

PARTNERRE LTD
Form 10-Q
May 04, 2015

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 MARCH 31, 2015
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 April 27, 2015 was 47,734,606.

PartnerRe Ltd.
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PART I—FINANCIAL INFORMATION

Item 1. Financial Statements

REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

To the Board of Directors and Shareholders of PartnerRe Ltd.

We have reviewed the accompanying condensed consolidated balance sheet of PartnerRe Ltd. and subsidiaries (the “Company”) as of March 31, 2015, and the related condensed consolidated statements of operations and comprehensive income, shareholders’ equity and cash flows for the three-month periods ended March 31, 2015 and 2014. 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, 2014, and the related consolidated statements of operations and comprehensive income, shareholders’ equity, and of cash flows for the year then ended (not presented herein); and in our report dated February 26, 2015, 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, 2014 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

May 4, 2015

PartnerRe Ltd.

Condensed Consolidated Balance Sheets

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

	March 31, 2015 (Unaudited)	December 31, 2014 (Audited)
Assets		
Investments:		
Fixed maturities, at fair value (amortized cost: 2015, \$12,920,945; 2014, \$13,489,633)	\$13,412,011	\$13,918,745
Short-term investments, at fair value (amortized cost: 2015, \$20,054; 2014, \$25,699)	20,055	25,678
Equities, at fair value (cost: 2015, \$1,115,408; 2014, \$843,429)	1,320,284	1,056,514
Other invested assets	286,596	298,827
Total investments	15,038,946	15,299,764
Funds held – directly managed (cost: 2015, \$581,850; 2014, \$600,379)	592,609	608,853
Cash and cash equivalents	1,413,799	1,313,468
Accrued investment income	150,255	158,737
Reinsurance balances receivable	2,899,821	2,454,850
Reinsurance recoverable on paid and unpaid losses	290,018	246,158
Funds held by reinsured companies	659,058	765,905
Deferred acquisition costs	706,779	661,186
Deposit assets	75,692	92,973
Net tax assets	10,600	6,876
Goodwill	456,380	456,380
Intangible assets	152,836	159,604
Other assets	41,802	45,603
Total assets	\$22,488,595	\$22,270,357
Liabilities		
Unpaid losses and loss expenses	\$9,401,397	\$9,745,806
Policy benefits for life and annuity contracts	1,996,519	2,050,107
Unearned premiums	2,159,446	1,750,607
Other reinsurance balances payable	188,941	182,395
Deposit liabilities	52,638	70,325
Net tax liabilities	275,700	240,989
Accounts payable, accrued expenses and other	338,137	304,728
Debt related to senior notes	750,000	750,000
Debt related to capital efficient notes	70,989	70,989
Total liabilities	15,233,767	15,165,946
Shareholders' Equity		
Common shares (par value \$1.00; issued: 2015 and 2014, 87,237,220 shares)	87,237	87,237
Preferred shares (par value \$1.00; issued and outstanding: 2015 and 2014, 34,150,000 shares; aggregate liquidation value: 2015 and 2014, \$853,750)	34,150	34,150
Additional paid-in capital	3,959,465	3,949,665
Accumulated other comprehensive loss	(37,240)	(34,083)
Retained earnings	6,442,442	6,270,811
	(3,288,909)	(3,258,870)

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Common shares held in treasury, at cost (2015, 39,572,572 shares; 2014, 39,400,936 shares)

Total shareholders' equity attributable to PartnerRe Ltd.	7,197,145	7,048,910
Noncontrolling interests	57,683	55,501
Total shareholders' equity	7,254,828	7,104,411
Total liabilities and shareholders' equity	\$22,488,595	\$22,270,357

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	
	March 31, 2015	March 31, 2014
Revenues		
Gross premiums written	\$ 1,748,933	\$ 1,871,740
Net premiums written	\$ 1,653,215	\$ 1,738,494
Increase in unearned premiums	(418,493)	(484,712)
Net premiums earned	1,234,722	1,253,782
Net investment income	104,631	116,867
Net realized and unrealized investment gains	115,645	142,172
Other income	4,292	404
Total revenues	1,459,290	1,513,225
Expenses		
Losses and loss expenses and life policy benefits	721,281	749,457
Acquisition costs	275,791	264,608
Other expenses	124,750	111,462
Interest expense	12,245	12,238
Amortization of intangible assets	6,768	7,002
Net foreign exchange gains	(13,147)	(670)
Total expenses	1,127,688	1,144,097
Income before taxes and interest in (losses) earnings of equity method investments	331,602	369,128
Income tax expense	79,665	62,305
Interest in (losses) earnings of equity method investments	(3,838)	6,064
Net income	248,099	312,887
Net income attributable to noncontrolling interests	(2,182)	(3,044)
Net income attributable to PartnerRe Ltd.	245,917	309,843
Preferred dividends	14,184	14,184
Net income attributable to PartnerRe Ltd. common shareholders	\$ 231,733	\$ 295,659
Comprehensive income		
Net income attributable to PartnerRe Ltd.	\$ 245,917	\$ 309,843
Change in currency translation adjustment	(2,504)	(15,223)
Change in unfunded pension obligation, net of tax	(436)	(1)
Change in unrealized losses on investments, net of tax	(217)	(225)
Total other comprehensive loss, net of tax	(3,157)	(15,449)
Comprehensive income attributable to PartnerRe Ltd.	\$ 242,760	\$ 294,394
Per share data attributable to PartnerRe Ltd. common shareholders		
Net income per common share:		
Basic net income	\$ 4.88	\$ 5.72
Diluted net income	\$ 4.76	\$ 5.61
Weighted average number of common shares outstanding	47,525,344	51,652,177
	48,710,228	52,727,573

Weighted average number of common shares and common share equivalents
outstanding

Dividends declared per common share

\$0.70

\$0.67

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 three months ended	
	March 31, 2015	March 31, 2014
Common shares		
Balance at beginning of period	\$87,237	\$86,657
Issuance of common shares	—	222
Balance at end of period	87,237	86,879
Preferred shares		
Balance at beginning and end of period	34,150	34,150
Additional paid-in capital		
Balance at beginning of period	3,949,665	3,901,627
Stock compensation expense, net of taxes paid	9,800	4,619
Issuance of common shares	—	1,101
Balance at end of period	3,959,465	3,907,347
Accumulated other comprehensive loss		
Balance at beginning of period	(34,083	) (12,238
Currency translation adjustment		
Balance at beginning of period	(7,915	) 977
Change in foreign currency translation adjustment	(5,063	) (15,223
Change in net unrealized gain on designated net investment hedges	2,559	—
Balance at end of period	(10,419	) (14,246
Unfunded pension obligation		
Balance at beginning of period	(29,576	) (17,509
Change in unfunded pension obligation, net of tax	(436	) (1
Balance at end of period (net of tax: 2015, \$8,432; 2014, \$5,023)	(30,012	) (17,510
Unrealized gain on investments		
Balance at beginning of period	3,408	4,294
Change in unrealized losses on investments, net of tax	(217	) (225
Balance at end of period (net of tax: 2015 and 2014: \$nil)	3,191	4,069
Balance at end of period	(37,240	) (27,687
Retained earnings		
Balance at beginning of period	6,270,811	5,406,797
Net income	248,099	312,887
Net income attributable to noncontrolling interests	(2,182	) (3,044
Reissuance of common shares	(26,917) —
Dividends on common shares	(33,185	) (34,588
Dividends on preferred shares	(14,184	) (14,184
Balance at end of period	6,442,442	5,667,868
Common shares held in treasury		
Balance at beginning of period	(3,258,870	) (2,707,461
Repurchase of common shares	(59,266) (180,168
Reissuance of common shares	29,227	—

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Balance at end of period	(3,288,909) (2,887,629)
Total shareholders' equity attributable to PartnerRe Ltd.	\$7,197,145	\$6,780,928	
Noncontrolling interests	57,683	59,671	
Total shareholders' equity	\$7,254,828	\$6,840,599	
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 three months ended	
	March 31, 2015	March 31, 2014
Cash flows from operating activities		
Net income	\$248,099	\$312,887
Adjustments to reconcile net income to net cash provided by operating activities:		
Amortization of net premium on investments	29,911	29,366
Amortization of intangible assets	6,768	7,002
Net realized and unrealized investment gains	(115,645	) (142,172
Changes in:		
Reinsurance balances, net	(572,301	) (581,275
Reinsurance recoverable on paid and unpaid losses, net of ceded premiums payable	45,691	86,002
Funds held by reinsured companies and funds held – directly managed	71,350	17,627
Deferred acquisition costs	(76,800	) (79,315
Net tax assets and liabilities	37,445	(33,973
Unpaid losses and loss expenses including life policy benefits	80,728	13,732
Unearned premiums	418,493	484,712
Other net changes in operating assets and liabilities	(34,992	) (35,852
Net cash provided by operating activities	138,747	78,741
Cash flows from investing activities		
Sales of fixed maturities	2,495,633	1,734,246
Redemptions of fixed maturities	161,229	180,311
Purchases of fixed maturities	(2,293,577	) (1,963,428
Sales and redemptions of short-term investments	12,692	15,830
Purchases of short-term investments	(7,391	) (31,141
Sales of equities	120,973	9,094
Purchases of equities	(374,211	) (29,421
Other, net	(573	) 13,295
Net cash provided by (used in) investing activities	114,775	(71,214
Cash flows from financing activities		
Dividends paid to common and preferred shareholders	(47,369	) (48,772
Repurchase of common shares	(71,376	) (180,383
Reissuance of treasury shares and issuance of common shares, net of taxes paid	(4,084	) (2,581
Net cash used in financing activities	(122,829	) (231,736
Effect of foreign exchange rate changes on cash	(30,362	) (3,239
Increase (decrease) in cash and cash equivalents	100,331	(227,448
Cash and cash equivalents—beginning of period	1,313,468	1,496,485
Cash and cash equivalents—end of period	\$1,413,799	\$1,269,037
Supplemental cash flow information:		
Taxes paid	\$42,257	\$95,871

Interest paid

\$—

\$—

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., Partner Reinsurance Europe SE, Partner Reinsurance Company of the U.S. and, effective April 1, 2015, Partner Reinsurance Asia Pte. Ltd (PartnerRe Asia). 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.

In January 2015, the Company announced that PartnerRe Asia was licensed by the Monetary Authority of Singapore (MAS) to operate as a non-life and life reinsurer in Singapore. As of April 1, 2015, PartnerRe Asia became the principal reinsurance carrier for the Company's business underwritten in the Asia Pacific region. The establishment of PartnerRe Asia will enable the Company's Asian reinsurance operations to be consolidated into one regional, well-capitalized entity and will support its growing underwriting presence in the region.

On January 25, 2015, the Company entered into an Agreement and Plan of Amalgamation (the Amalgamation Agreement) with Axis Capital Holdings Limited, a Bermuda exempted company (AXIS), pursuant to which the Company would amalgamate with AXIS (Amalgamation), and the two companies would continue as a single Bermuda exempted company (Amalgamated Company). The transaction, which is structured as a merger of equals, has been unanimously approved by the Boards of Directors of both companies. Under the terms of the Amalgamation Agreement, the Company's shareholders would receive 2.18 shares of the Amalgamated Company's common shares for each share of the Company's common shares they own and AXIS' shareholders would receive one share of the Amalgamated Company's common shares for each share of AXIS' common shares they own. Upon completion of the transaction, shareholders of the Company and shareholders of AXIS would own approximately 51.5% and 48.5% of the Amalgamated Company, respectively. The Amalgamated Company's headquarters would be located in Bermuda. The transaction is subject to approval by the shareholders of both companies, regulatory clearance and other customary closing conditions. Both companies will continue to operate as two independent entities until the closing of the transaction and such conditions are met.

On May 3, 2015, the Company and AXIS amended the Amalgamation Agreement (the Amendment to the Amalgamation Agreement) to allow the Company to pay a one-time special dividend of \$11.50 per share to PartnerRe common shareholders in connection with the closing of the Amalgamation. See Notes 8 (b) and 10 for further details.

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.

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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, 2014.

3. Recent Accounting Pronouncements

In February 2015, the FASB issued updated guidance on the consolidation of voting interest entities and variable interest entities. The guidance is effective for interim and annual periods beginning after December 15, 2015, with early adoption permitted. The Company is currently evaluating the impact of the adoption of this guidance on its Consolidated Financial Statements and 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; asset-backed securities; mortgage-backed securities; short-term investments; certain equities traded on foreign exchanges; certain fixed income mutual funds; foreign exchange forward contracts and 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; 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 March 31, 2015 and December 31, 2014, 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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March 31, 2015	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	\$ —	\$ 2,299,063	\$ —	\$2,299,063
U.S. states, territories and municipalities	—	473,388	147,683	621,071
Non-U.S. sovereign government, supranational and government related	—	1,557,126	—	1,557,126
Corporate	—	5,494,967	—	5,494,967
Asset-backed securities	—	670,115	451,583	1,121,698
Residential mortgage-backed securities	—	2,263,463	—	2,263,463
Other mortgage-backed securities	—	54,623	—	54,623
Fixed maturities	\$ —	\$ 12,812,745	\$ 599,266	\$13,412,011
Short-term investments	\$ —	\$ 20,055	\$ —	\$20,055
Equities				
Real estate investment trusts	\$ 177,130	\$ —	\$ —	\$177,130
Insurance	123,839	4,682	—	128,521
Consumer noncyclical	113,740	—	—	113,740
Energy	108,648	—	—	108,648
Finance	75,760	8,086	20,532	104,378
Technology	56,709	—	8,602	65,311
Consumer cyclical	59,747	—	—	59,747
Industrials	58,435	—	—	58,435
Communications	50,665	—	2,723	53,388
Utilities	28,946	—	—	28,946
Other	21,959	—	—	21,959
Mutual funds and exchange traded funds	142,104	—	257,977	400,081
Equities	\$ 1,017,682	\$ 12,768	\$ 289,834	\$1,320,284
Other invested assets				
Derivative assets				
Foreign exchange forward contracts	\$ —	\$ 15,414	\$ —	\$15,414
Foreign currency option contracts	—	1,848	—	1,848
Insurance-linked securities	—	—	23	23
Total return swaps	—	—	1,061	1,061
TBAs	—	1,409	—	1,409
Other				
Notes and loan receivables and notes securitization	—	—	51,103	51,103
Annuities and residuals	—	—	12,155	12,155
Private equities	—	—	64,642	64,642
Derivative liabilities				
Foreign exchange forward contracts	—	(7,623	) —	(7,623)
Futures contracts	(21,382	) —	—	(21,382)
Insurance-linked securities	—	—	(343	) (343)
Total return swaps	—	—	(2,118	) (2,118)
Interest rate swaps	—	(21,074	) —	(21,074)
Other invested assets	\$ (21,382) \$ (10,026) \$ 126,523	\$95,115
Funds held – directly managed	\$ —	\$ 155,341	\$ —	\$155,341

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U.S. government and government sponsored enterprises				
U.S. states, territories and municipalities	—	—	132	132
Non-U.S. sovereign government, supranational and government related	—	111,021	—	111,021
Corporate	—	145,062	—	145,062
Short-term investments	—	10,984	—	10,984
Other invested assets	—	—	12,008	12,008
Funds held – directly managed	\$ —	\$ 422,408	\$ 12,140	\$ 434,548
Total	\$ 996,300	\$ 13,257,950	\$ 1,027,763	\$ 15,282,013

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December 31, 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	\$ —	\$ 2,315,422	\$ —	\$2,315,422
U.S. states, territories and municipalities	—	380,875	149,728	530,603
Non-U.S. sovereign government, supranational and government related	—	1,976,202	—	1,976,202
Corporate	—	5,604,160	—	5,604,160
Asset-backed securities	—	681,502	449,918	1,131,420
Residential mortgage-backed securities	—	2,306,476	—	2,306,476
Other mortgage-backed securities	—	54,462	—	54,462
Fixed maturities	\$ —	\$ 13,319,099	\$ 599,646	\$ 13,918,745
Short-term investments	\$ —	\$ 25,678	\$ —	\$25,678
Equities				
Real estate investment trusts	\$ 213,770	\$ —	\$ —	\$213,770
Insurance	140,916	4,521	—	145,437
Energy	123,978	—	—	123,978
Consumer noncyclical	100,134	—	—	100,134
Finance	70,621	7,354	20,353	98,328
Technology	52,707	—	8,555	61,262
Communications	51,829	—	2,640	54,469
Industrials	49,983	—	—	49,983
Consumer cyclical	39,002	—	—	39,002
Utilities	31,748	—	—	31,748
Other	11,571	—	—	11,571
Mutual funds and exchange traded funds	118,246	—	8,586	126,832
Equities	\$ 1,004,505	\$ 11,875	\$ 40,134	\$1,056,514
Other invested assets				
Derivative assets				
Foreign exchange forward contracts	\$ —	\$ 20,033	\$ —	\$20,033
Futures contracts	846	—	—	846
Insurance-linked securities	—	—	3	3
Total return swaps	—	—	485	485
TBAs	—	154	—	154
Other				
Notes and loan receivables and notes securitization	—	—	44,817	44,817
Annuities and residuals	—	—	13,243	13,243
Private equities	—	—	59,872	59,872
Derivative liabilities				
Foreign exchange forward contracts	—	(7,446	) —	(7,446)
Foreign currency option contracts	—	(1,196	) —	(1,196)
Futures contracts	(467	) —	—	(467)
Insurance-linked securities	—	—	(339	) (339)
Total return swaps	—	—	(2,007	) (2,007)
Interest rate swaps	—	(16,282) —	(16,282)
TBAs	—	(240) —	(240)
Other invested assets	\$ 379	\$ (4,977) \$ 116,074	\$ 111,476

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Funds held – directly managed				
U.S. government and government sponsored enterprises	\$ —	\$ 153,483	\$ —	\$153,483
U.S. states, territories and municipalities	—	—	132	132
Non-U.S. sovereign government, supranational and government related	—	128,233	—	128,233
Corporate	—	177,347	—	177,347
Other invested assets	—	—	13,398	13,398
Funds held – directly managed	\$ —	\$ 459,063	\$ 13,530	\$472,593
Total	\$ 1,004,884	\$ 13,810,738	\$ 769,384	\$15,585,006

At March 31, 2015 and December 31, 2014, the aggregate carrying amounts of items included in Other invested assets that the Company did not measure at fair value were \$191.5 million and \$187.3 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 \$434.5 million and \$472.6 million at March 31, 2015 and December 31, 2014, respectively, the funds held – directly managed account also included cash and cash equivalents, carried at fair value, of \$53.9 million and \$42.3 million, respectively, and accrued investment income of \$4.9 million and \$5.7 million, respectively. At March 31, 2015 and December 31, 2014, the aggregate carrying amounts of items included in the funds held – directly managed account that the Company did not measure at fair value were \$99.3 million and \$88.3 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, 2014).

At March 31, 2015 and December 31, 2014, 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 ended March 31, 2015 and 2014, there were no transfers between Level 1 and Level 2. Disclosures about the fair value of financial instruments that the Company does not measure at fair value exclude insurance contracts and certain other financial instruments. At March 31, 2015 and December 31, 2014, 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 March 31, 2015 and 2014, were as follows (in thousands of U.S. dollars):

For the three months ended March 31, 2015	Balance at beginning of period	Realized and unrealized investment (losses) gains included in net income	Purchases and issuances (1)	Settlements and sales (1)	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	\$149,728	\$ (1,861)	\$—	\$ (184)	\$—	\$147,683	\$ (1,863)
Asset-backed securities	449,918	1,261	43,422	(43,018)	—	451,583	1,293
Fixed maturities	\$599,646	\$ (600)	\$43,422	\$ (43,202)	\$—	\$599,266	\$ (570)
Equities							
Finance	\$20,353	\$ 179	\$—	\$—	\$—	\$20,532	\$ 179
Technology	8,555	47	—	—	—	8,602	47
Communications	2,640	83	—	—	—	2,723	83
Mutual funds and exchange traded funds	8,586	51	249,340	—	—	257,977	51
Equities	\$40,134	\$ 360	\$249,340	\$—	\$—	\$289,834	\$ 360
Other invested assets							
Derivatives, net	\$(1,858)	\$ 481	\$—	\$—	\$—	\$(1,377)	\$ 481
Notes and loan receivables and notes securitization	44,817	1,104	6,411	(1,229)	—	51,103	2,623
Annuities and residuals	13,243	231	—	(1,319)	—	12,155	231
Private equities	59,872	497	5,184	(911)	—	64,642	497
Other invested assets	\$116,074	\$ 2,313	\$11,595	\$ (3,459)	\$—	\$126,523	\$ 3,832
Funds held – directly managed							

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U.S. states, territories and municipalities	\$ 132	\$ —	\$ —	\$ —	\$ —	\$ 132	\$ —
Other invested assets	13,398	(1,390)	—	—	—	12,008	(1,390)
Funds held – directly managed	\$ 13,530	\$ (1,390)	\$ —	\$ —	\$ —	\$ 12,140	\$ (1,390)
Total	\$ 769,384	\$ 683	\$ 304,357	\$ (46,661)	\$ —	\$ 1,027,763	\$ 2,232

(1) There were no issuances or sales for the three months ended March 31, 2015.

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For the three months ended March 31, 2014	Balance at beginning of period	Realized and unrealized investment gains (losses) 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 gains (losses) relating to assets held at end of period
Fixed maturities							
U.S. states, territories and municipalities	\$ 108,380	\$ 892	\$ 4,265	\$ (70)	\$ —	\$ 113,467	\$ 890
Asset-backed securities	446,577	5,996	59,418	(64,290)	—	447,701	6,259
Fixed maturities	\$ 554,957	\$ 6,888	\$ 63,683	\$ (64,360)	\$ —	\$ 561,168	\$ 7,149
Equities							
Finance	\$ 20,207	\$ 2,499	\$ —	\$ —	\$ —	\$ 22,706	\$ 2,499
Communications	2,199	(88)	—	—	—	2,111	(88)
Technology	7,752	(352)	—	—	—	7,400	(352)
Mutual funds and exchange traded funds	7,887	166	—	—	—	8,053	166
Equities	\$ 38,045	\$ 2,225	\$ —	\$ —	\$ —	\$ 40,270	\$ 2,225
Other invested assets							
Derivatives, net	\$ (788)	\$ 466	\$ (720)	\$ —	\$ —	\$ (1,042)	\$ 466
Notes and loan receivables and notes securitization	41,446	600	720	(523)	—	42,243	600
Annuities and residuals	24,064	89	—	(5,208)	—	18,945	128
Private equities	39,131	433	5,066	(1,975)	—	42,655	401
Other invested assets	\$ 103,853	\$ 1,588	\$ 5,066	\$ (7,706)	\$ —	\$ 102,801	\$ 1,595
Funds held – directly managed							
U.S. states, territories and municipalities	\$ 286	\$ 15	\$ —	\$ —	\$ —	\$ 301	\$ 15
Other invested assets	15,165	(197)	255	—	—	15,223	(197)
Funds held – directly managed	\$ 15,451	\$ (182)	\$ 255	\$ —	\$ —	\$ 15,524	\$ (182)
Total	\$ 712,306	\$ 10,519	\$ 69,004	\$ (72,066)	\$ —	\$ 719,763	\$ 10,787

(1) Purchases and issuances of derivatives include issuances of \$0.7 million.

(2) There were no sales for the three months ended March 31, 2014.

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The significant unobservable inputs used in the valuation of financial instruments measured at fair value using Level 3 inputs at March 31, 2015 and December 31, 2014 were as follows (fair value in thousands of U.S. dollars):

March 31, 2015	Fair value	Valuation techniques	Unobservable inputs	Range (Weighted average)
Fixed maturities				
U.S. states, territories and municipalities	\$147,683	Discounted cash flow	Credit spreads	2.6% -10.5% (6.0%)
Asset-backed securities – other	451,583	Discounted cash flow	Credit spreads	4.0% – 12.0% (7.2%)
Equities				
Finance	14,748	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	5,784	Profitability analysis	Projected return on equity	14.0% (14.0%)
Technology	8,602	Weighted market comparables	Revenue multiple	1.6 (1.6)
			Adjusted earnings multiple	10.6 (10.6)
Communications	2,723	Weighted market comparables	Adjusted earnings multiple	9.4 (9.4)
			Comparable return	3.2% (3.2%)
Other invested assets				
Total return swaps	(1,057)	Discounted cash flow	Credit spreads	3.8% – 19.9% (14.6%)
Notes and loan receivables	11,607	Discounted cash flow	Credit spreads	6.1% - 10.6% (9.1%)
Notes and loan receivables	13,209	Discounted cash flow	Credit spreads	17.5% (17.5%)
			Gross revenue/fair value	1.4 – 1.6 (1.6)
Notes securitization	26,287	Discounted cash flow	Credit spreads	3.9% – 6.5% (6.4%)
Annuities and residuals	12,155	Discounted cash flow	Credit spreads	5.2% – 9.1% (7.8%)
			Prepayment speed	0% – 15.0% (3.6%)
			Constant default rate	0.3% – 17.5% (5.6%)
Private equity – direct	9,035	Discounted cash flow and weighted market comparables	Net income multiple	9.2 (9.2)
			Tangible book value multiple	2.0 (2.0)
			Recoverability of intangible assets	0% (0%)
Private equity funds	23,676	Reported market value	Net asset value, as reported	100.0% (100.0%)
			Market adjustments	-2.5% – 3.2% (0.0%)
Private equity – other	31,931	Discounted cash flow	Effective yield	5.8% (5.8%)
Funds held – directly managed				
Other invested assets	12,008	Reported market value	Net asset value, as reported	100.0% (100.0%)
			Market adjustments	-19.2% – 0% (-11.1%)

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December 31, 2014	Fair value	Valuation techniques	Unobservable inputs	Range (Weighted average)
Fixed maturities				
U.S. states, territories and municipalities	\$ 149,728	Discounted cash flow	Credit spreads	2.2% – 10.1% (4.6%)
Asset-backed securities – other	449,918	Discounted cash flow	Credit spreads	4.0% – 12.1% (7.1%)
Equities				
Finance				
Finance	14,561	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	7.3% (7.3%)
Finance	5,792	Profitability analysis	Projected return on equity	14.0% (14.0%)
Technology				
Technology	8,555	Weighted market comparables	Revenue multiple	1.6 (1.6)
			Adjusted earnings multiple	10.2 (10.2)
Communications				
Communications	2,640	Weighted market comparables	Adjusted earnings multiple	9.4 (9.4)
			Comparable return	-10.6% (-10.6%)
Other invested assets				
Total return swaps				
Total return swaps	(1,522)	Discounted cash flow	Credit spreads	3.6% – 19.3% (16.3%)
Notes and loan receivables				
Notes and loan receivables	8,068	Discounted cash flow	Credit spreads	12.6% (12.6%)
Notes and loan receivables	13,237	Discounted cash flow	Credit spreads	17.5% (17.5%)
			Gross revenue/fair value	1.5 – 1.7 (1.7)
Notes securitization	23,512	Discounted cash flow	Credit spreads	3.5% – 6.6% (6.4%)
Annuities and residuals				
Annuities and residuals	13,243	Discounted cash flow	Credit spreads	4.9% – 9.6% (7.8%)
			Prepayment speed	0% – 15.0% (4.3%)
			Constant default rate	0.3% – 17.5% (6.3%)
Private equity – direct				
Private equity – direct	8,536	Discounted cash flow and weighted market comparables	Net income multiple	9.0 (9.0)
			Tangible book value multiple	2.0 (2.0)
			Recoverability of intangible assets	0% (0%)
Private equity funds				
Private equity funds	18,494	Reported market value	Net asset value, as reported	100.0% (100.0%)
			Market adjustments	-7.6% – 11.0% (-1.6%)
Private equity – other				
Private equity – other	32,842	Discounted cash flow	Effective yield	5.8% (5.8%)
Funds held – directly managed				
Other invested assets				
Other invested assets	13,398	Reported market value	Net asset value, as reported	100.0% (100.0%)
			Market adjustments	-15.4% – 0% (-14.5%)

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) and certain derivatives.

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 ended March 31, 2015 and 2014 were as follows (in thousands of U.S. dollars):

	For the three months ended	
	March 31, 2015	March 31, 2014
Fixed maturities and short-term investments	\$76,971	\$119,799
Equities	(7,016	) 10,325
Other invested assets	1,833	1,042
Funds held – directly managed	2,540	736
Total	\$74,328	\$131,902

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.

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.

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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