PARTNERRE LTD
Form 10-Q
October 31, 2014

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

FORM 10-Q

ý QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934
FOR THE QUARTERLY PERIOD ENDED SEPTEMBER 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	Not Applicable
(State of incorporation)	(I.R.S. Employer Identification No.)

90 Pitts Bay Road, Pembroke, HM08, Bermuda
(Address of principal executive offices) (Zip Code)
(441) 292-0888
(Registrant's telephone number, including area code)
Not Applicable
(Former name, former address and former fiscal year, if changed since last report)

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

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

The number of the registrant's common shares (par value $1.00 per share) outstanding, net of treasury shares, as of October 27, 2014 was 48,972,567.

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 September 30, 2014, and the related condensed consolidated statements of operations and comprehensive income for the three-month and nine-month periods ended September 30, 2014 and 2013, and of shareholders' equity, and of cash flows for the nine-month periods ended September 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
October 31, 2014

PartnerRe Ltd.
Condensed Consolidated Balance Sheets
(Expressed in thousands of U.S. dollars, except parenthetical share and per share data)

	September 30, 2014 (Unaudited)	December 31, 2013 (Audited)
Assets		
Investments:		
Fixed maturities, at fair value (amortized cost: 2014, $13,575,112; 2013, $13,376,455)	$13,950,629	$13,593,303
Short-term investments, at fair value (amortized cost: 2014, $37,010; 2013, $13,543)	37,016	13,546
Equities, at fair value (cost: 2014, $804,920; 2013, $1,009,286)	1,001,307	1,221,053
Other invested assets	299,260	320,981
Total investments	15,288,212	15,148,883
Funds held – directly managed (cost: 2014, $642,278; 2013, $778,569)	650,374	785,768
Cash and cash equivalents	1,519,287	1,496,485
Accrued investment income	171,050	185,717
Reinsurance balances receivable	2,974,668	2,465,713
Reinsurance recoverable on paid and unpaid losses	317,071	308,892
Funds held by reinsured companies	808,686	843,081
Deferred acquisition costs	707,481	644,952
Deposit assets	104,218	351,905
Net tax assets	5,029	14,133
Goodwill	456,380	456,380
Intangible assets	166,083	187,090
Other assets	38,804	149,296
Total assets	$23,207,343	$23,038,295
Liabilities		
Unpaid losses and loss expenses	$10,264,001	$10,646,318
Policy benefits for life and annuity contracts	2,113,463	1,974,133
Unearned premiums	2,048,550	1,723,767
Other reinsurance balances payable	237,175	202,549
Deposit liabilities	71,857	328,588
Net tax liabilities	234,651	284,442
Accounts payable, accrued expenses and other	350,401	291,350
Debt related to senior notes	750,000	750,000
Debt related to capital efficient notes	70,989	70,989
Total liabilities	16,141,087	16,272,136
Shareholders' Equity		
Common shares (par value $1.00; issued: 2014, 87,141,960 shares; 2013, 86,657,045 shares)	87,142	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	3,936,396	3,901,627
Accumulated other comprehensive loss	(8,718)	(12,238)
Retained earnings	6,040,875	5,406,797

Common shares held in treasury, at cost (2014, 37,794,611 shares; 2013, 34,213,611 shares)	(3,075,865)	(2,707,461)
Total shareholders’ equity attributable to PartnerRe Ltd.	7,013,980	6,709,532
Noncontrolling interests	52,276	56,627
Total shareholders’ equity	7,066,256	6,766,159
Total liabilities and shareholders’ equity	$23,207,343	$23,038,295

See accompanying Notes to Condensed Consolidated Financial Statements.

PartnerRe Ltd.
Condensed Consolidated Statements of Operations and Comprehensive Income
(Expressed in thousands of U.S. dollars, except share and per share data)
(Unaudited)

	For the three months ended September 30, 2014	For the three months ended September 30, 2013	For the nine months ended September 30, 2014	For the nine months ended September 30, 2013
Revenues				
Gross premiums written	$1,361,280	$1,281,477	$4,695,327	$4,378,944
Net premiums written	$1,342,690	$1,264,775	$4,499,849	$4,210,525
Decrease (increase) in unearned premiums	213,924	156,694	(336,384)	(433,740)
Net premiums earned	1,556,614	1,421,469	4,163,465	3,776,785
Net investment income	118,176	121,811	365,010	370,017
Net realized and unrealized investment (losses) gains	(34,420)	16,118	273,468	(260,154)
Other income	2,223	5,399	11,892	13,205
Total revenues	1,642,593	1,564,797	4,813,835	3,899,853
Expenses				
Losses and loss expenses and life policy benefits	959,543	750,999	2,592,847	2,278,793
Acquisition costs	321,756	282,948	888,937	758,890
Other operating expenses	108,615	108,467	327,149	369,340
Interest expense	12,241	12,233	36,719	36,694
Amortization of intangible assets	7,003	7,045	21,007	21,136
Net foreign exchange (gains) losses	(8,206)	1,279	(10,900)	9,822
Total expenses	1,400,952	1,162,971	3,855,759	3,474,675
Income before taxes and interest in earnings of equity method investments	241,641	401,826	958,076	425,178
Income tax expense	45,617	70,232	186,363	37,338
Interest in earnings of equity method investments	5,294	5,941	16,283	9,677
Net income	201,318	337,535	787,996	397,517
Net income attributable to noncontrolling interests	(4,920)	(4,112)	(9,914)	(5,296)
Net income attributable to PartnerRe Ltd.	196,398	333,423	778,082	392,221
Preferred dividends	14,184	14,184	42,551	43,678
Loss on redemption of preferred shares	—	—	—	9,135
Net income attributable to PartnerRe Ltd. common shareholders	$182,214	$319,239	$735,531	$339,408
Comprehensive income				
Net income attributable to PartnerRe Ltd.	$196,398	$333,423	$778,082	$392,221
Change in currency translation adjustment	1,412	14,432	3,209	(16,912)
Change in unfunded pension obligation, net of tax	989	114	979	980
Change in unrealized losses on investments, net of tax	(221)	(229)	(668)	(692)
Total other comprehensive income (loss), net of tax	2,180	14,317	3,520	(16,624)
Comprehensive income attributable to PartnerRe Ltd.	$198,578	$347,740	$781,602	$375,597
Per share data attributable to PartnerRe Ltd. common shareholders				
Net income per common share:				

Basic net income	$3.68	$5.95	$14.58	$6.04
Diluted net income	$3.60	$5.84	$14.26	$5.93
Weighted average number of common shares outstanding	49,514,980	53,671,245	50,461,749	56,176,260
Weighted average number of common shares and common share equivalents outstanding	50,681,325	54,625,151	51,566,134	57,217,561
Dividends declared per common share	$0.67	$0.64	$2.01	$1.92

See accompanying Notes to Condensed Consolidated Financial Statements.

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PartnerRe Ltd.
Condensed Consolidated Statements of Shareholders' Equity
(Expressed in thousands of U.S. dollars)
(Unaudited)

	For the nine months ended	
	September 30, 2014	September 30, 2013
Common shares		
Balance at beginning of period	$86,657	$85,460
Issuance of common shares	485	966
Balance at end of period	87,142	86,426
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	34,769	56,568
Issuance of preferred shares	—	231,265
Redemption of preferred shares	—	(269,265)
Balance at end of period	3,936,396	3,880,412
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	3,209	(16,912)
Balance at end of period	4,186	15,843
Unfunded pension obligation		
Balance at beginning of period	(17,509)	(27,370)
Change in unfunded pension obligation, net of tax	979	980
Balance at end of period (net of tax: 2014, $4,780; 2013, $7,752)	(16,530)	(26,390)
Unrealized gain on investments		
Balance at beginning of period	4,294	5,212
Change in unrealized losses on investments, net of tax	(668)	(692)
Balance at end of period (net of tax: 2014 and 2013: $nil)	3,626	4,520
Balance at end of period	(8,718)	(6,027)
Retained earnings		
Balance at beginning of period	5,406,797	4,952,002
Net income	787,996	397,517
Net income attributable to noncontrolling interests	(9,914)	(5,296)
Dividends on common shares	(101,453)	(108,191)
Dividends on preferred shares	(42,551)	(43,678)
Loss on redemption of preferred shares	—	(9,135)
Balance at end of period	6,040,875	5,183,219

Common shares held in treasury		
Balance at beginning of period	(2,707,461)	(2,012,157)
Repurchase of common shares	(368,404)	(594,336)
Balance at end of period	(3,075,865)	(2,606,493)
Total shareholders’ equity attributable to PartnerRe Ltd.	$7,013,980	$6,571,687
Noncontrolling interests	52,276	52,489
Total shareholders’ equity	$7,066,256	$6,624,176

See accompanying Notes to Condensed Consolidated Financial Statements.

PartnerRe Ltd.
Condensed Consolidated Statements of Cash Flows
(Expressed in thousands of U.S. dollars)
(Unaudited)

	For the nine months ended September 30, 2014	September 30, 2013
Cash flows from operating activities		
Net income	$787,996	$397,517
Adjustments to reconcile net income to net cash provided by operating activities:		
Amortization of net premium on investments	82,519	119,468
Amortization of intangible assets	21,007	21,136
Net realized and unrealized investment (gains) losses	(273,468)	260,154
Changes in:		
Reinsurance balances, net	(565,187)	(592,380)
Reinsurance recoverable on paid and unpaid losses, net of ceded premiums payable	32,421	65,593
Funds held by reinsured companies and funds held – directly managed	138,659	76,159
Deferred acquisition costs	(83,758)	(111,562)
Net tax assets and liabilities	(27,792)	(83,379)
Unpaid losses and loss expenses including life policy benefits	144,663	(65,725)
Unearned premiums	336,384	433,740
Other net changes in operating assets and liabilities	(10,207)	63,014
Net cash provided by operating activities	583,237	583,735
Cash flows from investing activities		
Sales of fixed maturities	6,227,896	5,831,364
Redemptions of fixed maturities	527,367	1,002,991
Purchases of fixed maturities	(6,990,492)	(6,501,873)
Sales and redemptions of short-term investments	70,750	290,011
Purchases of short-term investments	(95,168)	(176,339)
Sales of equities	464,212	595,848
Purchases of equities	(202,322)	(556,303)
Other, net	(4,822)	98,813
Net cash (used in) provided by investing activities	(2,579)	584,512
Cash flows from financing activities		
Dividends paid to common and preferred shareholders	(144,004)	(151,869)
Repurchase of common shares	(374,557)	(619,534)
Issuance of common shares, net of taxes paid	12,639	37,193
Net proceeds from issuance of preferred shares	—	241,265
Repurchase of preferred shares	—	(290,000)
(Distribution) sale of shares to noncontrolling interests	(14,265)	47,136
Net cash used in financing activities	(520,187)	(735,809)
Effect of foreign exchange rate changes on cash	(37,669)	(3,081)
Increase in cash and cash equivalents	22,802	429,357
Cash and cash equivalents—beginning of period	1,496,485	1,121,705

Cash and cash equivalents—end of period	$1,519,287	$1,551,062
Supplemental cash flow information:		
Taxes paid	$243,396	$148,522
Interest paid	24,630	24,630

See accompanying Notes to Condensed Consolidated Financial Statements.

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 September 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):

September 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	$ —	$ 2,184,417	$ —	$2,184,417
U.S. states, territories and municipalities	—	189,755	130,743	320,498
Non-U.S. sovereign government, supranational and government related	—	2,209,335	—	2,209,335
Corporate	—	5,706,486	—	5,706,486
Asset-backed securities	—	689,609	458,175	1,147,784
Residential mortgage-backed securities	—	2,331,870	—	2,331,870
Other mortgage-backed securities	—	50,239	—	50,239
Fixed maturities	$ —	$ 13,361,711	$ 588,918	$13,950,629
Short-term investments	$ —	$ 37,016	$ —	$37,016
Equities				
Real estate investment trusts	$ 213,461	$ —	$ —	$213,461
Energy	155,113	—	—	155,113
Insurance	127,740	—	—	127,740
Finance	70,010	8,431	19,136	97,577
Consumer noncyclical	91,334	—	—	91,334
Communications	72,619	—	1,966	74,585
Technology	47,848	—	7,318	55,166
Industrials	43,930	—	—	43,930
Consumer cyclical	36,252	—	—	36,252
Utilities	32,012	—	—	32,012
Other	17,372	—	7	17,379
Mutual funds and exchange traded funds	48,383	—	8,375	56,758
Equities	$ 956,074	$ 8,431	$ 36,802	$1,001,307
Other invested assets				
Derivative assets				
Foreign exchange forward contracts	$ —	$ 8,456	$ —	$8,456
Foreign currency option contracts	—	901	—	901
Futures contracts	3,723	—	—	3,723
Total return swaps	—	—	744	744
Other				
Notes and loan receivables and notes securitization	—	—	45,396	45,396
Annuities and residuals	—	—	14,880	14,880
Private equities	—	—	53,019	53,019
Derivative liabilities				
Foreign exchange forward contracts	—	(7,904)	—	(7,904)
Foreign currency option contracts	—	(1,682)	—	(1,682)
Futures contracts	(37)	—	—	(37)
Insurance-linked securities	—	—	(375)	(375)
Total return swaps	—	—	(1,859)	(1,859)
Interest rate swaps	—	(10,200)	—	(10,200)
TBAs	—	(508)	—	(508)
Other invested assets	$ 3,686	$ (10,937)	$ 111,805	$104,554
Funds held – directly managed				

U.S. government and government sponsored enterprises	$ —	$ 149,273	$ —	$ 149,273
U.S. states, territories and municipalities	—	—	311	311
Non-U.S. sovereign government, supranational and government related	—	123,210	—	123,210
Corporate	—	191,621	—	191,621
Other invested assets	—	—	14,553	14,553
Funds held – directly managed	$ —	$ 464,104	$ 14,864	$ 478,968
Total	$ 959,760	$ 13,860,325	$ 752,389	$ 15,572,474

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

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

At September 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 $194.7 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 $479.0 million and $561.3 million at September 30, 2014 and December 31, 2013, respectively, the funds held – directly managed account also included cash and cash equivalents, carried at fair value, of $53.1 million and $84.8 million, respectively, and accrued investment income of $6.3 million and $6.7 million, respectively. At September 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 $112.0 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 September 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 nine months ended September 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 September 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 September 30, 2014 and 2013, were as follows (in thousands of U.S. dollars):

For the three months ended September 30, 2014	Balance at beginning of period	Realized and unrealized investment gains (losses) included in net income	Purchases and issuances	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	$123,617	$3,636	$5,695	$(2,205)	$—	$130,743	$3,747
Asset-backed securities	489,106	(4,439)	11,085	(37,577)	—	458,175	(4,403)
Fixed maturities	$612,723	$(803)	$16,780	$(39,782)	$—	$588,918	$(656)
Equities							
Finance	$19,564	$(428)	$—	$—	$—	$19,136	$(428)
Communications	2,067	(101)	—	—	—	1,966	(101)
Technology	7,645	(327)	—	—	—	7,318	(327)
Other	7	—	—	—	—	7	—
Mutual funds and exchange traded funds	8,246	129	—	—	—	8,375	129
Equities	$37,529	$(727)	$—	$—	$—	$36,802	$(727)
Other invested assets							
Derivatives, net	$(852)	$(1,255)	$57	$560	$—	$(1,490)	$(1,255)
Notes and loan receivables and notes securitization	38,603	(1,379)	29,286	(21,114)	—	45,396	(1,379)
Annuities and residuals	17,134	(475)	—	(1,779)	—	14,880	(474)
Private equities	54,928	(1,348)	248	(809)	—	53,019	(1,348)
Other invested assets	$109,813	$(4,457)	$29,591	$(23,142)	$—	$111,805	$(4,456)
Funds held – directly managed							
U.S. states, territories and municipalities	$305	$6	$—	$—	$—	$311	$6
Other invested assets	15,800	(1,467)	220	—	—	14,553	(1,467)
Funds held – directly managed	$16,105	$(1,461)	$220	$—	$—	$14,864	$(1,461)
Total	$776,170	$(7,448)	$46,591	$(62,924)	$—	$752,389	$(7,300)

For the three months ended September 30, 2013	Balance at beginning of period	Realized and unrealized investment gains (losses) included in net income	Purchases and issuances	Settlements and sales [1]	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	$219,163	$ 8,431	$61,706	$(165)	$ —	$289,135	$8,431
Corporate	99,896	(269)	—	—	—	99,627	(269)
Asset-backed securities	426,288	4,800	86,442	(63,777)	—	453,753	(3,043)
Fixed maturities	$745,347	$ 12,962	$148,148	$(63,942)	$ —	$842,515	$5,119
Equities							
Finance	$13,000	$ 1,285	$—	$—	$ —	$14,285	$1,285
Communications	2,040	103	—	—	—	2,143	103
Technology	8,012	1,138	—	—	—	9,150	1,138
Mutual funds and exchange traded funds	7,549	125	—	—	—	7,674	125
Equities	$30,601	$ 2,651	$—	$—	$ —	$33,252	$2,651
Other invested assets							
Derivatives, net	$2,333	$ (1,885)	$—	$(1,395)	$ —	$(947)	$(140)
Notes and loan receivables and notes securitization	44,224	3,250	1,248	(941)	—	47,781	3,250
Annuities and residuals	30,555	413	—	(4,029)	—	26,939	166
Private equities	21,100	(299)	1,077	—	—	21,878	(299)
Other invested assets	$98,212	$ 1,479	$2,325	$(6,365)	$ —	$95,651	$2,977
Funds held – directly managed							
U.S. states, territories and municipalities	$337	$ (39)	$—	$—	$ —	$298	$(39)
Other invested assets	15,207	1,045	—	(686)	—	15,566	1,045
Funds held – directly managed	$15,544	$ 1,006	$—	$(686)	$ —	$15,864	$1,006
Total	$889,704	$ 18,098	$150,473	$(70,993)	$ —	$987,282	$11,753

(1) Settlements and sales of asset-backed securities and derivatives include sales of $13.7 million and $1.4 million, respectively.

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

For the nine months ended September 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	$108,380	$ 10,488	$14,220	$(2,345)	$ —	$130,743	$ 10,483
Asset-backed securities	446,577	4,698	138,538	(131,638)	—	458,175	4,993
Fixed maturities	$554,957	$ 15,186	$152,758	$(133,983)	$ —	$588,918	$ 15,476
Equities							
Finance	$20,207	$ (1,071)	$—	$—	$ —	$19,136	$ (1,071)
Communications	2,199	(233)	—	—	—	1,966	(233)
Technology	7,752	(434)	—	—	—	7,318	(434)
Other	—	(1)	8	—	—	7	(1)
Mutual funds and exchange traded funds	7,887	488	—	—	—	8,375	488
Equities	$38,045	$ (1,251)	$8	$—	$ —	$36,802	$ (1,251)
Other invested assets							
Derivatives, net	$(788)	$ (391)	$(871)	$560	$ —	$(1,490)	$ (391)
Notes and loan receivables and notes securitization	41,446	2,188	32,202	(30,440)	—	45,396	3,707
Annuities and residuals	24,064	(84)	—	(9,100)	—	14,880	(44)
Private equities	39,131	(3,179)	20,792	(3,725)	—	53,019	(3,210)
Other invested assets	$103,853	$ (1,466)	$52,123	$(42,705)	$ —	$111,805	$ 62
Funds held – directly managed							
U.S. states, territories and municipalities	$286	$ 25	$—	$—	$ —	$311	$ 25
Other invested assets	15,165	(1,087)	475	—	—	14,553	(1,087)
Funds held – directly managed	$15,451	$ (1,062)	$475	$—	$ —	$14,864	$ (1,062)
Total	$712,306	$ 11,407	$205,364	$(176,688)	$ —	$752,389	$ 13,225

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

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For the nine months ended September 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	$ (5,427)	$61,706	$(379)	$ —	$289,135	$ (5,427)
Corporate	100,904	(1,277)	—	—	—	99,627	(1,277)
Asset-backed securities	323,134	478	241,607	(111,466)	—	453,753	(7,182)
Fixed maturities	$657,273	$ (6,226)	$303,313	$(111,845)	$ —	$842,515	$ (13,886)
Equities							
Finance	$13,477	$ 808	$—	$—	$ —	$14,285	$ 808
Communications	—	103	2,040	—	—	2,143	103
Technology	6,987	2,163	—	—	—	9,150	2,163
Mutual funds and exchange traded funds	7,264	410	—	—	—	7,674	410
Equities	$27,728	$ 3,484	$2,040	$—	$ —	$33,252	$ 3,484
Other invested assets							
Derivatives, net	$3,911	$ (6,084)	$121	$1,105	$ —	$(947)	$ (349)
Notes and loan receivables and notes securitization	34,902	1,867	14,598	(3,586)	—	47,781	1,867
Annuities and residuals	46,882	506	—	(20,449)	—	26,939	481
Private equities	1,404	(3,811)	24,285	—	—	21,878	(3,811)
Other invested assets	$87,099	$ (7,522)	$39,004	$(22,930)	$ —	$95,651	$ (1,812)
Funds held – directly managed							
U.S. states, territories and municipalities	$345	$ (47)	$—	$—	$ —	$298	$ (47)
Other invested assets	17,976	(1,653)	—	(757)	—	15,566	(589)
Funds held – directly managed	$18,321	$ (1,700)	$—	$(757)	$ —	$15,864	$ (636)
Total	$790,421	$ (11,964)	$344,357	$(135,532)	$ —	$987,282	$ (12,850)

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

(2) Settlements and sales of asset-backed securities, derivatives and annuities and residuals include sales of $13.7 million, $1.4 million and $6.3 million, respectively.

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

September 30, 2014	Fair value	Valuation techniques	Unobservable inputs	Range (Weighted average)
Fixed maturities				
U.S. states, territories and municipalities	$130,743	Discounted cash flow	Credit spreads	2.4% – 10.0% (4.7%)
Asset-backed securities – other	458,175	Discounted cash flow	Credit spreads	4.0% – 12.0% (6.9%)
Equities				
Finance	13,582	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	-1.4% (-1.4%)
Finance	5,554	Profitability analysis	Projected return on equity	14.0% (14.0%)
Communications	1,966	Weighted market comparables	Adjusted earnings multiple	9.4 (9.4)
			Comparable return	-10.6% (-10.6%)
Technology	7,318	Weighted market comparables	Revenue multiple	1.4 (1.4)
			Adjusted earnings multiple	8.3 (8.3)
Other invested assets				
Total return swaps	(1,115)	Discounted cash flow	Credit spreads	3.5% – 18.5% (14.3%)
Notes and loan receivables	9,589	Discounted cash flow	Credit spreads	6.7% (6.7%)
Notes and loan receivables	14,879	Discounted cash flow	Credit spreads	17.5% (17.5%)
			Gross revenue/fair value	1.3 – 1.6 (1.6)
Notes securitization	20,928	Discounted cash flow	Credit spreads	3.5% – 6.6% (6.3%)
Annuities and residuals	14,880	Discounted cash flow	Credit spreads	5.3% – 8.1% (7.0%)
			Prepayment speed	0% – 15.0% (4.8%)
			Constant default rate	0.3% – 23.0% (7.6%)
Private equity – direct	9,582	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%)
Private equity funds	14,422	Lag reported market value	Net asset value, as reported	100.0% (100.0%)
			Market adjustments	-4.6% – 1.9% (-2.3%)
Private equity – other	29,015	Discounted cash flow	Effective yield	5.8% (5.8%)
Funds held – directly managed				
Other invested assets	14,553	Lag reported market value	Net asset value, as reported	100.0% (100.0%)
			Market adjustments	-12.9% – 0% (-12.1%)

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%)
Private equity funds	8,993	Lag reported market value	Net asset value, as reported	100.0% (100.0%)
			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.

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

	For the three months ended		For the nine months ended	
	September 30, 2014	September 30, 2013	September 30, 2014	September 30, 2013
Fixed maturities and short-term investments	$(75,537)	$10,259	$167,696	$(457,168)
Equities	(31,093)	(891)	(14,447)	(8,540)
Other invested assets	(3,497)	3,021	60	(4,047)
Funds held – directly managed	(540)	(907)	937	(22,322)
Total	$(110,667)	$11,482	$154,246	$(492,077)

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 (losses) gains.

The following methods and assumptions were used by the Company in estimating the fair value of each class of financial instrument recorded in the 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. A significant increase (decrease) 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 increases (decreases) 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, short-term investments and other invested assets which are fair valued on a basis consistent with the methods described above. Substantially all fixed maturities and short-term investments within the funds held – directly managed account are 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. A significant increase (decrease) 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 September 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:

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- 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 September 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 September 30, 2014 and December 31, 2013.

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

	September 30, 2014		December 31, 2013	
	Carrying Value	Fair Value	Carrying Value	Fair Value
Debt related to senior notes(1)	$750,000	$868,702	$750,000	$844,331
Debt related to capital efficient notes(2)	63,384	63,231	63,384	61,094

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

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

At September 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 September 30, 2014 and December 31, 2013 were as follows (in thousands of U.S. dollars):

September 30, 2014	Asset derivatives at fair value	Liability derivatives at fair value	Net derivatives Net notional exposure	Net derivatives Fair value
Foreign exchange forward contracts	$8,456	$(7,904)	$2,441,173	$552
Foreign currency option contracts	901	(1,682)	86,692	(781)
Futures contracts	3,723	(37)	2,677,157	3,686
Insurance-linked securities (1)	—	(375)	181,238	(375)
Total return swaps	744	(1,859)	42,569	(1,115)
Interest rate swaps (2)	—	(10,200)	201,659	(10,200)
TBAs	—	(508)	176,015	(508)
Total derivatives	$13,824	$(22,565)		$(8,741)

December 31, 2013	Asset derivatives at fair value	Liability derivatives at fair value	Net derivatives Net notional exposure	Net derivatives Fair value
Foreign exchange forward contracts	$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 September 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.

(2) The Company enters into interest rate swaps to mitigate notional exposures on certain total return swaps and 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 September 30, 2014 and December 31, 2013 is recorded in Other invested assets in the Company's Condensed Consolidated Balance Sheets. At September 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 nine months ended September 30, 2014 and 2013 were as follows (in thousands of U.S. dollars):

	For the three months ended		For the nine months ended	
	September 30, 2014	September 30, 2013	September 30, 2014	September 30, 2013
Foreign exchange forward contracts	$20,721	$17	$29,613	$(36,457)
Foreign currency option contracts	(721)	(799)	427	(4,639)
Total included in net foreign exchange gains and losses	$20,000	$(782)	$30,040	$(41,096)
Futures contracts	$5,895	$(30,233)	$(44,606)	$55,143
Credit default swaps (protection purchased)	—	(6)	(3)	(126)
Credit default swaps (assumed risks)	—	7	—	122
Insurance-linked securities	(50)	(110)	206	(660)
Total return swaps	(1,213)	(1,762)	(595)	(5,421)
Interest rate swaps	(1,055)	240	(9,788)	3,416
TBAs	273	3,858	8,387	(5,839)
Total included in net realized and unrealized investment gains and losses	$3,850	$(28,006)	$(46,399)	$46,635
Total derivatives	$23,850	$(28,788)	$(16,359)	$5,539

Offsetting of Derivatives

The gross and net fair values of derivatives that are subject to offsetting in the Condensed Consolidated Balance Sheets at September 30, 2014 and December 31, 2013 were as follows (in thousands of U.S. dollars):

				Gross amounts not offset in the balance sheet		
September 30, 2014	Gross amounts recognized [(1)]	Gross amounts offset in the balance sheet	Net amounts of assets/liabilities presented in the balance sheet	Financial instruments	Cash collateral received/pledged	Net amount
Total derivative assets	$13,824	$—	$ 13,824	$(344)	$ (6,964)	$6,516
Total derivative liabilities	$(22,565)	$—	$ (22,565)	$344	$ 1,380	$(20,841)
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 per Share

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

	For the three months ended		For the nine months ended	
	September 30, 2014	September 30, 2013	September 30, 2014	September 30, 2013
Numerator:				