquisition cost ratio in the North America and Global (Non-U.S.) P&C sub-segments and a modestly higher level of mid-sized loss activity in the Global Specialty sub-segment; and

a decrease of \$41 million in other operating expenses included in Corporate and Other, driven by the charge related to the restructuring in 2013; partially offset by

an increase of \$39 million in income tax expense on pre-tax operating earnings, driven primarily by the same reasons described in the three-month result.

Diluted operating earnings per share increased by \$1.65, from \$4.32 in the six months ended June 30, 2013 to \$5.97 in the same period of 2014, primarily due to the increase in operating earnings and the accretive impact of the share repurchases.

The other lesser factors contributing to the increases or decreases in operating earnings and diluted operating earnings per share in the three months and six months ended June 30, 2014 compared to the same periods of 2013 are further described in Review of Net Income (Loss) below.

Operating earnings or loss attributable to PartnerRe Ltd. common shareholders and diluted operating earnings or loss per share are non-GAAP financial measures 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 reconciliation of operating earnings and diluted operating earnings per share to the most directly comparable GAAP financial measure for the three months and six months ended June 30, 2014 and 2013 was as follows (in millions of U.S. dollars):

	For the three months ended June 30, 2014	For the three months ended June 30, 2013	For the six months ended June 30, 2014	For the six months ended June 30, 2013
Net income (loss) attributable to PartnerRe Ltd.	\$272	\$(175)	\$582	\$59
Less:				
Net realized and unrealized investment gains (losses), net of tax	124	(230)	240	(218)
Net foreign exchange losses, net of tax	(3)	(6)	(4)	(6)
Interest in earnings (losses) of equity method investments, net of tax	3	(5)	8	1
Dividends to preferred shareholders	14	15	28	29
Operating earnings attributable to PartnerRe Ltd. common shareholders	\$134	\$51	\$310	\$253
Per diluted share:				
Net income (loss) attributable to PartnerRe Ltd. common shareholders	\$5.02	\$(3.37)	\$10.64	\$0.34
Less:				
Net realized and unrealized investment gains (losses), net of tax	2.41	(4.07)	4.61	(3.72)
Net foreign exchange losses, net of tax	(0.06)	(0.10)	(0.08)	(0.11)
Loss on redemption of preferred shares	—	—	—	(0.16)
Interest in earnings (losses) of equity method investments, net of tax	0.07	(0.10)	0.14	0.01
Operating earnings attributable to PartnerRe Ltd. common shareholders	\$2.60	\$0.90	\$5.97	\$4.32

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 3.6% in the three months ended June 30, 2013 to 9.5% in the same period of 2014 and from 8.6% in the six months ended June 30, 2013 to 10.9% in the same period of 2014. The increase in annualized Operating ROE was primarily due to a higher diluted operating earnings per share as described above, partially offset by a higher beginning diluted book value per share at January 1, 2014 compared to January 1, 2013. The factors contributing to increases or decreases in operating earnings are described further in Review of Net Income (Loss) below.

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 reconciliation of Operating ROE to the most directly comparable GAAP financial measure for the three months and six months ended June 30, 2014 and 2013 was as follows:

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	For the three months ended June 30, 2014	For the three months ended June 30, 2013	For the six months ended June 30, 2014	For the six months ended June 30, 2013
Annualized return on beginning diluted book value per common share calculated with net income (loss) per share attributable to common shareholders	18.4	% (13.4)%	19.5	% 0.7 %
Less:				
Annualized net realized and unrealized investment gains (losses), net of tax, on beginning diluted book value per common share	8.8	(16.2)	8.4	(7.4)
Annualized net foreign exchange losses, net of tax, on beginning diluted book value per common share	(0.2)	(0.4)	(0.1)	(0.2)
Annualized net interest in earnings (losses) of equity method investments, net of tax, on beginning diluted book value per common share	0.3	(0.4)	0.3	—
Annualized loss on redemption of preferred shares, on beginning diluted book value per common share	—	—	—	(0.3)
Annualized operating return on beginning diluted book value per common share	9.5	% 3.6 %	10.9	% 8.6 %

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 6.3 points, from 97.8% in the three months ended June 30, 2013 to 91.5% in the same period of 2014. The decrease in the combined ratio for the three months ended June 30, 2014 compared to the same period of 2013 was mainly driven by a decrease in large catastrophic losses of 11.8 points in the combined ratio and an increase in favorable prior year loss development, partially offset by a decrease in the current accident year technical result which was primarily related to the North America sub-segment and an increase in adverse prior quarter loss development.

The Non-life combined ratio decreased by 2.2 points, from 90.0% in the six months ended June 30, 2013 to 87.8% in the same period of 2014. The decrease in the combined ratio for the six months ended June 30, 2014 compared to the same period of 2013 was mainly driven by a decrease in large catastrophic losses of 6.1 points in the combined ratio, partially offset by an increase in the acquisition cost ratio in the North America and Global (Non-U.S.) P&C sub-segments and a modestly higher level of mid-sized loss activity in the Global Specialty sub-segment.

The other lesser factors contributing to increases or decreases in the combined ratio are described further in Review of Net Income (Loss) 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, diluted operating earnings or loss per share 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 attributable 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 total shareholder value through the intelligent and optimal assumption and management of reinsurance, insurance 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 total 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, 2013.

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, 2013.

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 of Directors (Board) is willing to incur. The Company's risk appetite is approved by the Board on an annual basis.

The Company manages exposure levels from multiple risk sources to provide reasonable assurance that modeled operating or economic losses are contained within the risk appetite approved by the Board. Definitions for operating and economic losses in the context of the Company's risk management framework are included in Item 1 of Part I of the Company's Annual Report on Form 10-K for the year ended December 31, 2013.

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 and Support 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 quarterly basis, Management reviews and reports to the Risk and Finance Committee the actual limits deployed against the approved limits.

Management established key risk limits that are approved by the Risk and Finance Committee for ten risk sources at June 30, 2014. For a detailed discussion of these ten 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, 2013. The limits approved by the Risk and Finance Committee and the actual limits deployed at June 30, 2014 and December 31, 2013 were as follows (in billions of U.S. dollars, except interest rate risk data):

	June 30, 2014 ⁽²⁾		December 31, 2013 ⁽²⁾	
	Limit approved	Actual deployed	Limit approved	Actual deployed
Natural Catastrophe Risk	\$2.3	\$1.4	\$2.3	\$1.5
Long Tail Reinsurance Risk	1.2	0.9	1.2	0.8
Market Risk	3.4	2.6	3.4	2.6
Equity and equity-like sublimit	2.8	2.0	2.8	1.8
Interest Rate Risk (duration)—excess fixed income investment portfolio ⁽¹⁾	6.0 years	2.7 years	6.0 years	1.5 years
Default and Credit Spread Risk	\$9.5	\$6.7	\$9.5	\$6.8
Trade Credit Underwriting Risk	0.9	0.7	0.9	0.7
Longevity Risk	2.0	1.3	2.0	1.2
Pandemic Risk	1.3	0.7	1.3	0.6
Agriculture Risk	0.3	0.1	0.3	0.1
Mortgage Reinsurance Risk	0.7	0.4	0.7	0.2
Any one country sub-limit	0.5	0.4	0.5	0.2

The excess fixed income investment portfolio relates to fixed income securities included in the Company's capital (1) funds, which are in excess of those included in the Company's liability funds and which support the net reinsurance liabilities.

(2) The limits approved and the actual limits deployed in the table above are shown net of retrocession.

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, 2013 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. In other words, the 1-in-250 and 1-in-500 year return period PMLs mean that there is a 0.4% and 0.2% chance, respectively, in any given year that an occurrence of a natural catastrophe in a specific peril zone will lead to losses exceeding the stated estimate.

The PML estimates below include all significant exposure from our Non-life and Life and Health business operations. This includes coverage for property, marine, energy, aviation, engineering, workers' compensation and mortality and

exposure to catastrophe from 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, 2013. 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 April 1, 2014 were as follows (in millions of U.S. dollars):

Zone	Peril	Single Occurrence Estimated Net PML Exposure	
		1-in-250 year PML	1-in-500 year PML (Earthquake Perils Only)
U.S. Southeast	Hurricane	\$966	—
U.S. Northeast	Hurricane	1,014	—
U.S. Gulf Coast	Hurricane	978	—
Caribbean	Hurricane	183	—
Europe	Windstorm	630	—
Japan	Typhoon	147	—
California	Earthquake	587	\$ 689
British Columbia	Earthquake	209	431
Japan	Earthquake	433	465
Australia	Earthquake	348	449
New Zealand	Earthquake	193	222

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 June 30, 2014 have not changed materially compared to December 31, 2013. 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, 2013 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, 2013.

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, 2013 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.

During the three months and six months ended June 30, 2014 and 2013, 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 net prior year favorable loss development for each sub-segment of the Company’s Non-life segment for the three months and six months ended June 30, 2014 and 2013 was as follows (in millions of U.S. dollars):

	For the three months ended June 30, 2014	For the three months ended June 30, 2013	For the six months ended June 30, 2014	For the six months ended June 30, 2013
Net Non-life prior year favorable (adverse) loss development:				
North America	\$68	\$31	\$92	\$61
Global (Non-U.S.) P&C	30	36	77	94
Global Specialty	69	28	128	88
Catastrophe	(6	) 32	28	67
Total net Non-life prior year favorable loss development	\$161	\$127	\$325	\$310

The net Non-life prior year favorable loss development for the three months and six months ended June 30, 2014 and 2013 was driven by the following factors (in millions of U.S. dollars):

	For the three months ended June 30, 2014	For the three months ended June 30, 2013	For the six months ended June 30, 2014	For the six months ended June 30, 2013
Net Non-life prior year (adverse) favorable loss development:				
Net prior year loss development due to changes in premiums ⁽¹⁾	\$(9	) \$(13	) \$(18	) \$(24
Net prior year loss development due to all other factors ⁽²⁾	170	140	343	334
Total net Non-life prior year favorable loss development	\$161	\$127	\$325	\$310

(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, 2013 for additional information by reserving lines.

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 June 30, 2014 for each Non-life sub-segment were as follows (in millions of U.S. dollars):

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	Case reserves	ACRs	IBNR reserves	Total gross loss reserves	Ceded loss reserves	Total net loss reserves
North America	\$917	\$150	\$2,401	\$3,468	\$(18)	\$3,450
Global (Non-U.S.) P&C	1,348	14	1,003	2,365	(18)	2,347
Global Specialty	1,897	42	2,037	3,976	(168)	3,808
Catastrophe	264	175	152	591	(41)	550
Total Non-life reserves	\$4,426	\$381	\$5,593	\$10,400	\$(245)	\$10,155

The net loss reserves represent the Company's best estimate of future losses and loss expense amounts based on the information available at June 30, 2014. 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. In the event that the business environment and social trends diverge from historical trends, the Company may have to adjust its loss reserves to amounts falling significantly outside its current estimate. These estimates are regularly 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.

The point estimates related to net loss reserves recorded by the Company and the range of actuarial estimates at June 30, 2014 for each Non-life sub-segment were as follows (in millions of U.S. dollars):

	Recorded Point Estimate	High	Low
Net Non-life sub-segment loss reserves:			
North America	\$3,450	\$3,706	\$2,760
Global (Non-U.S.) P&C	2,347	2,671	1,919
Global Specialty	3,808	4,309	3,047
Catastrophe	550	582	463

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 \$10,155 million of net Non-life loss reserves at June 30, 2014, net loss reserves for accident years 2005 and prior of \$625 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, 2013 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 (New Zealand Earthquakes) and the Japan earthquake and resulting tsunami (Japan Earthquake) (collectively, 2011 catastrophic events) and there remains a considerable degree of uncertainty related to the range of possible ultimate losses. Loss estimates arising from earthquakes are inherently more uncertain than those from other catastrophic events and the Company believes the ultimate losses arising from the New Zealand Earthquakes and the Japan Earthquake may be materially in excess of, or less than, the amounts provided for in the Condensed Consolidated Balance Sheet at June 30, 2014.

The remaining significant risks and uncertainties related to the New Zealand Earthquakes 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. In addition, there is additional complexity related to the New Zealand Earthquakes given multiple earthquakes occurred in the same region in a relatively short period of time, resulting in cedants continuing to revise their allocation of losses between the various events and between different treaties, under which the Company may provide different amounts of coverage.

While the Company remains cautious regarding the estimated ultimate losses from the Japan Earthquake, as time has passed the estimates received from the Company's cedants have stabilized, paid losses have increased and the remaining complexities have been reduced.

In addition to the sum of the point estimates originally recorded for each of the New Zealand Earthquakes and Japan Earthquake, 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 these 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.

During the year ended December 31, 2013, the Company cautiously reduced the additional gross reserves by \$10 million to \$40 million, primarily reflecting the reduced level of uncertainty associated with the Japan Earthquake in the first half of 2013. During the three months ended June 30, 2014, the Company increased its loss estimates related to the New Zealand Earthquakes following the receipt of updated cedant information. Concurrent with increasing its loss estimate, and partially offsetting the impact, the Company reduced the additional reserves by \$20 million. As a result, \$20 million of the additional gross reserves recorded in relation to the 2011 catastrophic events remain.

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;
- mortality business, which includes death and disability covers (with various riders) primarily written in Continental Europe, term assurance and critical illness primarily written in the United Kingdom and Ireland, and guaranteed minimum death benefit (GMDB) business primarily written in Continental Europe; and
- specialty accident and health business written by PartnerRe Health, including Health Maintenance Organizations (HMO) reinsurance, medical reinsurance and provider and employer excess of loss programs.

The Company categorizes life reserves into three types of 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.

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, 2013 for additional information on the reserving methodologies employed by the Company for its longevity, mortality and accident and health lines.

The Company's gross and net policy benefits for life and annuity contracts by reserving line at June 30, 2014 were as follows (in millions of U.S. dollars):

Case reserves	IBNR reserves	Reserves for future policy	Total gross Life and Health	Ceded reserves	Total net Life and Health
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			benefits	reserves		reserves
Accident and Health	\$7	\$140	\$20	\$167	\$(19)	\$148
Longevity	1	148	422	571	(3)	568
Mortality	226	566	597	1,389	(1)	1,388
Total policy benefits for life and annuity contracts	\$234	\$854	\$1,039	\$2,127	\$(23)	\$2,104

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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 June 30, 2014, 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):

	June 30, 2014
Fixed maturities	\$613
Equities	37
Other invested assets (including certain derivatives)	110
Funds held – directly managed account	16
Total	\$776

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 4 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 5 to Condensed Consolidated Financial Statements included in Item 1 of Part I of this report.

Results of Operations—for the Three Months and Six Months Ended June 30, 2014 and 2013

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, 2013 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, 2013 for a discussion of translation of foreign currencies.

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, except the Japanese yen and Canadian dollar, in the three months and six months ended June 30, 2014 compared to the same periods of 2013; and
- the U.S. dollar ending exchange rate weakened against most currencies, except the euro, at June 30, 2014 compared to December 31, 2013.

Review of Net Income (Loss)

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 method 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 method 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 (loss) for the three months and six months ended June 30, 2014 and 2013 were as follows (in millions of U.S. dollars):

	For the three months ended June 30, 2014	% Change	For the three months ended June 30, 2013	For the six months ended June 30, 2014	% Change	For the six months ended June 30, 2013						
Underwriting result:												
Non-life	\$90	316	% \$22	\$251	32	% \$190						
Life and Health	3	(26)	4	2	(68)	5				
Investment result:												
Net investment income	130	4	125	247	(1)	248					
Net realized and unrealized investment gains (losses)	166	NM	(299)	308	NM	(276)				
Interest in earnings (losses) of equity method investments ⁽¹⁾	5	NM	(4)	11	194	4					
Corporate and Other:												
Technical result ⁽²⁾	—	(80)	—	(97)	1					
Other income ⁽²⁾	5	721	1	4	162	2						
Other operating expenses	(30)	(56)	(68)	(59)	(41)	(100)
Interest expense	(12)	—	(12)	(25)	—	(24)		
Amortization of intangible assets ⁽³⁾	(7)	(1)	(7)	(14)	(1)	(14)
Net foreign exchange gains (losses)	2	NM	(11)	3	NM	(9)				
Income tax (expense) benefit	(78)	NM	75	(141)	NM	33				
Net income (loss)	\$274	NM	\$(174)	\$587	878	\$60					
NM:	Not meaningful											

Interest in earnings or losses of equity method investments represents the Company's aggregate share of earnings or (1) losses 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 PartnerRe Health in 2012.

Underwriting result is a measurement that the Company uses to manage and evaluate its Non-life and Life and Health 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.

The components of the underwriting result and combined ratio for the Non-life segment for the three months and six months ended June 30, 2014 and 2013 were as follows (in millions of U.S. dollars):

	For the three months ended June 30, 2014			For the three months ended June 30, 2013			For the six months ended June 30, 2014			For the six months ended June 30, 2013		
Current accident year technical result and ratio												
Adjusted for large catastrophic losses and prior quarter loss development	\$11	98.8	%	\$52	94.5	%	\$50	97.6	%	\$118	93.6	%
Large catastrophic losses ⁽¹⁾	—	—		(112)	11.8		—	—		(112)	6.1	
Net (adverse) favorable prior quarter loss development	(22)	2.2		15	(1.6)							
Prior accident years technical result and ratio												
Net favorable prior year loss development	161	(15.4)	)	127	(13.0)	)	325	(16.0)	)	310	(16.3))
Technical result and ratio, as reported	\$150	85.6	%	\$82	91.7	%	\$375	81.6	%	\$316	83.4	%
Other income	1	—		—	—		2	—		—	—	
Other operating expenses	(61)	5.9		(60)	6.1		(126)	6.2		(126)	6.6	
Underwriting result and combined ratio, as reported	\$90	91.5	%	\$22	97.8	%	\$251	87.8	%	\$190	90.0	%

(1) Large catastrophic losses are shown net of any related reinsurance, reinstatement premiums and profit commissions.

Three-month result

The underwriting result for the Non-life segment increased by \$68 million (corresponding to a decrease of 6.3 points in the combined ratio), from \$22 million (97.8 points on the combined ratio) in the three months ended June 30, 2013 to \$90 million (91.5 points on the combined ratio) in the same period of 2014 primarily due to:

Large catastrophic losses—a decrease of \$112 million (decrease of 11.8 points in the technical ratio) related to the European and Alberta Floods in the three months ended June 30, 2013 compared to no significant catastrophic losses in the same period of 2014.

Net favorable prior year loss development—an increase of \$34 million (decrease of 2.4 points in the technical ratio) from \$127 million (13.0 points on the technical ratio) in the three months ended June 30, 2013 to \$161 million (15.4 points on the technical ratio) in the same period of 2014. The increase in net favorable prior year loss development was primarily due to increases in the Global Specialty and North America sub-segments and was partially offset by decreases in the Catastrophe sub-segment and, to a lesser extent, the Global (Non-U.S.) P&C sub-segment. 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.

These factors driving the increase in the Non-life underwriting result and the corresponding decrease in the combined ratio in the three months ended June 30, 2014 compared to the same period of 2013 were partially offset by:

The current accident year technical result, adjusted for large catastrophic losses and prior quarter loss development—a decrease in the technical result (and corresponding increase in the technical ratio) which was primarily related to the North America sub-segment due to an increase in the acquisition cost ratio, driven by the increasingly competitive conditions and pricing observed in most lines of business and by higher profit commissions in the agriculture line, and a modestly higher level of mid-sized loss activity.

Net (adverse) favorable prior quarter loss development—a decrease of \$37 million (increase of 3.8 points in the technical ratio) from favorable prior quarter development of \$15 million (1.6 points on the technical ratio) in the three months ended June 30, 2013 to adverse prior quarter development of \$22 million (2.2 points on the technical ratio) in the three months ended June 30, 2014, primarily due to various mid-sized losses reported in the Global Specialty sub-segment and modest adverse development related to a mid-sized loss in the Catastrophe sub-segment.

The underwriting result for the Life and Health segment, which does not include allocated investment income, of \$3 million in the three months ended June 30, 2014 was comparable to \$4 million in the same period of 2013. The underwriting result primarily reflected a lower level of net favorable prior year loss development and a modest increase in claims activity in the short-term mortality business in the three months ended June 30, 2014, being almost entirely offset by improved profitability from the PartnerRe Health business. See Results by Segment below.

Net investment income increased by \$5 million, from \$125 million in the three months ended June 30, 2013 to \$130 million in the same period of 2014. The increase in net investment income was primarily attributable to an increase in net investment income from fixed maturities and from equities as a result of higher dividend income. See Corporate and Other – Net Investment Income below for more details.

Net realized and unrealized investment gains increased by \$465 million, from losses of \$299 million in the three months ended June 30, 2013 to gains of \$166 million in the same period of 2014. The net realized and unrealized investment gains of \$166 million in the three months ended June 30, 2014 were primarily due to decreases in U.S. and European longer-term risk-free interest rates, improvements in worldwide equity markets and narrowing credit spreads, which were partially offset by losses on treasury note futures. See Corporate and Other – Net Realized and Unrealized Investment Gains (Losses) below for more details.

Other operating expenses included in Corporate and Other decreased by \$38 million, from \$68 million in the three months ended June 30, 2013 to \$30 million in the same period of 2014. The decrease was primarily due to the restructuring charge in the three months ended June 30, 2013, as described in Executive Overview above.

Interest expense in the three months ended June 30, 2014 was comparable to the same period of 2013.

Net foreign exchange gains increased by \$13 million, from losses of \$11 million in the three months ended June 30, 2013 to gains of \$2 million in the same period of 2014. The net foreign exchange gains for the three months ended June 30, 2014 resulted primarily from currency movements on certain unhedged equity securities. The Company hedges a significant portion of its currency risk exposure as discussed in Quantitative and Qualitative Disclosures about Market Risk in Item 3 of Part I of this report.

Income tax expense increased by \$153 million, from a benefit of \$75 million in the three months ended June 30, 2013 to an expense of \$78 million in the same period of 2014, primarily reflecting an increase in the Company's pre-tax net income in the three months ended June 30, 2014 compared to the same period of 2013. See Corporate and Other—Income Taxes below for more details.

Six-month result

The underwriting result for the Non-life segment increased by \$61 million (corresponding to a decrease of 2.2 points in the combined ratio), from \$190 million (90.0 points on the combined ratio) in the six months ended June 30, 2013 to \$251 million (87.8 points on the combined ratio) in the same period of 2014 primarily due to:

Large catastrophic losses—a decrease of \$112 million (decrease of 6.1 points in the technical ratio) related to the European and Alberta Floods in the six months ended June 30, 2013 compared to no significant catastrophic losses in the same period of 2014.

Net favorable prior year loss development—an increase of \$15 million from \$310 million (16.3 points on the technical ratio) in the six months ended June 30, 2013 to \$325 million (16.0 points on the technical ratio) in the same period of 2014. The increase in net favorable prior year loss development was due to increases in the Global Specialty and North America sub-segments and was partially offset by decreases in the Catastrophe sub-segment and, to a lesser extent, the Global (Non-U.S.) P&C sub-segment. While net favorable prior year loss development increased in the six months ended June 30, 2014 compared to the same period of 2013, this had a reduced impact on the technical ratio as result of higher net premiums earned in 2014. 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.

These factors driving the increase in the Non-life underwriting result and the corresponding decrease in the combined ratio in the six months ended June 30, 2014 compared to the same period of 2013 were partially offset by:

• The current accident year technical result, adjusted for large catastrophic losses—a decrease in the technical result (and corresponding increase in the technical ratio) primarily due to an increase in the acquisition cost ratio, driven by the North America and Global (Non-U.S.) P&C sub-segments, a modestly higher level of mid-sized loss activity in the

Global Specialty sub-segment and a decrease in net premiums earned in the Catastrophe sub-segment, which in the absence of catastrophic losses directly impact the technical result and ratio.

The underwriting result for the Life and Health segment, which does not include allocated investment income, decreased by \$3 million, from \$5 million in the six months ended June 30, 2013 to \$2 million in the same period of 2014. The decrease in the Life and Health underwriting result was primarily driven by a lower level of net favorable prior year loss development, partially offset by improved profitability from the PartnerRe Health business. See Results by Segment below.

Net investment income of \$247 million in the six months ended June 30, 2014 was comparable to \$248 million in the same period of 2013 due to a decrease in net investment income from funds held – directly managed, primarily related to the lower

average balance, and lower reinvestment rates, which was almost entirely offset by an increase in net investment income from equities as a result of higher dividend income. See Corporate and Other – Net Investment Income below for more details.

Net realized and unrealized investment gains increased by \$584 million, from losses of \$276 million in the six months ended June 30, 2013 to gains of \$308 million in the same period of 2014. The net realized and unrealized investment gains of \$308 million in the six months ended June 30, 2014 were primarily due to modest decreases in U.S. and European longer-term risk-free interest rates, narrowing credit spreads and improvements in worldwide equity markets, which were partially offset by losses on treasury note futures. See Corporate and Other – Net Realized and Unrealized Investment Gains (Losses) below for more details.

Other operating expenses included in Corporate and Other decreased by \$41 million, from \$100 million in the six months ended June 30, 2013 to \$59 million in the same period of 2014. The decrease was primarily due to the restructuring charge in the six months ended June 30, 2013, as described in Executive Overview above.

Interest expense in the six months ended June 30, 2014 was comparable to the same period of 2013.

Net foreign exchange gains increased by \$12 million, from losses of \$9 million in the six months ended June 30, 2013 to gains of \$3 million in the same period of 2014. The net foreign exchange gains for the six months ended June 30, 2014 resulted primarily from currency movements on certain unhedged equity securities. The Company hedges a significant portion of its currency risk exposure as discussed in Quantitative and Qualitative Disclosures about Market Risk in Item 3 of Part I of this report.

Income tax expense increased by \$174 million, from a benefit of \$33 million in the six months ended June 30, 2013 to an expense of \$141 million in the same period of 2014, primarily reflecting an increase in the Company's pre-tax net income in the six months ended June 30, 2014 compared to the same period of 2013. 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 21 to Consolidated Financial Statements included in Item 8 of Part II of Form 10-K for the year ended December 31, 2013 and in Note 9 to Condensed Consolidated Financial Statements included in Item 1 of Part I of this report.

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 components of the technical result and the corresponding ratios for this sub-segment for the three months and six months ended June 30, 2014 and 2013 were as follows (in millions of U.S. dollars):

	For the three months ended June 30, 2014	% Change	For the three months ended June 30, 2013	For the six months ended June 30, 2014	% Change	For the six months ended June 30, 2013
Gross premiums written	\$400	7 %	\$372	\$930	14 %	\$819
Net premiums written	392	9	360	919	14	807
Net premiums earned	\$390	9	\$357	\$768	11	\$690
Losses and loss expenses	(240)	(2)	(245)	(499)	3	(485)
Acquisition costs	(102)	29	(79)	(194)	28	(151)
Technical result ⁽¹⁾	\$48	45	\$33	\$75	37	\$54
Loss ratio ⁽²⁾	61.5 %		68.6 %	65.0 %		70.2 %
Acquisition ratio ⁽³⁾	26.1		22.1			