PARTNERRE LTD
Form 10-Q
August 01, 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 JUNE 30, 2014
OR
¨ TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934
For the transition period from to .
Commission file number 1-14536

PartnerRe Ltd.
(Exact name of registrant as specified in its charter)

Bermuda	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 July 28, 2014 was 49,690,065.

PartnerRe Ltd.
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PART I—FINANCIAL INFORMATION

REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

To the Board of Directors and Shareholders of PartnerRe Ltd.

We have reviewed the accompanying condensed consolidated balance sheet of PartnerRe Ltd. and subsidiaries (the "Company") as of June 30, 2014, and the related condensed consolidated statements of operations and comprehensive income (loss) for the three-month and six-month periods ended June 30, 2014 and 2013, and of shareholders' equity, and of cash flows for the six-month periods ended June 30, 2014 and 2013. These condensed consolidated interim financial statements are the responsibility of the Company's management.

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

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

We have previously audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), the consolidated balance sheet of PartnerRe Ltd. and subsidiaries as of December 31, 2013, and the related consolidated statements of operations and comprehensive income (loss), shareholders' equity, and of cash flows for the year then ended (not presented herein); and in our report dated February 27, 2014, we expressed an unqualified opinion on those consolidated financial statements. In our opinion, the information set forth in the accompanying condensed consolidated balance sheet as of December 31, 2013 is fairly stated, in all material respects, in relation to the consolidated balance sheet from which it has been derived.

/s/ Deloitte Ltd.
Deloitte Ltd.

Hamilton, Bermuda
August 1, 2014

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

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

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

See accompanying Notes to Condensed Consolidated Financial Statements.

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

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

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

See accompanying Notes to Condensed Consolidated Financial Statements.

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

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

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

See accompanying Notes to Condensed Consolidated Financial Statements.

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

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

Cash and cash equivalents—end of period	$1,208,220	$1,261,540
Supplemental cash flow information:		
Taxes paid	$195,261	$112,671
Interest paid	24,630	24,630

See accompanying Notes to Condensed Consolidated Financial Statements.

PartnerRe Ltd.
Notes to Condensed Consolidated Financial Statements
(Unaudited)

1. Organization

PartnerRe Ltd. (PartnerRe or the Company) predominantly provides reinsurance and certain specialty insurance lines on a worldwide basis through its principal wholly-owned subsidiaries, including Partner Reinsurance Company Ltd. (PartnerRe Bermuda), Partner Reinsurance Europe SE and Partner Reinsurance Company of the U.S. Risks reinsured include, but are not limited to, property, casualty, motor, agriculture, aviation/space, catastrophe, credit/surety, engineering, energy, marine, specialty property, specialty casualty, multiline and other lines, mortality, longevity, accident and health and alternative risk products. The Company's alternative risk products include weather and credit protection to financial, industrial and service companies on a worldwide basis.

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

2. Significant Accounting Policies

The Company's Condensed Consolidated Financial Statements have been prepared in accordance with accounting principles generally accepted in the United States (U.S. GAAP) for interim financial information and with the instructions for Form 10-Q and Article 10 of Regulation S-X. The Condensed Consolidated Financial Statements include the accounts of the Company and its subsidiaries. Intercompany accounts and transactions have been eliminated.

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

- Unpaid losses and loss expenses;
- Policy benefits for life and annuity contracts;
- Gross and net premiums written and net premiums earned;
- Recoverability of deferred acquisition costs;
- Recoverability of deferred tax assets;
- Valuation of goodwill and intangible assets; and
- Valuation of certain assets and derivative financial instruments that are measured using significant unobservable inputs.

In the opinion of Management, all adjustments (which include normal recurring adjustments) necessary for a fair presentation of results for the interim periods have been made. As the Company's reinsurance operations are exposed to low-frequency, high-severity risk events, some of which are seasonal, results for certain interim periods may include unusually low loss experience, while results for other interim periods may include significant catastrophic losses. Consequently, the Company's results for interim periods are not necessarily indicative of results for the full year. These Condensed Consolidated Financial Statements should be read in conjunction with the Consolidated Financial Statements and notes thereto included in the Company's Annual Report on Form 10-K for the year ended December 31, 2013.

3. Recent Accounting Pronouncements

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

invest in such projects. The update modifies the conditions that an entity must meet to elect the effective yield or proportional amortization method to account for such investments. The guidance is effective for interim and annual periods beginning after December 15, 2014, with early adoption permitted. The Company does not expect the adoption of this guidance to have a significant impact on its Consolidated Financial Statements or disclosures.

In June 2014, the FASB issued updated guidance on the accounting for share-based payments when the terms of an award provide that a performance target could be achieved after the requisite service period. The guidance is effective for interim and annual periods beginning after December 15, 2015, with early adoption permitted. The Company does not expect the adoption of this guidance to have a significant impact on its Consolidated Financial Statements or disclosures.

4. Fair Value
(a) Fair Value of Financial Instrument Assets
The fair value hierarchy prioritizes the inputs to valuation techniques used to measure fair value by maximizing the use of observable inputs and minimizing the use of unobservable inputs by requiring that the most observable inputs be used when available. Observable inputs are inputs that market participants would use in pricing an asset or liability based on market data obtained from sources independent of the Company. Unobservable inputs are inputs that reflect the Company's assumptions about what market participants would use in pricing the asset or liability based on the best information available in the circumstances. The level in the hierarchy within which a given fair value measurement falls is determined based on the lowest level input that is significant to the measurement.
The Company determines the appropriate level in the hierarchy for each financial instrument that it measures at fair value. In determining fair value, the Company uses various valuation approaches, including market, income and cost approaches. The hierarchy is broken down into three levels based on the observability of inputs as follows:

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

The Company's financial instruments that it measures at fair value using Level 1 inputs generally include: equities and real estate investment trusts listed on a major exchange, exchange traded funds and exchange traded derivatives, including futures that are actively traded.

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

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

- Level 3 inputs—Unobservable inputs.

The Company's financial instruments that it measures at fair value using Level 3 inputs generally include: inactively traded fixed maturities including U.S. state, territory and municipal bonds; privately issued corporate securities; special purpose financing asset-backed bonds; unlisted equities; real estate and certain other mutual fund investments; inactively traded weather derivatives; notes and loan receivables, notes securitizations, annuities and residuals, private equities and longevity and other total return swaps.
The Company's policy is to recognize transfers between the hierarchy levels at the beginning of the period.
The Company's financial instruments measured at fair value include investments and the segregated investment portfolio underlying the funds held – directly managed account. At June 30, 2014 and December 31, 2013, the Company's financial instruments measured at fair value were classified between Levels 1, 2 and 3 as follows (in thousands of U.S. dollars):

June 30, 2014	Quoted prices in active markets for identical assets (Level 1)	Significant other observable inputs (Level 2)	Significant unobservable inputs (Level 3)	Total
Fixed maturities				
U.S. government and government sponsored enterprises	$ —	$ 1,855,443	$ —	$1,855,443
U.S. states, territories and municipalities	—	97,830	123,617	221,447
Non-U.S. sovereign government, supranational and government related	—	2,288,627	—	2,288,627
Corporate	—	5,980,652	—	5,980,652
Asset-backed securities	—	725,466	489,106	1,214,572
Residential mortgage-backed securities	—	2,394,941	—	2,394,941
Other mortgage-backed securities	—	51,088	—	51,088
Fixed maturities	$ —	$ 13,394,047	$ 612,723	$14,006,770
Short-term investments	$ —	$ 31,849	$ —	$31,849
Equities				
Real estate investment trusts	$ 224,501	$ —	$ —	$224,501
Energy	154,368	—	—	154,368
Finance	98,254	9,718	19,564	127,536
Insurance	122,864	—	—	122,864
Consumer noncyclical	100,022	—	—	100,022
Communications	78,556	—	2,067	80,623
Technology	52,429	—	7,645	60,074
Industrials	49,759	—	—	49,759
Consumer cyclical	41,279	—	—	41,279
Utilities	35,141	—	—	35,141
Other	19,845	—	7	19,852
Mutual funds and exchange traded funds	47,003	181,814	8,246	237,063
Equities	$ 1,024,021	$ 191,532	$ 37,529	$1,253,082
Other invested assets				
Derivative assets				
Foreign exchange forward contracts	$ —	$ 2,410	$ —	$2,410
Foreign currency option contracts	—	746	—	746
Futures contracts	2,706	—	—	2,706
Total return swaps	—	—	408	408
TBAs	—	1,728	—	1,728
Other				
Notes and loan receivables and notes securitization	—	—	38,603	38,603
Annuities and residuals	—	—	17,134	17,134
Private equities	—	—	54,928	54,928
Derivative liabilities				
Foreign exchange forward contracts	—	(4,171)	—	(4,171)
Futures contracts	(407)	—	—	(407)
Insurance-linked securities	—	—	(950)	(950)
Total return swaps	—	—	(310)	(310)
Interest rate swaps	—	(9,145)	—	(9,145)
Other invested assets	$ 2,299	$ (8,432)	$ 109,813	$103,680
Funds held – directly managed	$ —	$ 154,590	$ —	$154,590

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

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 June 30, 2014 and December 31, 2013, the aggregate carrying amounts of items included in Other invested assets that the Company did not measure at fair value were $189.4 million and $185.8 million, respectively, which related to the Company’s investments that are accounted for using the cost method of accounting or equity method of accounting.
In addition to the investments underlying the funds held – directly managed account held at fair value of $513.5 million and $561.3 million at June 30, 2014 and December 31, 2013, respectively, the funds held – directly managed account also included cash and cash equivalents, carried at fair value, of $41.0 million and $84.8 million, respectively, and accrued investment income of $6.2 million and $6.7 million, respectively. At June 30, 2014 and December 31, 2013, the aggregate carrying amounts of items included in the funds held – directly managed account that the Company did not measure at fair value were $109.0 million and $133.0 million, respectively, which primarily related to other assets and liabilities held by Colisée Re related to the underlying business, which are carried at cost (see Note 5 to the Consolidated Financial Statements included in the Company’s Annual Report on Form 10-K for the year ended December 31, 2013).
At June 30, 2014 and December 31, 2013, substantially all of the accrued investment income in the Condensed Consolidated Balance Sheets relate to the Company’s investments and the investments underlying the funds held – directly managed account for which the fair value option was elected.
During the three months and six months ended June 30, 2014 and 2013, there were no transfers between Level 1 and Level 2.
Disclosures about the fair value of financial instruments that the Company does not measure at fair value exclude insurance contracts and certain other financial instruments. At June 30, 2014 and December 31, 2013, the fair values of financial instrument assets recorded in the Condensed Consolidated Balance Sheets not described above, approximate their carrying values.
The reconciliations of the beginning and ending balances for all financial instruments measured at fair value using Level 3 inputs for the three months ended June 30, 2014 and 2013, were as follows (in thousands of U.S. dollars):

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

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

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

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

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

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

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

For the six months ended June 30, 2013	Balance at beginning of period	Realized and unrealized investment (losses) gains included in net income	Purchases and issuances (1)	Settlements and sales (2)	Net transfers into/(out of) Level 3	Balance at end of period	Change in unrealized investment (losses) gains relating to assets held at end of period
Fixed maturities							
U.S. states, territories and municipalities	$233,235	$ (13,858)	$—	$ (214)	$ —	$219,163	$ (13,858)
Corporate	100,904	(1,008)	—	—	—	99,896	(1,008)
Asset-backed securities	323,134	(4,322)	155,165	(47,689)	—	426,288	(4,140)
Fixed maturities	$657,273	$ (19,188)	$155,165	$ (47,903)	$ —	$745,347	$ (19,006)
Equities							
Finance	$13,477	$ (477)	$—	$—	$ —	$13,000	$ (477)
Technology	6,987	1,025	—	—	—	8,012	1,025
Communications	—	—	2,040	—	—	2,040	—
Mutual funds and exchange traded funds	7,264	285	—	—	—	7,549	285
Equities	$27,728	$ 833	$2,040	$—	$ —	$30,601	$ 833
Other invested assets							
Derivatives, net	$3,911	$ (4,199)	$121	$ 2,500	$ —	$2,333	$ (3,698)
Notes and loan receivables and notes securitization	34,902	(1,383)	13,350	(2,645)	—	44,224	(1,383)
Annuities and residuals	46,882	93	—	(16,420)	—	30,555	316
Private equities	1,404	(3,512)	23,208	—	—	21,100	(3,512)
Other invested assets	$87,099	$ (9,001)	$36,679	$ (16,565)	$ —	$98,212	$ (8,277)
Funds held – directly managed							
U.S. states, territories and municipalities	$345	$ (8)	$—	$—	$ —	$337	$ (8)
Other invested assets	17,976	(2,698)	—	(71)	—	15,207	(1,634)
Funds held – directly managed	$18,321	$ (2,706)	$—	$ (71)	$ —	$15,544	$ (1,642)
Total	$790,421	$ (30,062)	$193,884	$ (64,539)	$ —	$889,704	$ (28,092)

(1) Purchases and issuances of derivatives include issuances of $0.8 million.
(2) Settlement and sales of annuities and residuals include sales of $6.3 million.

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

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

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 six months ended June 30, 2014 and 2013 were as follows (in thousands of U.S. dollars):

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

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

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

Fixed maturities

- U.S. government and government sponsored enterprises—U.S. government and government sponsored enterprises securities consist primarily of bonds issued by the U.S. Treasury and corporate debt securities issued by government sponsored enterprises and federally owned or established corporations. These securities are generally priced by independent pricing services. The independent pricing services may use actual transaction prices for securities that have been actively traded. For securities that have not been actively traded, each pricing source has its own proprietary method to determine the fair value, which may incorporate option adjusted spreads (OAS), interest rate data and market news. The Company generally classifies these securities in Level 2.
- U.S. states, territories and municipalities—U.S. states, territories and municipalities securities consist primarily of bonds issued by U.S. states, territories and municipalities and the Federal Home Loan Mortgage Corporation. These securities are generally priced by independent pricing services using the techniques described for U.S. government and government sponsored enterprises above. The Company generally classifies these securities in Level 2. Certain of the bonds that are issued by municipal housing authorities and the Federal Home Loan Mortgage Corporation are not actively traded and are priced based on internal models using unobservable inputs. Accordingly, the Company classifies these securities in Level 3. The significant unobservable input used in the fair value measurement of these U.S. states, territories and municipalities securities classified as Level 3 is credit spreads. A significant increase (decrease) in credit spreads in isolation could result in a significantly lower (higher) fair value measurement.
- Non-U.S. sovereign government, supranational and government related—Non-U.S. sovereign government, supranational and government related securities consist primarily of bonds issued by non-U.S. national governments and their agencies, non-U.S. regional governments and supranational organizations. These securities are generally priced by independent pricing services using the techniques described for U.S. government and government sponsored enterprises above. The Company generally classifies these securities in Level 2.
- Corporate—Corporate securities consist primarily of bonds issued by U.S. and foreign corporations covering a variety of industries and issuing countries. These securities are generally priced by independent pricing services and brokers. The pricing provider incorporates information including credit spreads, interest rate data and market news into the valuation of each security. The Company generally classifies these securities in Level 2. When a corporate security is inactively traded or the valuation model uses unobservable inputs, the Company classifies the security in Level 3.
- Asset-backed securities—Asset-backed securities primarily consist of bonds issued by U.S. and foreign corporations that are predominantly backed by student loans, automobile loans, credit card receivables, equipment leases, and special purpose financing. With the exception of special purpose financing, these asset-backed securities are generally priced by independent pricing services and brokers. The pricing provider applies dealer quotes and other available trade information, prepayment speeds, yield curves and credit spreads to the valuation. The Company generally classifies these securities in Level 2. Special purpose financing securities are generally inactively traded and are priced based on

valuation models using unobservable inputs. The Company generally classifies these securities in Level 3. The significant unobservable input used in the fair value measurement of these asset-backed securities classified as Level 3 is credit spreads. Significant increases (decreases) in credit spreads in isolation could result in a significantly lower (higher) fair value measurement.

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

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

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

Short-term investments

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

Equities

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

of inactively traded common stocks also include a liquidity discount. A significant increase (decrease) in the liquidity discount could result in a significantly lower (higher) fair value measurement.

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

Other invested assets
The Company's exchange traded derivatives, such as futures, are generally classified as Level 1 as their fair values are quoted prices in active markets. The Company's foreign exchange forward contracts, foreign currency option contracts, credit default swaps, interest rate swaps and TBAs are generally classified as Level 2 within the fair value hierarchy and are priced by independent pricing services.
Included in the Company's Level 3 classification, in general, are certain inactively traded weather derivatives, notes and loan receivables, notes securitizations, annuities and residuals, private equities and longevity and other total return swaps. For Level 3 instruments, the Company will generally (i) receive a price based on a manager's or trustee's valuation for the asset; (ii) develop an internal discounted cash flow model to measure fair value; or (iii) use market return information, adjusted if necessary and weighted using management's judgment, from comparable selected publicly traded equity funds in a similar region and of a similar size. Where the Company receives prices from the manager or trustee, these prices are based on the manager's or trustee's estimate of fair value for the assets and are generally audited on an annual basis. Where the Company develops its own discounted cash flow models, the inputs will be specific to the asset in question, based on appropriate historical information, adjusted as necessary, and using appropriate discount rates. The significant unobservable inputs used in the fair value measurement of other invested assets classified as Level 3 include credit spreads, prepayment speeds, constant default rates, gross revenue to fair value ratios, net income multiples, effective yields, tangible book value multiples and other valuation ratios. Significant increases (decreases) in any of these inputs in isolation could result in a significantly lower (higher) fair value measurement. Significant unobservable inputs used in the fair value measurement of other invested assets classified as Level 3 also include an assessment of the recoverability of intangible assets and market return information, weighted using management's judgment, from comparable selected publicly traded companies in the same industry, in a similar region and of a similar size. Significant increase (decrease) in these inputs in isolation could result in a significantly higher (lower) fair value measurement. As part of the Company's modeling to determine the fair value of an investment, the Company considers counterparty credit risk as an input to the model, however, the majority of the Company's counterparties are investment grade rated institutions and the failure of any one counterparty would not have a significant impact on the Company's consolidated financial statements.
To validate prices, the Company will compare them to benchmarks, where appropriate, or to the business results generally within that asset class and specifically to those particular assets.
Funds held – directly managed
The segregated investment portfolio underlying the funds held – directly managed account is comprised of fixed maturities and other invested assets which are fair valued on a basis consistent with the methods described above. Substantially all fixed maturities and short-term investments within the funds held – directly managed account are classified as Level 2 within the fair value hierarchy.
The other invested assets within the segregated investment portfolio underlying the funds held – directly managed account, which are classified as Level 3 investments, are primarily real estate mutual fund investments carried at fair value. For the real estate mutual fund investments, the Company receives a price based on the real estate fund manager's valuation for the asset and further adjusts the price, if necessary, based on appropriate current information on the real estate market. Significant increases (decreases) to the adjustment to the real estate fund manager's valuation could result in a significantly lower (higher) fair value measurement.
To validate prices within the segregated investment portfolio underlying the funds held – directly managed account, the Company utilizes the methods described above.
(b) Fair Value of Financial Instrument Liabilities
At June 30, 2014 and December 31, 2013, the fair values of financial instrument liabilities recorded in the Condensed Consolidated Balance Sheets approximate their carrying values, with the exception of the debt related to senior notes (Senior Notes) and the debt related to capital efficient notes (CENts).
The methods and assumptions used by the Company in estimating the fair value of each class of financial instrument liability recorded in the Condensed Consolidated Balance Sheets for which the Company does not measure that instrument at fair value were as follows:

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

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

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

(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 June 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 June 30, 2014 and December 31, 2013.

At June 30, 2014 and December 31, 2013, the Company’s debt related to the Senior Notes and CENts was classified as Level 2 in the fair value hierarchy.

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

5. Derivatives

The Company’s derivative instruments are recorded in the Condensed Consolidated Balance Sheets at fair value, with changes in fair value recognized in either net foreign exchange gains and losses or net realized and unrealized investment gains and losses in the Condensed Consolidated Statements of Operations or accumulated other comprehensive income or loss in the Condensed Consolidated Balance Sheets, depending on the nature of the derivative instrument. The Company’s objectives for holding or issuing these derivatives are as follows:

Foreign Exchange Forward Contracts

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

Foreign Currency Option Contracts and Futures Contracts

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

Credit Default Swaps

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

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

Insurance-Linked Securities

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

Total Return and Interest Rate Swaps and Interest Rate Derivatives

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

To-Be-Announced Mortgage-Backed Securities

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

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

June 30, 2014	Asset derivatives at fair value	Liability derivatives at fair value	Net derivatives Net notional exposure	Fair value
Foreign exchange forward contracts	$2,410	$(4,171)	$2,130,049	$(1,761)
Foreign currency option contracts	746	—	85,547	746
Futures contracts	2,706	(407)	2,987,520	2,299
Insurance-linked securities (1)	—	(950)	170,969	(950)
Total return swaps	408	(310)	42,605	98
Interest rate swaps (2)	—	(9,145)	202,116	(9,145)
TBAs	1,728	—	154,210	1,728
Total derivatives	$7,998	$(14,983)		$(6,985)

December 31, 2013	Asset derivatives at fair value	Liability derivatives at fair value	Net derivatives Net notional exposure	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 June 30, 2014 and December 31, 2013, insurance-linked securities include a longevity swap for which the notional amount is not reflective of the overall potential exposure of the swap. As such, the Company has included the probable maximum loss under the swap within the net notional exposure as an approximation of the notional amount.

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

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

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

Offsetting of Derivatives

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

				Gross amounts not offset in the balance sheet		
June 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	$7,998	$—	$ 7,998	$(616)	$ —	$7,382
Total derivative liabilities	$(14,983)	$—	$ (14,983)	$616	$ —	$(14,367)
December 31, 2013						
Total derivative assets	$44,508	$—	$ 44,508	$(2)	$ —	$44,506
Total derivative liabilities	$(14,010)	$—	$ (14,010)	$2	$ 4,341	$(9,667)

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

6. Net Income (Loss) per Share

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

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

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

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

7. Noncontrolling Interests

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

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

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

losses and loss expenses. The assets of Lorenz Re can only be used to settle the liabilities of Lorenz Re and there is no recourse to the Company for any liabilities of Lorenz Re.

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

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

8. Commitments and Contingencies

(a) Concentration of Credit Risk

Financing receivables

Included in the Company's Other invested assets are certain notes receivable which meet the definition of financing receivables and are accounted for using the cost method of accounting. These notes receivable are collateralized by commercial or residential property. The Company utilizes a third party consultant to determine the initial investment criteria and to monitor the subsequent performance of the notes receivable. The process undertaken prior to the investment in these notes receivable includes an examination of the underlying collateral. The Company reviews its receivable positions on at least a quarterly basis using actual redemption experience. At June 30, 2014 and December 31, 2013, based on the latest available information, the Company recorded an allowance for credit losses related to these notes receivable of $2.2 million and $2.8 million, respectively.

The Company monitors the performance of the notes receivable based on the type of underlying collateral and by assigning a "performing" or a "non-performing" indicator of credit quality to each individual receivable. At June 30, 2014 the Company's notes receivable of $12.9 million were all performing and were collateralized by residential property and commercial property of $10.9 million and $2.0 million, respectively. At December 31, 2013, the Company's notes receivable of $24.5 million were all performing and were collateralized by residential property and commercial property of $19.8 million and $4.7 million, respectively.

The Company purchased $2.2 million and $2.3 million of financing receivables during the three months and six months ended June 30, 2014, respectively. The Company purchased $27.0 million and $27.2 million of financing receivables during the three months and six months ended June 30, 2013, respectively. There were no significant sales of financing receivables during the three months and six months ended June 30, 2014 and 2013, however, the outstanding balances were reduced by settlements of the underlying debt.

(b) Legal Proceedings

There has been no significant change in legal proceedings at June 30, 2014 compared to December 31, 2013. See Note 18(f) to the Consolidated Financial Statements included in the Company's Annual Report on Form 10-K for the year ended December 31, 2013.

(c) Other

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

9. Segment Information
The Company monitors the performance of its operations in three segments, Non-life, Life and Health and Corporate and Other as described in Note 21 to the Consolidated Financial Statements included in the Company's Annual Report on Form 10-K for the year ended December 31, 2013. The Non-life segment is further divided into four sub-segments: North America, Global (Non-U.S.) P&C, Global Specialty and Catastrophe.
The North America sub-segment includes agriculture, casualty, credit/surety, motor, multiline, property and other risks generally originating in the United States. The Global (Non-U.S.) P&C sub-segment includes casualty, motor and property business generally originating outside of the United States. The Global Specialty sub-segment is comprised of business that is generally considered to be specialized due to the sophisticated technical underwriting required to analyze risks, and is global in nature. This sub-segment consists of several lines of business for which the Company believes it has developed specialized knowledge and underwriting capabilities. These lines of business include agriculture, aviation/space, credit/surety, energy, engineering, marine, specialty casualty, specialty property and other lines. The Catastrophe sub-segment is comprised of the Company's catastrophe line of business. The Life and Health segment includes mortality, longevity and accident and health lines of business. Corporate and Other is comprised of the capital markets and investment related activities of the Company, including principal finance transactions, insurance-linked securities and strategic investments, and its corporate activities, including other operating expenses.
Since the Company does not manage its assets by segment, net investment income is not allocated to the Non-life segment. However, because of the interest-sensitive nature of some of the Company's Life and Health products, net investment income is considered in Management's assessment of the profitability of the Life and Health segment. The following items are not considered in evaluating the results of the Non-life and Life and Health segments: net realized and unrealized investment gains and losses, interest expense, amortization of intangible assets, net foreign exchange gains and losses, income tax expense or benefit and interest in earnings and losses of equity method investments. Segment results are shown before consideration of intercompany transactions.
Management measures results for the Non-life segment on the basis of the loss ratio, acquisition ratio, technical ratio, other operating expense ratio and combined ratio (all defined below). Management measures results for the Non-life sub-segments on the basis of the loss ratio, acquisition ratio and technical ratio. Management measures results for the Life and Health segment on the basis of the allocated underwriting result, which includes revenues from net premiums earned, other income or loss and allocated net investment income for Life and Health, and expenses from life policy benefits, acquisition costs and other operating expenses.
The segment results for the three months and six months ended June 30, 2014 and 2013, were as follows (in millions of U.S. dollars, except ratios):

Segment Information
For the three months ended June 30, 2014

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

(1) Allocated underwriting result is defined as net premiums earned, other income or loss and allocated net investment income less life policy benefits, acquisition costs and other operating expenses.
(2) Loss ratio is obtained by dividing losses and loss expenses by net premiums earned.
(3) Acquisition ratio is obtained by dividing acquisition costs by net premiums earned.
(4) Technical ratio is defined as the sum of the loss ratio and the acquisition ratio.
(5) Other operating expense ratio is obtained by dividing other operating expenses by net premiums earned.
(6) Combined ratio is defined as the sum of the technical ratio and the other operating expense ratio.

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Segment Information
For the three months ended June 30, 2013

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

Segment Information
For the six months ended June 30, 2014

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

Segment Information
For the six months ended June 30, 2013

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

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

Executive Overview

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

Successful risk management is the foundation of the Company’s value proposition, with diversification of risks at the core of its risk management strategy. The Company’s ability to succeed in the risk assumption and management business is dependent on its ability to accurately analyze and quantify risk, to understand volatility and how risks aggregate or correlate, and to establish the appropriate capital requirements and limits for the risks assumed. All risks, whether they are reinsurance related risks or capital market risks, are managed by the Company within an integrated framework of policies and processes to ensure the intelligent and consistent evaluation and valuation of risk, and to ultimately provide an appropriate return to shareholders. The Company’s Risk Management framework is discussed in Risk Management in Item 1 of Part I of the Company’s Annual Report on Form 10-K for the year ended December 31, 2013.

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

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

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

Key Factors Affecting Period over Period Comparability

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

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

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

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

Three months and six months ended June 30, 2013	North America	Global (Non-U.S.) P&C	Global Specialty	Catastrophe	Total Non-life segment	Life and Health segment	Corporate and Other	Total
Gross losses and loss expenses and life policy benefits	$8	$14	$23	$89	$134	$—	$—	$134
Reinsurance recoverable	—	—	—	(7)	(7)	—	—	(7)
Net losses and loss expenses and life policy benefits	$8	$14	$23	$82	$127	$—	$—	$127
Reinstatement premiums	—	—	—	(15)	(15)	—	—	(15)
Impact on technical result and pre-tax net (loss) income	$8	$14	$23	$67	$112	$—	$—	$112
Three months ended June 30, 2013								
Impact on the loss ratio	2.2%	8.3%	6.2%	111.8%	11.8%			
Impact on the technical ratio	2.2%	8.3%	6.2%	111.8%	11.8%			
Impact on the combined ratio					11.7%			
Six months ended June 30, 2013								
Impact on the loss ratio	1.2%	4.2%	3.2%	51.2%	6.1%			
Impact on the technical ratio	1.2%	4.2%	3.2%	51.2%	6.1%			
Impact on the combined ratio					6.0%			

Three months and six months ended June 30, 2013	Total[(1)]
European Floods	$57
Alberta Floods	55
Impact on pre-tax net (loss) income	$112

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

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

Overview of Net Income (Loss)

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

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

Three-month result

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

- an increase of $465 million in pre-tax net realized and unrealized investment gains, mainly as a result of decreases in U.S. and European longer-term risk-free interest rates in the three months ended June 30, 2014 compared to modest increases in risk-free interest rates in the same period of 2013;
- an increase of $68 million in the Non-life underwriting result, which was mainly driven by a decrease in large catastrophic losses and an increase in favorable prior year loss development, partially offset by a decrease in the current accident year technical result which was primarily related to the North America sub-segment and an increase in adverse prior quarter loss development; and
- a decrease of $38 million in other operating expenses included in Corporate and Other, primarily driven by the charge related to the restructuring in 2013, described above; partially offset by
- an increase of $153 million in income tax expense, primarily due to an increase in the Company’s pre-tax net income.

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

Six-month result

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

- an increase of $584 million in pre-tax net realized and unrealized investment gains, mainly as a result of modest decreases in U.S. and European longer-term risk-free interest rates in the six months ended June 30, 2014 compared to increases in risk-free interest rates in the same period of 2013;
- an increase of $61 million in the Non-life underwriting result, which was mainly driven by a decrease in large catastrophic losses, partially offset by an increase in the acquisition cost ratio in the North America and Global (Non-U.S.) P&C sub-segments and a modestly higher level of mid-sized loss activity in the Global Specialty sub-segment; and
- a decrease of $41 million in other operating expenses included in Corporate and Other, driven by the charge related to the restructuring in 2013; partially offset by
- an increase of $174 million in income tax expense, primarily due to an increase in the Company’s pre-tax net income.

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

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

Key Financial Measures

In addition to the Condensed Consolidated Balance Sheets and Condensed Consolidated Statements of Operations and Comprehensive Income (Loss), Management uses certain other key measures, some of which are non-GAAP financial measures within the meaning of Regulation G (see below), to evaluate its financial performance and the overall growth in value generated for the Company's common shareholders.

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

While annualized growth in Diluted Tangible Book Value per Share plus dividends is the Company's prime financial measure, Management also uses other key financial measures to monitor performance. At June 30, 2014 and December 31, 2013 and for the three months and six months ended June 30, 2014 and 2013 these were as follows:

	June 30, 2014		December 31, 2013
Diluted tangible book value per common share and common share equivalents outstanding(1)	$107.80		$98.49
Annualized growth in diluted tangible book value per common share and common share equivalents outstanding plus dividends (2)	21.6	%	

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

(1) Diluted tangible book value per common share and common share equivalents outstanding (Diluted Tangible Book Value per Share) is calculated using common shareholders' equity attributable to PartnerRe Ltd. (total shareholders' equity less noncontrolling interests and the aggregate liquidation value of preferred shares) less goodwill and

intangible assets, net of tax, divided by the weighted average number of common shares and common share equivalents outstanding (assuming exercise of all stock-based awards and other dilutive securities). The presentation of Diluted Tangible Book Value per Share is a non-GAAP financial measure within the meaning of Regulation G (see Comment on Non-GAAP Measures below) and is reconciled to the most directly comparable GAAP financial measure below.

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

(3) Operating earnings or loss attributable to PartnerRe Ltd. common shareholders (operating earnings or loss) is calculated as net income or loss available to PartnerRe Ltd. common shareholders excluding net realized and unrealized gains or losses on investments, net of tax (except where the Company has made a strategic investment in an insurance or reinsurance related investee), net foreign exchange gains or losses, net of tax, loss on redemption of preferred shares and the interest in earnings or losses of equity method investments, net of tax (except where the Company has made a strategic investment in an insurance or reinsurance related investee and where the Company does not control the investee's activities), and is

calculated after preferred dividends. Operating earnings or loss per common share and common share equivalent outstanding (diluted operating earnings or loss per share) are calculated using operating earnings or loss for the period divided by the weighted average number of common shares and common share equivalents outstanding. The presentation of operating earnings or loss and diluted operating earnings or loss per share are non-GAAP financial measures within the meaning of Regulation G (see Comment on Non-GAAP Measures below) and are reconciled to the most directly comparable GAAP financial measure below.

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

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

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

Diluted Tangible Book Value per Share at June 30, 2014 and December 31, 2013 and the calculation of the annualized growth in Diluted Tangible Book Value per Share plus dividends for the six months ended June 30, 2014 were as follows. As described above, this metric is a long-term performance measure, however, the below table shows the annualized total shareholder value creation for the current period in order for the shareholders to monitor performance.

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

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

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

The presentation of Diluted Tangible Book Value per Share is a non-GAAP financial measure within the meaning of Regulation G and should be considered in addition to, and not as a substitute for, measures of financial performance

prepared in accordance with GAAP (see Comment on Non-GAAP Measures). The reconciliation of Diluted Tangible Book Value per Share to the most directly comparable GAAP financial measure, diluted book value per common share and common share equivalents outstanding, at June 30, 2014 and December 31, 2013 was as follows (in millions of U.S. dollars):

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

(1) Diluted book value per common share and common share equivalents outstanding (Diluted Book Value per Share) is calculated using common shareholders' equity attributable to PartnerRe Ltd. (total shareholders' equity less noncontrolling

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interests and the aggregate liquidation value of preferred shares) divided by the weighted average number of common shares and common share equivalents outstanding (assuming exercise of all stock-based awards and other dilutive securities).

Operating earnings or loss attributable to PartnerRe Ltd. common shareholders (operating earnings or loss) and operating earnings or loss per common share and common share equivalent outstanding (diluted operating earnings or loss per share): Management uses operating earnings or loss and diluted operating earnings or loss per share to measure its financial performance as these measures focus on the underlying fundamentals of the Company's operations by excluding net realized and unrealized gains or losses on investments (except where the Company has made a strategic investment in an investee whose operations are insurance or reinsurance related and where the Company does not control the investee's activities), net foreign exchange gains or losses, loss on redemption of preferred shares and certain interest in earnings or losses of equity method investments (except where the Company has made a strategic investment in an investee whose operations are insurance or reinsurance related and where the Company does not control the investee's activities). Net realized and unrealized gains or losses on investments in any particular period are not indicative of the performance of, and distort trends in, the Company's business as they predominantly result from general economic and financial market conditions, and the timing of realized gains or losses on investments is largely opportunistic. Net foreign exchange gains or losses are not indicative of the performance of, and distort trends in, the Company's business as they predominantly result from general economic and foreign exchange market conditions. Loss on the redemption of preferred shares is not indicative of the performance of, and distorts trends in, the Company's business as it resulted from general economic and financial market conditions, and the timing of the loss on redemption was largely opportunistic. Interest in earnings or losses of equity method investments are also not indicative of the performance of, or trends in, the Company's business where the investee's operations are not insurance or reinsurance related and where the Company does not control the investee companies' activities. Management believes that the use of operating earnings or loss and diluted operating earnings or loss per share enables investors and other users of the Company's financial information to analyze its performance in a manner similar to how Management analyzes performance. Management also believes that these measures follow industry practice and, therefore, allow the users of financial information to compare the Company's performance with its industry peer group, and that the equity analysts and certain rating agencies which follow the Company, and the insurance industry as a whole, generally exclude these items from their analyses for the same reasons.

Operating earnings increased by $83 million, from $51 million in the three months ended June 30, 2013 to $134 million in the same period of 2014. The increase in operating earnings was primarily due to:

- an increase of $68 million in the Non-life underwriting result, which was mainly driven by a decrease in large catastrophic losses and an increase in favorable prior year loss development, partially offset by a decrease in the current accident year technical result which was primarily related to the North America sub-segment and an increase in adverse prior quarter loss development; and
- a decrease of $38 million in other operating expenses included in Corporate and Other, primarily driven by the charge related to the restructuring in 2013, described above; partially offset by
- an increase of $31 million in income tax expense on pre-tax operating earnings, driven by the increase in pre-tax operating earnings primarily due to the above two factors and by a higher distribution of the pre-tax operating earnings in the taxable jurisdictions relative to non-taxable jurisdictions.

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

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

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

- a decrease of $41 million in other operating expenses included in Corporate and Other, driven by the charge related to the restructuring in 2013; partially offset by
- an increase of $39 million in income tax expense on pre-tax operating earnings, driven primarily by the same reasons described in the three-month result.

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

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

Operating earnings or loss attributable to PartnerRe Ltd. common shareholders and diluted operating earnings or loss per share are non-GAAP financial measures within the meaning of Regulation G and should be considered in addition to, and not as a substitute for, measures of financial performance prepared in accordance with GAAP (see Comment on Non-GAAP Measures). The reconciliation of operating earnings and diluted operating earnings per share to the most directly comparable GAAP financial measure for the three months and six months ended June 30, 2014 and 2013 was as follows (in millions of U.S. dollars):

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

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

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

The presentation of Operating ROE is a non-GAAP financial measure within the meaning of Regulation G and should be considered in addition to, and not as a substitute for, measures of financial performance prepared in accordance with GAAP (see Comment on Non-GAAP Measures). The reconciliation of Operating ROE to the most directly comparable GAAP financial measure for the three months and six months ended June 30, 2014 and 2013 was as follows:

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

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

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

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

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

The Company uses the combined ratio to measure its overall underwriting profitability for its Non-life segment as a whole. Given the Company does not allocate operating expenses to its Non-life sub-segments, Management measures

the underwriting profitability of the Non-life sub-segments by using the technical result and technical ratio as described in Results by Segment below.

Other Key Financial Measures

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

Value per Share for the impact that changes in interest rates have on the time value of money that is embedded in the Company's Non-life loss reserves.

Comment on Non-GAAP Measures

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

Risk Management

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

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

The Company's results are primarily determined by how well the Company understands, prices and manages assumed risk. Management also believes that every organization faces numerous risks that could threaten the successful achievement of a company's goals and objectives. These include choice of strategy and markets, economic and business cycles, competition, changes in regulation, data quality and security, fraud, business interruption and management continuity; all factors which can be viewed as either strategic, financial, or operational risks that are common to any industry. See Risk Factors in Item 1A of Part I of the Company's Annual Report on Form 10-K for the year ended December 31, 2013.

For additional information related to the Company's risk management approach, see Business—Risk Management in Item 1 of Part I of the Company's Annual Report on Form 10-K for the year ended December 31, 2013.

Assumed Risks

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

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

The Company establishes key risk limits for any risk source deemed by Management to have the potential to cause operating losses or economic losses greater than the Company's risk appetite. The Risk and Finance Committee of the Board (Risk and Finance Committee) approves the key risk limits. Executive and Business and Support Unit Management may set additional specific and aggregate risk limits within the key risk limits approved by the Risk and Finance Committee. The actual level of risk is

dependent on current market conditions and the need for balance in the Company's portfolio of risks. On a quarterly basis, Management reviews and reports to the Risk and Finance Committee the actual limits deployed against the approved limits.

Management established key risk limits that are approved by the Risk and Finance Committee for ten risk sources at June 30, 2014. For a detailed discussion of these ten risk sources see Business—Risk Management in Item 1 of Part I of the Company's Annual Report on Form 10-K for the year ended December 31, 2013. The limits approved by the Risk and Finance Committee and the actual limits deployed at June 30, 2014 and December 31, 2013 were as follows (in billions of U.S. dollars, except interest rate risk data):

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

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

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

Natural Catastrophe Probable Maximum Loss (PML)

The following discussion of the Company's natural catastrophe probable maximum loss (PML) information contains forward-looking statements based upon assumptions and expectations concerning the potential effect of future events that are subject to uncertainties. See Item 1A of Part I of the Company's Annual Report on Form 10-K for the year ended December 31, 2013 for a list of the Company's risk factors. Any of these risk factors could result in actual losses that are materially different from the Company's PML estimates below.

Natural catastrophe risk is a source of significant aggregate exposure for the Company and is managed by setting risk appetite and limits, as discussed above. The peril zones in the disclosure below are major peril zones for the industry. The Company has exposures in other peril zones that can potentially generate losses greater than the PML estimates below. The Company's PMLs represent an estimate of loss for a single event for a given return period. The table below discloses the Company's 1-in-250 and 1-in-500 year return period estimated loss for a single occurrence of a natural catastrophe event in a one-year period. In other words, the 1-in-250 and 1-in-500 year return period PMLs mean that there is a 0.4% and 0.2% chance, respectively, in any given year that an occurrence of a natural catastrophe in a specific peril zone will lead to losses exceeding the stated estimate.

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

exposure to catastrophe from insurance-linked securities. The PML estimates do not include casualty coverage that could be exposed as a result of a catastrophic event. In addition, they do not include estimates for contingent losses to insureds that are not directly impacted by the event (e.g. loss of earnings due to disruption in supply lines).

For additional information related to the Company's natural catastrophe PML information and definitions, see Business—Natural Catastrophe Probable Maximum Loss (PML) in Item 1 of Part I of the Company's Annual Report on Form 10-K for the year ended December 31, 2013.

The Company's single occurrence estimated net PML exposures (pre-tax and net of retrocession and reinstatement premiums) for certain selected peak industry natural catastrophe perils at April 1, 2014 were as follows (in millions of U.S. dollars):

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

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

Critical Accounting Policies and Estimates

Critical Accounting Policies and Estimates of the Company at June 30, 2014 have not changed materially compared to December 31, 2013. The following discussion updates specific information related to the Company's estimates for losses and loss expenses and life policy benefits and valuation of investments and funds held – directly managed, including certain derivative financial instruments. See Critical Accounting Policies and Estimates in Management's Discussion and Analysis of Financial Condition and Results of Operations in Item 7 of Part II of the Company's Annual Report on Form 10-K for the year ended December 31, 2013 for a discussion of the Company's other critical accounting policies which are not specifically updated in this report given they have not changed materially compared to December 31, 2013.

Losses and Loss Expenses and Life Policy Benefits

Losses and Loss Expenses

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

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

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

See Critical Accounting Policies and Estimates—Losses and Loss Expenses and Life Policy Benefits in Item 7 of Part II of the Company's Annual Report on Form 10-K for the year ended December 31, 2013 for additional information on the reserving methodologies employed by the Company, the principal reserving methods used for the reserving lines, the principal parameter assumptions underlying the methods and the main underlying factors upon which the estimates of reserving parameters are predicated.

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

During the three months and six months ended June 30, 2014 and 2013, the Company reviewed its estimate for prior year losses for the Non-life segment (defined below in Results by Segment) and, in light of developing data, adjusted its ultimate loss ratios for prior accident years. The net prior year favorable loss development for each sub-segment of the Company's Non-life segment for the three months and six months ended June 30, 2014 and 2013 was as follows (in millions of U.S. dollars):

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

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

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

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

cedants.

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

For a discussion of net prior year favorable loss development by Non-life sub-segment, see Results by Segment below. See Critical Accounting Policies and Estimates—Losses and Loss Expenses and Life Policy Benefits in Item 7 of Part II of the Company's Annual Report on Form 10-K for the year ended December 31, 2013 for additional information by reserving lines.

The gross reserves reported by cedants (case reserves), those estimated by the Company (ACRs and IBNR reserves) and the total gross, ceded and net loss reserves recorded at June 30, 2014 for each Non-life sub-segment were as follows (in millions of U.S. dollars):

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

The net loss reserves represent the Company's best estimate of future losses and loss expense amounts based on the information available at June 30, 2014. Loss reserves rely upon estimates involving actuarial and statistical projections at a given time that reflect the Company's expectations of the costs of the ultimate settlement and administration of claims. Estimates of ultimate liabilities are contingent on many future events and the eventual outcome of these events may be different from the assumptions underlying the reserve estimates. In the event that the business environment and social trends diverge from historical trends, the Company may have to adjust its loss reserves to amounts falling significantly outside its current estimate. These estimates are regularly reviewed and the ultimate liability may be in excess of, or less than, the amounts provided, for which any adjustments will be reflected in the period in which the need for an adjustment is determined.

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

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

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

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

Of the Company's $10,155 million of net Non-life loss reserves at June 30, 2014, net loss reserves for accident years 2005 and prior of $625 million are guaranteed by Colisée Re, pursuant to the Reserve Agreement. The Company is not subject to any loss reserve variability associated with the guaranteed reserves. See Business—Reserves in Item 1 of Part I of the Company's Annual Report on Form 10-K for the year ended December 31, 2013 for a discussion of the Reserve Agreement.

A significant amount of judgment was used to estimate the range of potential losses related to the earthquakes that occurred in New Zealand in September 2010, February 2011 and June 2011 (New Zealand Earthquakes) and the Japan earthquake and resulting tsunami (Japan Earthquake) (collectively, 2011 catastrophic events) and there remains a considerable degree of uncertainty related to the range of possible ultimate losses. Loss estimates arising from earthquakes are inherently more uncertain than those from other catastrophic events and the Company believes the ultimate losses arising from the New Zealand Earthquakes and the Japan Earthquake may be materially in excess of, or less than, the amounts provided for in the Condensed Consolidated Balance Sheet at June 30, 2014.

The remaining significant risks and uncertainties related to the New Zealand Earthquakes include the ongoing cedant revisions of loss estimates for each of these events, the degree to which inflation impacts construction materials required to rebuild affected properties, the characteristics of the Company's program participation for certain affected cedants and potentially affected cedants, and the expected length of the claims settlement period. In addition, there is additional complexity related to the New Zealand Earthquakes given multiple earthquakes occurred in the same region in a relatively short period of time, resulting in cedants continuing to revise their allocation of losses between the various events and between different treaties, under which the Company may provide different amounts of coverage.

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

In addition to the sum of the point estimates originally recorded for each of the New Zealand Earthquakes and Japan Earthquake, at December 31, 2011 the Company recorded additional gross reserves of $50 million (net reserves of $48 million after the impact of retrocession) specifically related to these events within its Catastrophe sub-segment. The additional gross reserves recorded were in consideration of the number of events, the complexity of certain events and the continuing uncertainties in estimating the ultimate losses for these events in the aggregate. The Company continues to evaluate the additional gross reserves that were recorded as part of its periodic reserving process and changes to the amounts recorded may either result in: (i) the reallocation of some or all of the additional reserves to one or more of the these events; or (ii) the release of some or all of the additional reserves to net income in future periods; or (iii) an increase in additional reserves recorded.

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

Life Policy Benefits

Policy benefits for life and annuity contracts relate to the business in the Company's Life and Health segment, which predominantly includes:

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

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

The Company's reserving practices begin with the categorization of the contracts written as short duration, long duration, or universal life business for U.S. GAAP reserving purposes. This categorization determines the Company's reserving methodology. See Critical Accounting Policies and Estimates—Losses and Loss Expenses and Life Policy Benefits—Life Policy Benefits in Item 7 of Part II of the Company's Annual Report on Form 10-K for the year ended December 31, 2013 for additional information on the reserving methodologies employed by the Company for its longevity, mortality and accident and health lines.

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

	Case reserves	IBNR reserves	Reserves for future policy	Total gross Life and Health	Ceded reserves	Total net Life and Health

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

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Valuation of Investments and Funds Held – Directly Managed, including certain Derivative Financial Instruments
The Company defines fair value as the price received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. The Company measures the fair value of its financial instruments according to a fair value hierarchy that prioritizes the information used to measure fair value into three broad levels.
Under the fair value hierarchy, Management uses certain assumptions and judgments to derive the fair value of its investments, particularly for those assets with significant unobservable inputs, commonly referred to as Level 3 assets.
At June 30, 2014, the Company's financial instruments that were measured at fair value and categorized as Level 3 were as follows (in millions of U.S. dollars):

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

For additional information on the valuation techniques, methods and assumptions that were used by the Company to estimate the fair value of its fixed maturities, short-term investments, equities, other invested assets and investments underlying the funds held – directly managed account, see Note 4 to Condensed Consolidated Financial Statements included in Item 1 of Part I of this report. For information on the Company's use of derivative financial instruments, see Note 5 to Condensed Consolidated Financial Statements included in Item 1 of Part I of this report.

Results of Operations—for the Three Months and Six Months Ended June 30, 2014 and 2013
The following discussion of Results of Operations contains forward-looking statements based upon assumptions and expectations concerning the potential effect of future events that are subject to uncertainties. See Item 1A of Part I of the Company's Annual Report on Form 10-K for the year ended December 31, 2013 for a complete list of the Company's risk factors. Any of these risk factors could cause actual results to differ materially from those reflected in such forward-looking statements.
The Company's reporting currency is the U.S. dollar. The Company's significant subsidiaries and branches have one of the following functional currencies: U.S. dollar, euro or Canadian dollar. As a significant portion of the Company's operations is transacted in foreign currencies, fluctuations in foreign exchange rates may affect year over year comparisons. To the extent that fluctuations in foreign exchange rates affect comparisons, their impact has been quantified, when possible, and discussed in each of the relevant sections. See Note 2(m) to Consolidated Financial Statements in Item 8 of Part II of the Company's Annual Report on Form 10-K for the year ended December 31, 2013 for a discussion of translation of foreign currencies.
The foreign exchange fluctuations for the principal currencies in which the Company transacts business were as follows:

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

Review of Net Income (Loss)
Management analyzes the Company's net income or loss in three parts: underwriting result, investment result and other components of net income or loss. Underwriting result consists of net premiums earned and other income or loss less losses and loss expenses and life policy benefits, acquisition costs and other operating expenses. Investment result consists of net investment income, net realized and unrealized investment gains or losses and interest in earnings or

losses of equity method investments. Net investment income includes interest and dividends, net of investment expenses, generated by the Company's investment activities, as well as interest income generated on funds held assets. Net realized and unrealized investment gains or losses include sales of the Company's fixed income, equity and other invested assets and investments underlying the funds held – directly managed account and changes in net unrealized gains or losses. Interest in earnings or losses of equity method investments includes the Company's strategic investments. Other components of net income or loss include technical result and other income or loss, other operating expenses, interest expense, amortization of intangible assets, net foreign exchange gains or losses and income tax expense or benefit.

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

	For the three months ended June 30, 2014	% Change	For the three months ended June 30, 2013	For the six months ended June 30, 2014	% Change	For the six months ended June 30, 2013
Underwriting result:						
Non-life	$90	316 %	$22	$251	32 %	$190
Life and Health	3	(26)	4	2	(68)	5
Investment result:						
Net investment income	130	4	125	247	(1)	248
Net realized and unrealized investment gains (losses)	166	NM	(299)	308	NM	(276)
Interest in earnings (losses) of equity method investments[1]	5	NM	(4)	11	194	4
Corporate and Other:						
Technical result[2]	—	(80)	—	—	(97)	1
Other income[2]	5	721	1	4	162	2
Other operating expenses	(30)	(56)	(68)	(59)	(41)	(100)
Interest expense	(12)	—	(12)	(25)	—	(24)
Amortization of intangible assets[3]	(7)	(1)	(7)	(14)	(1)	(14)
Net foreign exchange gains (losses)	2	NM	(11)	3	NM	(9)
Income tax (expense) benefit	(78)	NM	75	(141)	NM	33
Net income (loss)	$274	NM	$(174)	$587	878	$60

NM: Not meaningful

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

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

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

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

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

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

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

Three-month result

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

- Large catastrophic losses—a decrease of $112 million (decrease of 11.8 points in the technical ratio) related to the European and Alberta Floods in the three months ended June 30, 2013 compared to no significant catastrophic losses in the same period of 2014.
- Net favorable prior year loss development—an increase of $34 million (decrease of 2.4 points in the technical ratio) from $127 million (13.0 points on the technical ratio) in the three months ended June 30, 2013 to $161 million (15.4 points on the technical ratio) in the same period of 2014. The increase in net favorable prior year loss development was primarily due to increases in the Global Specialty and North America sub-segments and was partially offset by decreases in the Catastrophe sub-segment and, to a lesser extent, the Global (Non-U.S.) P&C sub-segment. The components of the net favorable prior year loss development are described in more detail in the discussion of individual sub-segments in Results by Segment below.

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

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

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

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

Net investment income increased by $5 million, from $125 million in the three months ended June 30, 2013 to $130 million in the same period of 2014. The increase in net investment income was primarily attributable to an increase in net investment income from fixed maturities and from equities as a result of higher dividend income. See Corporate and Other – Net Investment Income below for more details.
Net realized and unrealized investment gains increased by $465 million, from losses of $299 million in the three months ended June 30, 2013 to gains of $166 million in the same period of 2014. The net realized and unrealized investment gains of $166 million in the three months ended June 30, 2014 were primarily due to decreases in U.S. and European longer-term risk-free interest rates, improvements in worldwide equity markets and narrowing credit spreads, which were partially offset by losses on treasury note futures. See Corporate and Other – Net Realized and Unrealized Investment Gains (Losses) below for more details.
Other operating expenses included in Corporate and Other decreased by $38 million, from $68 million in the three months ended June 30, 2013 to $30 million in the same period of 2014. The decrease was primarily due to the restructuring charge in the three months ended June 30, 2013, as described in Executive Overview above.
Interest expense in the three months ended June 30, 2014 was comparable to the same period of 2013.
Net foreign exchange gains increased by $13 million, from losses of $11 million in the three months ended June 30, 2013 to gains of $2 million in the same period of 2014. The net foreign exchange gains for the three months ended June 30, 2014 resulted primarily from currency movements on certain unhedged equity securities. The Company hedges a significant portion of its currency risk exposure as discussed in Quantitative and Qualitative Disclosures about Market Risk in Item 3 of Part I of this report.
Income tax expense increased by $153 million, from a benefit of $75 million in the three months ended June 30, 2013 to an expense of $78 million in the same period of 2014, primarily reflecting an increase in the Company’s pre-tax net income in the three months ended June 30, 2014 compared to the same period of 2013. See Corporate and Other—Income Taxes below for more details.
Six-month result
The underwriting result for the Non-life segment increased by $61 million (corresponding to a decrease of 2.2 points in the combined ratio), from $190 million (90.0 points on the combined ratio) in the six months ended June 30, 2013 to $251 million (87.8 points on the combined ratio) in the same period of 2014 primarily due to:

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

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

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

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

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

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

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

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

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

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

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

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

Income tax expense increased by $174 million, from a benefit of $33 million in the six months ended June 30, 2013 to an expense of $141 million in the same period of 2014, primarily reflecting an increase in the Company’s pre-tax net income in the six months ended June 30, 2014 compared to the same period of 2013. See Corporate and Other—Income Taxes below for more details.

Results by Segment

The Company monitors the performance of its operations in three segments, Non-life, Life and Health and Corporate and Other. The Non-life segment is further divided into four sub-segments, North America, Global (Non-U.S.) Property and Casualty (Global (Non-U.S.) P&C), Global Specialty and Catastrophe. Segments and sub-segments represent markets that are reasonably homogeneous in terms of geography, client types, buying patterns, underlying risk patterns and approach to risk management. See the description of the Company’s segments and sub-segments as well as a discussion of how the Company measures its segment results in Note 21 to Consolidated Financial Statements included in Item 8 of Part II of Form 10-K for the year ended December 31, 2013 and in Note 9 to Condensed Consolidated Financial Statements included in Item 1 of Part I of this report.

Non-life Segment

North America

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

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

	For the three months ended June 30, 2014	% Change	For the three months ended June 30, 2013	For the six months ended June 30, 2014	% Change	For the six months ended June 30, 2013
Gross premiums written	$400	7 %	$372	$930	14 %	$819
Net premiums written	392	9	360	919	14	807
Net premiums earned	$390	9	$357	$768	11	$690
Losses and loss expenses	(240)	(2)	(245)	(499)	3	(485)
Acquisition costs	(102)	29	(79)	(194)	28	(151)
Technical result [(1)]	$48	45	$33	$75	37	$54
Loss ratio [(2)]	61.5 %		68.6 %	65.0 %		70.2 %
Acquisition ratio [(3)]	26.1		22.1	25.2		21.9
Technical ratio [(4)]	87.6 %		90.7 %	90.2 %		92.1 %

(1) Technical result is defined as net premiums earned less losses and loss expenses and acquisition costs.
(2) Loss ratio is obtained by dividing losses and loss expenses by net premiums earned.
(3) Acquisition ratio is obtained by dividing acquisition costs by net premiums earned.
(4) Technical ratio is defined as the sum of the loss ratio and the acquisition ratio.

Premiums

The North America sub-segment represented 28% and 29% of total net premiums written in the three months and six months ended June 30, 2014, respectively, compared to 28% in the same periods of 2013. The net premiums written and net premiums earned by line of business for this sub-segment for the three months and six months ended June 30, 2014 and 2013 were as follows (in millions of U.S. dollars):

	For the three months ended June 30, 2014				For the three months ended June 30, 2013				For the six months ended June 30, 2014				For the six months ended June 30, 2013			
	Net premiums written		Net premiums earned		Net premiums written		Net premiums earned		Net premiums written		Net premiums earned		Net premiums written		Net premiums earned	
Agriculture	$120	31 %	$114	29 %	$101	28 %	$100	28 %	$282	31 %	$218	28 %	$202	25 %	$199	29 %
Casualty	148	38	147	38	137	38	138	38	326	35	295	38	315	39	276	40
Credit/Surety	25	6	26	7	17	5	13	4	63	7	52	7	27	3	20	3
Motor	11	3	13	3	13	4	13	4	33	4	32	4	30	4	24	3
Multiline	30	8	27	7	18	5	23	6	76	8	51	7	62	8	45	7
Property	44	11	49	12	62	17	53	15	116	13	97	13	135	16	99	14
Other	14	3	14	4	12	3	17	5	23	2	23	3	36	5	27	4
Total	$392	100 %	$390	100 %	$360	100 %	$357	100 %	$919	100 %	$768	100 %	$807	100 %	$690	100 %

Business reported in this sub-segment is, to an extent, originally denominated in foreign currencies and is reported in U.S. dollars. The U.S. dollar can fluctuate significantly against other currencies and this should be considered when making period to period comparisons. The effect of foreign exchange fluctuations, described in the Results of Operations above, on gross and net premiums written and net premiums earned in the three months and six months ended June 30, 2014 compared to the same periods of 2013 was as follows:

Three months ended June 30, 2014 compared to the same period of 2013	Gross premiums written		Net premiums written		Net premiums earned	
Increase in original currency	8	%	9	%	10	%
Foreign exchange effect	(1	)	—		(1	)
Increase as reported in U.S. dollars	7	%	9	%	9	%
Six months ended June 30, 2014 compared to the same period of 2013						
Increase in original currency	14	%	14	%	12	%
Foreign exchange effect	—		—		(1	)
Increase as reported in U.S. dollars	14	%	14	%	11	%

Three-month result

Gross and net premiums written and net premiums earned increased by 8%, 9% and 10%, respectively, on a constant foreign exchange basis in the three months ended June 30, 2014 compared to the same period of 2013. The increases in gross and net premiums written and net premiums earned were primarily attributable to new business written at the January 1 renewals in the agriculture, multiline and credit/surety lines of business and upward premium adjustments in the casualty line of business. These increases were partially offset by a decrease in the property line of business, driven by cancellations and renewal changes.

Six-month result

Gross and net premiums written increased by 14% and net premiums earned increased by 12% on a constant foreign exchange basis in the six months ended June 30, 2014 compared to the same period of 2013. The increases in gross and net premiums written were primarily attributable to the agriculture and credit/surety lines of business. The increase in the agriculture line was driven by new business written and the restructuring of a significant treaty, which resulted in the full annual premium being written in the first quarter of 2014 compared to being written ratably over four quarters in 2013, while the credit/surety line benefitted from new mortgage guaranty business. The increase in net premiums earned in the six months ended June 30, 2014 compared to the same period of 2013 was primarily due to the same factors described for the increases in gross and net premiums written, and was also due to the earning of new casualty business that was written in 2013. Notwithstanding the competitive conditions prevailing in various markets within this sub-segment, the Company was able to write business that met its portfolio objectives.

Technical result and technical ratio

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

	For the three months ended June 30, 2014				For the three months ended June 30, 2013				For the six months ended June 30, 2014				For the six months ended June 30, 2013			
Current accident year technical result and ratio																
Adjusted for large catastrophic losses	$(20	)	104.9	%	$10		97.2	%	$(17	)	102.2	%	$1		99.8	%
Large catastrophic losses[1]	—		—		(8	)	2.2		—		—		(8	)	1.2	

Prior accident years technical result and ratio											
Net favorable prior year loss development	68	(17.3	)	31	(8.7	)	92	(12.0	)	61	(8.9	)
Technical result and ratio, as reported	$48	87.6	%	$33	90.7	%	$75	90.2	%	$54	92.1	%

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

Three-month result

The increase of $15 million in the technical result (and the corresponding decrease of 3.1 points in the technical ratio) in the three months ended June 30, 2014 compared to the same period of 2013 was primarily attributable to:

- Net favorable prior year loss development—an increase of $37 million (decrease of 8.6 points in the technical ratio) from $31 million (8.7 points on the technical ratio) in the three months ended June 30, 2013 to $68 million (17.3 points on the technical ratio) in the same period of 2014. The net favorable loss development for prior accident years in the three months ended June 30, 2014 was driven by most lines of business, predominantly the casualty line. The net favorable loss development for prior accident years in the three months ended June 30, 2013 was driven by most lines of business, with the casualty line being the most pronounced, while the credit/surety and property lines experienced combined adverse loss development for prior accident years of $9 million.
- Large catastrophic losses—a decrease of $8 million (decrease of 2.2 points in the technical ratio) related to the Alberta Floods in the three months ended June 30, 2013 compared to no significant catastrophic losses in the same period of 2014.

These factors driving the increase in the technical result in the three months ended June 30, 2014 compared to the same period of 2013 were partially offset by:

- The current accident year technical result, adjusted for large catastrophic losses—a decrease in the technical result (and corresponding increase in the technical ratio) primarily due to a higher acquisition cost ratio, which was driven by increasingly competitive conditions and pricing observed in most lines of business during the recent January 1 renewals and higher profit commissions in the agriculture line, a modestly higher level of mid-sized loss activity and normal fluctuations in profitability between periods.

Six-month result

The increase of $21 million in the technical result (and the corresponding decrease of 1.9 points in the technical ratio) in the six months ended June 30, 2014 compared to the same period of 2013 was primarily attributable to:

- Net favorable prior year loss development—an increase of $31 million (decrease of 3.1 points in the technical ratio) from $61 million (8.9 points on the technical ratio) in the six months ended June 30, 2013 to $92 million (12.0 points on the technical ratio) in the same period of 2014. The net favorable loss development for prior accident years in the six months ended June 30, 2014 was driven primarily by the casualty line, while the multiline, motor and agriculture lines experienced combined adverse loss development for prior accident years of $13 million. The net favorable loss development for prior accident years in the six months ended June 30, 2013 was driven by most lines of business, with the casualty line being the most pronounced, while the credit/surety, agriculture and property lines experienced combined adverse loss development for prior accident years of $14 million.
- Large catastrophic losses—a decrease of $8 million (decrease of 1.2 points in the technical ratio) related to the Alberta Floods in the six months ended June 30, 2013 compared to no significant catastrophic losses in the same period of 2014.

These factors driving the increase in the technical result in the six months ended June 30, 2014 compared to the same period of 2013 were partially offset by:

- The current accident year technical result, adjusted for large catastrophic losses—a decrease in the technical result (and corresponding increase in the technical ratio) primarily due to a higher acquisition cost ratio, as described in the three-month result, partially offset by a modestly lower level of mid-sized loss activity and normal fluctuations in profitability between periods.

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

The Global (Non-U.S.) P&C sub-segment is composed of short-tail business, in the form of property and proportional motor business, that represented approximately 89% and 81% of net premiums written in the three months and six

months ended June 30, 2014, and long-tail business, in the form of casualty and non-proportional motor business, that represented the balance of net premiums written.

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

	For the three months ended June 30, 2014	% Change	For the three months ended June 30, 2013	For the six months ended June 30, 2014	% Change	For the six months ended June 30, 2013
Gross premiums written	$155	(3)%	$160	$519	(3)%	$532
Net premiums written	148	(6)	158	508	(3)	525
Net premiums earned	$187	11	$169	$367	10	$335
Losses and loss expenses	(103)	(4)	(106)	(196)	13	(173)
Acquisition costs	(52)	55	(34)	(107)	27	(84)
Technical result	$32	13	$29	$64	(18)	$78
Loss ratio	54.6%		62.9%	53.5%		51.8%
Acquisition ratio	27.9		19.9	29.0		24.9
Technical ratio	82.5%		82.8%	82.5%		76.7%

Premiums

The Global (Non-U.S.) P&C sub-segment represented 10% and 16% of total net premiums written in the three months and six months ended June 30, 2014, respectively, compared to 12% and 18% of total net premiums written in the same periods of 2013. The net premiums written and net premiums earned by line of business for this sub-segment for the three months and six months ended June 30, 2014 and 2013 were as follows (in millions of U.S. dollars):

	For the three months ended June 30, 2014				For the three months ended June 30, 2013				For the six months ended June 30, 2014				For the six months ended June 30, 2013			
	Net premiums written		Net premiums earned		Net premiums written		Net premiums earned		Net premiums written		Net premiums earned		Net premiums written		Net premiums earned	
Casualty	$13	8%	$20	11%	$16	10%	$20	12%	$47	9%	$35	10%	$55	10%	$38	11%
Motor	54	37	73	39	53	34	51	30	187	37	147	40	177	34	99	30
Property	81	55	94	50	89	56	98	58	274	54	185	50	293	56	198	59
Total	$148	100%	$187	100%	$158	100%	$169	100%	$508	100%	$367	100%	$525	100%	$335	100%

Business reported in this sub-segment is, to a significant extent, originally denominated in foreign currencies and is reported in U.S. dollars. The U.S. dollar can fluctuate significantly against other currencies and this should be considered when making period to period comparisons. The effect of foreign exchange fluctuations, described in the Results of Operations above, on gross and net premiums written and net premiums earned in the three months and six months ended June 30, 2014 compared to the same periods of 2013 was as follows:

Three months ended June 30, 2014 compared to the same period of 2013	Gross premiums written	Net premiums written	Net premiums earned
(Decrease) increase in original currency	(4)%	(7)%	9%
Foreign exchange effect	1	1	2
(Decrease) increase as reported in U.S. dollars	(3)%	(6)%	11%
Six months ended June 30, 2014 compared to the same period of 2013			
(Decrease) increase in original currency	(3)%	(4)%	9%
Foreign exchange effect	—	1	1
(Decrease) increase as reported in U.S. dollars	(3)%	(3)%	10%

Three-month result

Gross and net premiums written decreased by 4% and 7%, respectively, and net premiums earned increased by 9% on a constant foreign exchange basis in the three months ended June 30, 2014 compared to the same period of 2013. The decreases in gross and net premiums written resulted primarily from cancellations in the property line of business. The increase in net premiums earned compared to the decreases in gross and net premiums written was driven by the earning of the new motor business that was written in 2013.

Six-month result

Gross and net premiums written decreased by 3% and 4%, respectively, and net premiums earned increased by 9% on a constant foreign exchange basis in the six months ended June 30, 2014 compared to the same period of 2013. The decreases in gross and net premiums written resulted primarily from cancellations due to pricing, increased retentions and share decreases in the property line. The increase in net premiums earned compared to the decreases in gross and net premiums written was driven by the earning of the new motor business that was written in 2013. Notwithstanding the continued competitive conditions in most markets, the Company was able to write business that met its portfolio objectives.

Technical result and technical ratio

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

	For the three months ended June 30, 2014		For the three months ended June 30, 2013		For the six months ended June 30, 2014		For the six months ended June 30, 2013	
Current accident year technical result and ratio								
Adjusted for large catastrophic losses and prior quarter loss development	$1	99.2 %	$3	98.1 %	$(13)	103.5 %	$(2)	100.5 %
Large catastrophic losses[1]	—	—	(14)	8.3	—	—	(14)	4.2
Net favorable prior quarter loss development	1	(0.5)	4	(2.2)				
Prior accident years technical result and ratio								
Net favorable prior year loss development	30	(16.2)	36	(21.4)	77	(21.0)	94	(28.0)
Technical result and ratio, as reported	$32	82.5 %	$29	82.8 %	$64	82.5 %	$78	76.7 %

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

Three-month result

The modest increase of $3 million in the technical result (and the corresponding decrease of 0.3 points in the technical ratio) in the three months ended June 30, 2014 compared to the same period of 2013 was primarily attributable to:

- Large catastrophic losses—a decrease of $14 million (decrease of 8.3 points in the technical ratio) related to the European Floods in the three months ended June 30, 2013 compared to no significant catastrophic losses in the same period of 2014.

This factor driving the increase in the technical result in the three months ended June 30, 2014 compared to the same period of 2013 was partially offset by:

- Net favorable prior year loss development—a decrease of $6 million (increase of 5.2 points in the technical ratio) from $36 million (21.4 points on the technical ratio) in the three months ended June 30, 2013 to $30 million (16.2 points on the technical ratio) in the same period of 2014. The net favorable loss development for prior accident years in the three months ended June 30, 2014 and 2013 was driven by all lines of business, with the property line being the most pronounced.
- Net favorable prior quarter loss development—a decrease of $3 million (increase of 1.7 points in the technical ratio) from $4 million (2.2 points on the technical ratio) in the three months ended June 30, 2013 to $1 million (0.5 points on the technical ratio) in the same period of 2014.

- The current accident year technical result, adjusted for large catastrophic losses and prior quarter loss development—a modest decrease in the technical result (and a corresponding increase in the technical ratio) due to an increase in the acquisition cost ratio, predominantly related to lower profit commissions reported by cedants in the property and casualty lines of business in the three months ended June 30, 2013 and higher profit commission adjustments reported and increasingly competitive conditions in the three months ended June 30, 2014. These decreases in the current accident year technical result were almost entirely offset by a lower level of mid-sized losses and normal fluctuations in profitability between periods.

Six-month result

The decrease of $14 million in the technical result (and the corresponding increase of 5.8 points in the technical ratio) in the six months ended June 30, 2014 compared to the same period of 2013 was primarily attributable to:

- Net favorable prior year loss development—a decrease of $17 million (increase of 7.0 points in the technical ratio) from $94 million (28.0 points on the technical ratio) in the six months ended June 30, 2013 to $77 million (21.0 points on the technical ratio) in the same period of 2014. The net favorable loss development for prior accident years in the six months ended June 30, 2014 was driven by all lines of business, with the property line being the most pronounced. The net favorable loss development for prior accident years in the six months ended June 30, 2013 was driven by all lines of business, with the property line being the most pronounced and included favorable loss emergence related to certain catastrophic and large loss events.
- The current accident year technical result, adjusted for large catastrophic losses—a decrease in the technical result (and a corresponding increase in the technical ratio) mainly due to an increase in the acquisition cost ratio, as described in the three-month result, partially offset by normal fluctuations in profitability between periods.

These factors driving the decrease in the technical result in the six months ended June 30, 2014 compared to the same period of 2013 were partially offset by:

- Large catastrophic losses—a decrease of $14 million (decrease of 4.2 points in the technical ratio) related to the European Floods in the six months ended June 30, 2013 compared to no significant catastrophic losses in the same period of 2014.

Global Specialty

The Global Specialty sub-segment is primarily comprised of lines of business that are considered to be either short, medium or long-tail. The short-tail lines consist of agriculture, energy and specialty property. Aviation/space, credit/surety, engineering, marine and multiline are considered to have a medium tail, while specialty casualty is considered to be long-tail.

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

	For the three months ended June 30, 2014	% Change	For the three months ended June 30, 2013	For the six months ended June 30, 2014	% Change	For the six months ended June 30, 2013
Gross premiums written	$438	6 %	$413	$917	7 %	$857
Net premiums written	432	6	409	822	7	771
Net premiums earned	$406	9	$372	$761	7	$709
Losses and loss expenses	(270)	(5)	(284)	(471)	—	(469)
Acquisition costs	(98)	10	(90)	(178)	8	(165)
Technical result	$38	NM	$(2)	$112	50	$75
Loss ratio	66.5 %		76.6 %	61.9 %		66.1 %
Acquisition ratio	24.2		24.1	23.4		23.3
Technical ratio	90.7 %		100.7 %	85.3 %		89.4 %

Premiums

The Global Specialty sub-segment represented 30% and 26% of total net premiums written in the three months and six months ended June 30, 2014, respectively, compared to 31% and 26% of total net premiums written in the same periods of 2013. The net premiums written and net premiums earned by line of business for this sub-segment for the three months and six months ended June 30, 2014 and 2013 were as follows (in millions of U.S. dollars):

	For the three months ended June 30, 2014				For the three months ended June 30, 2013				For the six months ended June 30, 2014				For the six months ended June 30, 2013			
	Net premiums written		Net premiums earned		Net premiums written		Net premiums earned		Net premiums written		Net premiums earned		Net premiums written		Net premiums earned	
Agriculture	$61	14 %	$59	14 %	$44	11 %	$41	11 %	$110	13 %	$85	11 %	$79	10 %	$59	8 %
Aviation/Space	57	13	53	13	49	12	47	13	90	11	99	13	86	11	93	13
Credit/Surety	64	15	72	18	73	18	72	19	139	17	140	18	149	19	139	20
Energy	20	5	17	4	24	6	25	7	31	4	36	5	40	5	50	7
Engineering	39	9	45	11	56	14	52	14	79	9	90	12	100	13	100	14
Marine	65	15	63	16	79	19	66	18	128	16	131	17	151	20	138	19
Multiline	27	6	19	5	12	3	4	1	66	8	35	5	23	3	6	1
Specialty casualty	43	10	38	9	25	6	26	7	95	12	69	9	76	10	50	7
Specialty property	52	12	40	10	47	11	39	10	76	9	76	10	67	9	75	11
Other	4	1	—	—	—	—	—	—	8	1	—	—	—	—	(1)	—
Total	$432	100 %	$406	100 %	$409	100 %	$372	100 %	$822	100 %	$761	100 %	$771	100 %	$709	100 %

Business reported in this sub-segment is, to a significant extent, originally denominated in foreign currencies and is reported in U.S. dollars. The U.S. dollar can fluctuate significantly against other currencies and this should be considered when making period to period comparisons. The effect of foreign exchange fluctuations, described in the Results of Operations above, on gross and net premiums written and net premiums earned in the three months and six months ended June 30, 2014 compared to the same periods of 2013 was as follows:

Three months ended June 30, 2014 compared to the same period of 2013	Gross premiums written	Net premiums written	Net premiums earned
Increase in original currency	5 %	4 %	8 %
Foreign exchange effect	1	2	1
Increase as reported in U.S. dollars	6 %	6 %	9 %
Six months ended June 30, 2014 compared to the same period of 2013			
Increase in original currency	6 %	6 %	7 %
Foreign exchange effect	1	1	—
Increase as reported in U.S. dollars	7 %	7 %	7 %

Three-month result

Gross and net premiums written and net premiums earned increased by 5%, 4% and 8% on a constant foreign exchange basis, respectively, in the three months ended June 30, 2014 compared to the same period of 2013. The increases in gross and net premiums written were primarily driven by new business that was written in prior periods in the specialty casualty, multiline and agriculture lines and increased premium estimates in the agriculture line. These increases in gross and net premiums written were partially offset by lower upward prior year premium adjustments reported by cedants in the engineering line and cancellations in the marine line. The increase in net premiums earned was primarily driven by the earning of new business that was written in 2013.

Six-month result

Gross and net premiums written increased by 6% and net premiums earned increased by 7% on a constant foreign exchange basis in the six months ended June 30, 2014 compared to the same period of 2013. The increases in gross and net premiums written and net premiums earned were primarily driven by the same factors described in the

three-month result. Notwithstanding the diverse conditions prevailing in various markets within this sub-segment, the Company was able to write business that met its portfolio objectives.

Technical result and technical ratio

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

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	For the three months ended June 30, 2014				For the three months ended June 30, 2013				For the six months ended June 30, 2014				For the six months ended June 30, 2013			
Current accident year technical result and ratio																
Adjusted for large catastrophic losses and prior quarter loss development	$(13	)	103.3	%	$(10	)	103.0	%	$(16	)	102.2	%	$10		98.7	%
Large catastrophic losses[1]	—		—		(23	)	6.2		—		—		(23	)	3.2	
Net (adverse) favorable prior quarter loss development	(18	)	4.5		3		(1.0	)								
Prior accident years technical result and ratio																
Net favorable prior year loss development	69		(17.1	)	28		(7.5	)	128		(16.9	)	88		(12.5	)
Technical result and ratio, as reported	$38		90.7	%	$(2	)	100.7	%	$112		85.3	%	$75		89.4	%

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

Three-month result

The increase of $40 million in the technical result (and the corresponding decrease of 10.0 points in the technical ratio) in the three months ended June 30, 2014 compared to the same period of 2013 was primarily attributable to:

- Net favorable prior year loss development—an increase of $41 million (decrease of 9.6 points in the technical ratio) from $28 million (7.5 points on the technical ratio) in the three months ended June 30, 2013 to $69 million (17.1 points on the technical ratio) in the same period of 2014. The net favorable loss development for prior accident years in the three months ended June 30, 2014 was driven by most lines of business, primarily the marine, aviation/space and specialty property lines, while the engineering and credit/surety lines experienced combined adverse loss development for prior accident years of $16 million. The net favorable loss development for prior accident years in the three months ended June 30, 2013 was driven by most lines of business, except the engineering line, which experienced adverse loss development for prior accident years of $11 million.
- Large catastrophic losses—a decrease of $23 million (decrease of 6.2 points in the technical ratio) related to the European and Alberta Floods in the three months ended June 30, 2013 compared to no large catastrophic losses in the same period of 2014.

These factors driving the increase in the technical result in the three months ended June 30, 2014 compared to the same period of 2013 were partially offset by:

- Net (adverse) favorable prior quarter loss development—a decrease of $21 million (increase of 5.5 points in the technical ratio) from favorable development of $3 million (1.0 point on the technical ratio) in the three months ended June 30, 2013 to adverse development of $18 million (4.5 points on the technical ratio) in the same period of 2014, primarily driven by various mid-sized losses reported in the marine, specialty property and energy lines.

The current accident year technical result and ratio, adjusted for large catastrophic losses and prior quarter loss development, in the three months ended June 30, 2014 was comparable to the same period of 2013, with both periods experiencing a high level of mid-sized loss activity.

Six-month result

The increase of $37 million in the technical result (and the corresponding decrease of 4.1 points in the technical ratio) in the six months ended June 30, 2014 compared to the same period of 2013 was primarily attributable to:

- Net favorable prior year loss development—an increase of $40 million (decrease of 4.4 points in the technical ratio) from $88 million (12.5 points on the technical ratio) in the six months ended June 30, 2013 to $128 million (16.9 points on the technical ratio) in the same period of 2014. The net favorable loss development for prior accident years in the six months ended June 30, 2014 was driven by most lines of business, predominantly the marine, aviation/space and specialty property lines, while the credit/surety and agriculture lines experienced combined adverse loss development for prior accident years of $21 million. The net favorable loss development for prior accident years in the six months ended June 30, 2013 was driven by most lines of business, predominantly the aviation/space and credit/surety lines, while the engineering line experienced adverse loss development for prior accident years of $13 million.
- Large catastrophic losses—a decrease of $23 million (decrease of 3.2 points in the technical ratio) related to the European and Alberta Floods in the six months ended June 30, 2013 compared to no large catastrophic losses in the same period of 2014.

These factors driving the increase in the technical result in the six months ended June 30, 2014 compared to the same period of 2013 were partially offset by:

- The current accident year technical result, adjusted for large catastrophic losses—a decrease in the technical result (and corresponding increase in the technical ratio) due to a modestly higher level of mid-sized loss activity, a lower level of upward prior year premium adjustments reported by cedants in the six months ended June 30, 2014 compared to the same period of 2013 and normal fluctuations in profitability between periods.

Catastrophe

The Catastrophe sub-segment writes business predominantly on a non-proportional basis and is exposed to volatility resulting from catastrophic losses. The varying amounts of catastrophic losses from period to period can significantly impact the technical result and ratio of this sub-segment and affect period over period comparisons and as a result, profitability in any one quarter is not necessarily predictive of future profitability. The sub-segment's results for the three months and six months ended June 30, 2014 and 2013 demonstrate this volatility. While the results for the three months and six months ended June 30, 2014 included no significant catastrophic losses, the results for the three months and six months ended June 30, 2013 included a higher level of catastrophic losses resulting from the European and Alberta Floods.

The Catastrophe sub-segment results are presented before the inter-company quota share of a diversified portfolio of catastrophe treaties to the Company's fully collateralized reinsurance vehicle, Lorenz Re Ltd. (see Note 7 to the Condensed Consolidated Financial Statements included in Item 1 of Part I of this report).

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

	For the three months ended June 30, 2014	% Change	For the three months ended June 30, 2013	For the six months ended June 30, 2014	% Change	For the six months ended June 30, 2013
Gross premiums written	$143	(11)%	$161	$353	(12)%	$399
Net premiums written	136	(9)	149	315	(13)	360
Net premiums earned	$59	(25)	$79	$138	(17)	$165
Losses and loss expenses	(19)	(61)	(51)	1	NM	(39)
Acquisition costs	(8)	16	(6)	(15)	(9)	(17)
Technical result	$32	47	$22	$124	14	$109

Loss ratio	33.4	%	64.1	%	(0.9	)%	23.8	%
Acquisition ratio	13.0		8.5		11.4		10.5	
Technical ratio	46.4	%	72.6	%	10.5	%	34.3	%

Premiums

The Catastrophe sub-segment represented 10% of total net premiums written in the three months and six months ended June 30, 2014 and 2013 compared to 11% and 12% in the same periods of 2013, respectively.

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Business reported in this sub-segment is, to an extent, originally denominated in foreign currencies and is reported in U.S. dollars. The U.S. dollar can fluctuate significantly against other currencies and this should be considered when making period to period comparisons. The effect of foreign exchange fluctuations, described in the Results of Operations above, on gross and net premiums written and net premiums earned in the three months and six months ended June 30, 2014 compared to the same periods of 2013 was as follows:

Three months ended June 30, 2014 compared to the same period of 2013	Gross premiums written	Net premiums written	Net premiums earned
Decrease in original currency	(10)%	(8)%	(23)%
Foreign exchange effect	(1)	(1)	(2)
Decrease as reported in U.S. dollars	(11)%	(9)%	(25)%
Six months ended June 30, 2014 compared to the same period of 2013			
Decrease in original currency	(11)%	(12)%	(14)%
Foreign exchange effect	(1)	(1)	(3)
Decrease as reported in U.S. dollars	(12)%	(13)%	(17)%

Three-month result

Gross and net premiums written and net premiums earned decreased by 10%, 8% and 23% on a constant foreign exchange basis, respectively, in the three months ended June 30, 2014 compared to the same period of 2013. The decreases in gross and net premiums written and net premiums earned were primarily driven by the impact of reinstatement premiums related to the European and Alberta Floods in the three months ended June 30, 2013, cancellations and non-renewals due to reductions in pricing and the restructuring of certain treaties. These decreases were partially offset by new business written in the three months ended June 30, 2014. The percentage decrease in net premiums earned was higher than the percentage decreases in gross and net premiums written primarily due to the lower absolute level of net premiums earned in the three months ended June 30, 2014 and 2013 relative to the absolute level of gross and net premiums written, given the Company earns certain premiums commensurate with the seasonality of the underlying exposures.

Six-month result

Gross and net premiums written and net premiums earned decreased by 11%, 12% and 14% on a constant foreign exchange basis, respectively, in the six months ended June 30, 2014 compared to the same period of 2013. The decreases in gross and net premiums written and net premiums earned were primarily driven by cancellations, non-renewals, decreased shares and the impact of the reinstatement premiums related to the European and Alberta Floods in 2013. These decreases were partially offset by new business written.

Technical result and technical ratio

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

	For the three months ended June 30, 2014		For the three months ended June 30, 2013		For the six months ended June 30, 2014		For the six months ended June 30, 2013	
Current accident year technical result and ratio								
Adjusted for large catastrophic losses and prior quarter loss development	$43	27.3 %	$49	12.0 %	$96	30.7 %	$109	23.6 %
Large catastrophic losses[1]	—	—	(67)	111.8	—	—	(67)	51.2

Net (adverse) favorable prior quarter loss development	(5)	8.9	8	(10.3)				
Prior accident years technical result and ratio								
Net (adverse) favorable prior year loss development	(6)	10.2	32	(40.9)	28	(20.2)	67	(40.5)
Technical result and ratio, as reported	$32	46.4 %	$22	72.6 %	$124	10.5 %	$109	34.3 %

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

Three-month result

The increase of $10 million in the technical result (and the corresponding decrease of 26.2 points in the technical ratio) in the three months ended June 30, 2014 compared to the same period of 2013 was primarily attributable to:

- Large catastrophic losses—a decrease of $67 million (decrease of 111.8 points in the technical ratio) related to the European and Alberta Floods in the three months ended June 30, 2013 compared to no significant catastrophic losses in the same period of 2014.

This factor driving the increase in the technical result in the three months ended June 30, 2014 compared to the same period of 2013 was partially offset by:

- Net (adverse) favorable prior year loss development—a decrease of $38 million (increase of 51.1 points in the technical ratio) from favorable prior year loss development of $32 million (40.9 points on the technical ratio) in the three months ended June 30, 2013 to adverse prior year loss development of $6 million (10.2 points on the technical ratio) in the same period of 2014. The net adverse loss development for prior accident years in the three months ended June 30, 2014 was primarily due to adverse development related to the New Zealand Earthquakes, as described in Critical Accounting Policies and Estimates—Losses and Loss Expenses and Life Policy Benefits—Losses and Loss Expenses above, which was partially offset by favorable loss emergence from other events. The net favorable loss development for prior accident years in the three months ended June 30, 2013 was primarily due to favorable loss emergence.
- Net (adverse) favorable prior quarter loss development—a decrease of $13 million (increase of 19.2 points in the technical ratio) from favorable prior quarter loss development of $8 million (10.3 points on the technical ratio) in the three months ended June 30, 2013 to adverse prior quarter loss development of $5 million (8.9 points on the technical ratio) in the same period of 2014. The adverse prior quarter loss development in the three months ended June 30, 2014 was primarily driven by modest adverse development related to a mid-sized loss that occurred in the first quarter of 2014.
- The current accident year technical result, adjusted for large catastrophic losses and prior quarter loss development —an increase in the technical ratio primarily due to the inclusion of reinstatement premiums related to large catastrophic losses in the three months ended June 30, 2013 in the calculation of the current accident year technical ratio. Excluding the effect of the reinstatement premiums, the current accident year technical result modestly decreased (and the technical ratio modestly increased) due to the impact of lower net premiums earned in the three months ended June 30, 2014 compared to the same period of 2013.

Six-month result

The increase of $15 million in the technical result (and the corresponding decrease of 23.8 points in the technical ratio) in the six months ended June 30, 2014 compared to the same period of 2013 was primarily attributable to:

- Large catastrophic losses—a decrease of $67 million (decrease of 51.2 points in the technical ratio) related the European and Alberta Floods in the six months ended June 30, 2013 compared to no significant catastrophic losses in the same period of 2014.

This factor driving the increase in the technical result in the six months ended June 30, 2014 compared to the same period of 2013 was partially offset by:

- Net favorable prior year loss development—a decrease of $39 million (increase of 20.3 points on the technical ratio) from $67 million (40.5 points on the technical ratio) in the six months ended June 30, 2013 to $28 million (20.2 points on the technical ratio) in the same period of 2014. The net favorable loss development for prior accident years in the six months ended June 30, 2014 was primarily due to favorable loss emergence, and was partially offset by the adverse development on the New Zealand Earthquakes as described in Critical Accounting Policies and Estimates—Losses and Loss Expenses and Life Policy Benefits—Losses and Loss Expenses above. The net favorable loss development for prior accident years in the six months ended June 30, 2013 was primarily due to favorable loss emergence.

- The current accident year technical result, adjusted for large catastrophic losses—an increase in the technical ratio primarily due to the inclusion of reinstatement premiums related to large catastrophic losses in the six months ended June 30, 2013 in the calculation of the current accident year technical ratio. Excluding the effect of the reinstatement premiums, the current accident year technical result modestly decreased (and the technical ratio modestly increased) due to the impact of lower net premiums earned in the six months ended June 30, 2014 compared to the same period of 2013.

Life and Health Segment

The Company's Life and Health segment includes the mortality, longevity and health lines of business written primarily in the U.K., Ireland and France and, following the acquisition of PartnerRe Health on December 31, 2012, accident and health business written in the U.S. At the time of the acquisition, PartnerRe Health operated as a Managing General Agent (MGA), writing all of its business on behalf of third-party insurance companies and earning a fee for producing the business, as well as participating in a portion of the original business that was ceded to PartnerRe Health by these third parties based on quota share agreements. During 2013, the Company obtained the necessary licenses and approvals and began transitioning the portfolio to PartnerRe carriers. As of January 1, 2014, virtually all of the PartnerRe Health business is originated directly, without the use of third party insurance companies. As a result, this transition affects the period over period comparability with increased gross and net premiums written and net premiums earned and reduced MGA fee income, which is recorded in Other income, in the three months and six months ended June 30, 2014 compared to the same periods of 2013.

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

	For the three months ended June 30, 2014	% Change	For the three months ended June 30, 2013	For the six months ended June 30, 2014	% Change	For the six months ended June 30, 2013
Gross premiums written	$326	40 %	$233	$615	26 %	$486
Net premiums written	311	34	232	593	23	481
Net premiums earned	$311	34	$232	$573	26	$456
Life policy benefits	(252)	40	(181)	(468)	29	(363)
Acquisition costs	(43)	30	(33)	(73)	25	(59)
Technical result	$16	(11)	$18	$32	(7)	$34
Other income	3	(18)	3	4	(36)	6
Other operating expenses	(16)	(8)	(17)	(34)	(4)	(35)
Net investment income	15	5	15	30	—	30
Allocated underwriting result [1]	$18	(2)	$19	$32	(9)	$35

(1) Allocated underwriting result is defined as net premiums earned, other income or loss and allocated net investment income less life policy benefits, acquisition costs and other operating expenses.

Premiums

The Life and Health segment represented 22% and 19% of total net premiums written in the three months and six months ended June 30, 2014, respectively, compared to 18% and 16% of total net premiums written in the same periods of 2013. The net premiums written and net premiums earned by line of business for this segment for the three months and six months ended June 30, 2014 and 2013 were as follows (in millions of U.S. dollars):

	For the three months ended June 30, 2014				For the three months ended June 30, 2013				For the six months ended June 30, 2014				For the six months ended June 30, 2013			
	Net premiums written		Net premiums earned		Net premiums written		Net premiums earned		Net premiums written		Net premiums earned		Net premiums written		Net premiums earned	
Accident and Health	$84	27 %	$84	27 %	$33	14 %	$33	14 %	$129	22 %	$129	23 %	$63	13 %	$63	14 %
Longevity	70	22	70	22	59	26	59	26	140	23	140	24	122	25	122	27

Mortality	157	51	157	51	140	60	140	60	324	55	304	53	296	62	271	59
Total	$311	100%	$311	100%	$232	100%	$232	100%	$593	100%	$573	100%	$481	100%	$456	100%

Business reported in this segment is, to a significant extent, originally denominated in foreign currencies and is reported in U.S. dollars. The U.S. dollar can fluctuate significantly against other currencies and this should be considered when making period to period comparisons. The effect of foreign exchange fluctuations, described in the Results of Operations above, on gross and net premiums written and net premiums earned in the three months and six months ended June 30, 2014 compared to the same periods of 2013 was as follows:

Three months ended June 30, 2014 compared to the same period of 2013	Gross premiums written		Net premiums written		Net premiums earned	
Increase in original currency	35	%	29	%	29	%
Foreign exchange effect	5		5		5	
Increase as reported in U.S. dollars	40	%	34	%	34	%
Six months ended June 30, 2014 compared to the same period of 2013						
Increase in original currency	23	%	20	%	22	%
Foreign exchange effect	3		3		4	
Increase as reported in U.S. dollars	26	%	23	%	26	%

Three-month result

Gross premiums written increased by 35% and net premiums written and earned increased by 29% on a constant foreign exchange basis in the three months ended June 30, 2014 compared to the same period of 2013. The increases in gross and net premiums written and net premiums earned were due to increases in all lines of business, most notably in the accident and health line. The increase in the accident and health line was primarily driven by PartnerRe Health's business, due to its continuing transition from an MGA to a carrier, as described above, and new opportunities arising from the implementation of the Patient Protection and Affordable Care Act.

Six-month result

Gross and net premiums written and net premiums earned increased by 23%, 20% and 22% on a constant foreign exchange basis, respectively, in the six months ended June 30, 2014 compared to the same period of 2013. The increases in gross and net premiums written and net premiums earned were due to increases in all lines of business, most notably in the accident and health and mortality lines. The increase in the accident and health line was due to the same factors described in the three-month result and the increase in the mortality line was driven by new business.

Allocated underwriting result

Three-month result

The allocated underwriting result of $18 million in the three months ended June 30, 2014 was comparable to $19 million in the same period of 2013 due to a lower level of net favorable prior year loss development and a modest increase in claims activity reported by cedants related to certain current period events affecting the short-term mortality business in the three months ended June 30, 2014 compared to the same period of 2013, being almost entirely offset by improved profitability from the PartnerRe Health business.

The decrease in net favorable prior year loss development of $6 million resulted from net favorable loss development of $6 million in the three months ended June 30, 2014 compared to net favorable loss development of $12 million in the same period of 2013. The net favorable prior year loss development of $6 million during the three months ended June 30, 2014 was primarily related to the short-term mortality business and PartnerRe Health's business. The net favorable prior year loss development of $12 million during the three months ended June 30, 2013 was primarily driven by certain short-term treaties in the mortality line of business and better than expected claims activity related to the GMDB business.

Six-month result

The allocated underwriting result decreased by $3 million, from $35 million in the six months ended June 30, 2013 to $32 million in the same period of 2014. The decrease in the allocated underwriting result was primarily driven by the same factors described for the three-month result.

The decrease in net favorable prior year loss development of $12 million resulted from net favorable loss development of $8 million in the six months ended June 30, 2014 compared to net favorable loss development of $20 million in the same period of 2013. The net favorable prior year loss development of $8 million during the six months ended

June 30, 2014 was primarily related to the GMDB business, driven by improvements in the capital markets and favorable actual versus expected claims paid experience, and PartnerRe Health's business. This favorable prior year loss development was partially offset by increased claims activity reported by cedants related to certain short-term mortality business. The net favorable prior year loss development of $20 million during the six months ended June 30, 2013 was primarily related to certain short-term treaties in the mortality line of business and the GMDB business, driven by an improvement in the capital markets and better than expected claims activity.

Premium Distribution by Line of Business

The distribution of net premiums written by line of business for the three months and six months ended June 30, 2014 and 2013 was as follows:

	For the three months ended June 30, 2014	For the three months ended June 30, 2013	For the six months ended June 30, 2014	For the six months ended June 30, 2013
Non-life				
Property and casualty				
Casualty	11 %	12 %	12 %	13 %
Motor	5	5	7	7
Multiline and other	5	3	5	4
Property	9	11	12	15
Specialty				
Agriculture	13	11	13	10
Aviation / Space	4	4	3	3
Catastrophe	9	11	10	12
Credit / Surety	6	7	6	6
Energy	1	2	1	1
Engineering	3	4	3	3
Marine	5	6	4	5
Specialty casualty	3	2	3	3
Specialty property	4	4	2	2
Life and Health	22	18	19	16
Total	100 %	100 %	100 %	100 %

The changes in the distribution of net premiums written by line of business between the three months and six months ended June 30, 2014 and the same periods of 2013 reflected the Company’s response to existing market conditions and may also be affected by the timing of renewals of treaties, a change in treaty structure, premium adjustments reported by cedants and significant increases or decreases in other lines of business. In addition, foreign exchange fluctuations affected the comparison for all lines.

- Property: the decrease in the distribution of net premiums written in the three months and six months ended June 30, 2014 compared to the same periods of 2013 was primarily driven by cancellations and non-renewals in the property lines of the North America and Global (Non-U.S.) P&C sub-segments and by increases in other lines of business.
- Agriculture: the increase in the distribution of net premiums written in the three months ended June 30, 2014 compared to the same period of 2013 was primarily driven by new business written in the North America and Global Specialty sub-segments. In addition to new business written, the increase in the distribution of net premiums written in the six months ended June 30, 2014 compared to the same period of 2013 was also due to a restructuring of a significant treaty in the North America sub-segment.
- Catastrophe: the decrease in the distribution of net premiums written in the three months ended June 30, 2014 compared to the same period of 2013 was primarily driven by the impact of reinstatement premiums recorded in the three months ended June 30, 2013. The decrease in the distribution of net premiums written in the six months ended June 30, 2014 compared to the same period of 2013 was primarily driven by cancellations, non-renewals and restructuring of certain treaties, as described in the Catastrophe sub-segment above.
- Life and Health: the increase in the distribution of net premiums written in the three months and six months ended June 30, 2014 compared to the same periods of 2013 was primarily driven by increases in PartnerRe Health’s accident and health business, as described in the Life and Health segment above.

Premium Distribution by Reinsurance Type

The Company typically writes business on either a proportional or non-proportional basis. On proportional business, the Company shares proportionally in both the premiums and losses of the cedant. On non-proportional business, the Company is typically exposed to loss events in excess of a predetermined dollar amount or loss ratio. In both proportional and non-proportional business, the Company typically reinsures a large group of primary insurance contracts written by the ceding company. In addition, the Company writes business on a facultative basis. Facultative arrangements are generally specific to an individual risk and can be

written on either a proportional or non-proportional basis. Generally, the Company has more influence over pricing, as well as terms and conditions, in non-proportional and facultative arrangements.

The distribution of gross premiums written by reinsurance type for the three months and six months ended June 30, 2014 and 2013 was as follows:

	For the three months ended June 30, 2014	For the three months ended June 30, 2013	For the six months ended June 30, 2014	For the six months ended June 30, 2013
Non-life segment				
Proportional	55 %	55 %	52 %	50 %
Non-proportional	16	20	24	29
Facultative	7	7	6	5
Life and Health segment				
Proportional	22	18	16	15
Non-proportional	—	—	2	1
Total	100 %	100 %	100 %	100 %

The distribution of gross premiums written by reinsurance type is affected by changes in the allocation of capacity among lines of business, the timing of receipt by the Company of cedant accounts and premium adjustments reported by cedants. In addition, foreign exchange fluctuations affected the comparison for all treaty types.

The changes in the distribution of gross premiums written by reinsurance type between the three months and six months ended June 30, 2014 and the same periods of 2013 primarily reflect the following:

- an increase in gross premiums written related to the PartnerRe Health's business in the Life and Health segment, which are written predominantly on a proportional basis; and
- a decrease in gross premiums written on a non-proportional basis, which is primarily driven by decreases in the Catastrophe sub-segment and the property line of the North America sub-segment as described in the Results by Segment above.

Premium Distribution by Geographic Region

The geographic distribution of gross premiums written based on the location of the underlying risk for the three months and six months ended June 30, 2014 and 2013 was as follows:

	For the three months ended June 30, 2014	For the three months ended June 30, 2013	For the six months ended June 30, 2014	For the six months ended June 30, 2013
Asia, Australia and New Zealand	13 %	13 %	11 %	10 %
Europe	35	36	41	42
Latin America, Caribbean and Africa	9	10	8	10
North America	43	41	40	38
Total	100 %	100 %	100 %	100 %

The distribution of gross premiums written during the three months and six months ended June 30, 2014 was comparable to the same periods of 2013.

Premium Distribution by Production Source

The Company generates its gross premiums written both through brokers and through direct relationships with cedants. The percentage of gross premiums written by production source for the three months and six months ended June 30, 2014 and 2013 was as follows:

	For the three months ended June 30, 2014	For the three months ended June 30, 2013	For the six months ended June 30, 2014	For the six months ended June 30, 2013
Broker	69 %	72 %	70 %	71 %
Direct	31	28	30	29
Total	100 %	100 %	100 %	100 %

The percentage of gross premiums written through brokers in the three months ended June 30, 2014 decreased compared to the same period of 2013 due to a restructuring of a significant treaty written through brokers in the agriculture line in the North America sub-segment, which resulted in the full annual premium being written in the three months ended March 31, 2014 compared to being written ratably over four quarters in 2013, and new business written directly in the Global Specialty sub-segment. The percentage of gross premiums written through brokers in the six months ended June 30, 2014 was comparable to the same period of 2013.

Corporate and Other

Corporate and Other is comprised of the Company's investment related activities, including principal finance transactions, insurance-linked securities and strategic investments, and its corporate activities, including other operating expenses.

Net Investment Income

Net investment income by asset source for the three months and six months ended June 30, 2014 and 2013 was as follows (in millions of U.S. dollars):

	For the three months ended June 30, 2014	% Change	For the three months ended June 30, 2013	For the six months ended June 30, 2014	% Change	For the six months ended June 30, 2013
Fixed maturities	$115	4 %	$111	$226	(1)%	$227
Short-term investments, cash and cash equivalents	—	(40)	—	—	(61)	1
Equities	15	13	13	22	23	17
Funds held and other	9	5	9	17	(3)	17
Funds held – directly managed	3	(36)	5	7	(34)	11
Investment expenses	(12)	(11)	(13)	(25)	(2)	(25)
Net investment income	$130	4	$125	$247	(1)	$248

Because of the interest-sensitive nature of some of the Company's life and health products, net investment income is considered in Management's assessment of the profitability of the Life and Health segment (see Life and Health segment above). The following discussion includes net investment income from all investment activities, including the net investment income allocated to the Life and Health segment.

Three-month result

Net investment income increased in the three months ended June 30, 2014 compared to the same period of 2013 due to:

- an increase in net investment income from fixed maturities due to the impact of the increase in the U.S. Consumer Price Index on the Company's Treasury Inflation-Protected Securities portfolio and certain favorable non-recurring

items, which was partially offset by lower reinvestment rates; and

- an increase in net investment income from equities primarily as a result of higher dividend income; partially offset by

- a decrease in net investment income from funds held – directly managed primarily related to the lower average balance in the funds held – directly managed account, which was driven by a release of assets related to the commutation of a portion the funds held agreement with Colisée Re, the run-off of the remaining underlying liabilities and lower reinvestment rates.

Six-month result

Net investment income modestly decreased in the six months ended June 30, 2014 compared to the same period of 2013 due to:

- a decrease in net investment income from funds held – directly managed primarily due to the same factors discussed above for the three-month result; and
- a decrease in net investment income from fixed maturities primarily due to lower reinvestment rates, which was partially offset by the impact of the increase in the U.S. Consumer Price Index on the Company's Treasury Inflation-Protected Securities portfolio and certain favorable non-recurring items; partially offset by
- an increase in net investment income from equities primarily as a result of higher dividend income.

Net Realized and Unrealized Investment Gains (Losses)

The Company’s portfolio managers have dual investment objectives of optimizing current investment income and achieving capital appreciation. To meet these objectives, it is often desirable to buy and sell securities to take advantage of changing market conditions and to reposition the investment portfolios. Accordingly, recognition of realized gains and losses is considered by the Company to be a normal consequence of its ongoing investment management activities. In addition, the Company records changes in fair value for substantially all of its investments as unrealized investment gains or losses in its Condensed Consolidated Statements of Operations. Realized and unrealized investment gains and losses are generally a function of multiple factors, with the most significant being prevailing interest rates, credit spreads, and equity market conditions.

The components of net realized and unrealized investment gains (losses) for the three months and six months ended June 30, 2014 and 2013 were as follows (in millions of U.S. dollars):

	For the three months ended June 30, 2014	For the three months ended June 30, 2013	For the six months ended June 30, 2014	For the six months ended June 30, 2013
Net realized investment gains on fixed maturities and short-term investments	$31	$40	$56	$82
Net realized investment gains on equities	34	35	35	54
Net realized investment (losses) gains on other invested assets	(18)	8	(8)	19
Change in net unrealized investment (losses) gains on other invested assets	(14)	83	(40)	61
Change in net unrealized investment gains (losses) on fixed maturities and short-term investments	124	(396)	243	(467)
Change in net unrealized investment gains (losses) on equities	6	(58)	17	(8)
Net other realized and unrealized investment gains (losses)	1	1	2	—
Net realized and unrealized investment gains (losses) on funds held – directly managed	2	(12)	3	(17)
Net realized and unrealized investment gains (losses)	$166	$(299)	$308	$(276)

Three-month result

Net realized and unrealized investment gains increased by $465 million, from a loss of $299 million in the three months ended June 30, 2013 to a gain of $166 million in the same period of 2014. The net realized and unrealized investment gains of $166 million in the three months ended June 30, 2014 were primarily due to decreases in U.S. and European longer-term risk-free interest rates, improvements in worldwide equity markets and narrowing credit spreads, which were partially offset by

losses on treasury note futures. Net realized and unrealized investment losses of $299 million in the three months ended June 30, 2013 were primarily due to increases in U.S. and European risk-free interest rates, widening credit spreads and modest declines in worldwide equity markets, which were partially offset by gains on treasury note futures.

Net realized and the change in net unrealized investment (losses) gains on other invested assets were a combined loss of $32 million in the three months ended June 30, 2014 and a combined gain of $91 million in the three months ended June 30, 2013 and primarily related to treasury note futures.

Net realized and unrealized investment gains (losses) on funds held – directly managed of $2 million gain and $12 million loss in the three months ended June 30, 2014 and 2013, respectively, were primarily due to changes in risk-free interest rates related to the segregated investment portfolio underlying the funds held – directly managed account.

Six-month result

Net realized and unrealized investment gains increased by $584 million, from a loss of $276 million in the six months ended June 30, 2013 to a gain of $308 million in the same period of 2014. The net realized and unrealized investment gains of $308 million in the six months ended June 30, 2014 were primarily due to modest decreases in U.S. and European longer-term risk-free interest rates, narrowing credit spreads and improvements in worldwide equity markets, which were partially offset by losses on treasury note futures. Net realized and unrealized investment losses of $276 million in the six months ended June 30, 2013 were primarily due to increases in U.S. and European risk-free interest rates and widening credit spreads, which were partially offset by gains on treasury note futures and improvements in worldwide equity markets.

Net realized and the change in net unrealized investment (losses) gains on other invested assets were a combined loss of $48 million in the six months ended June 30, 2014 and a combined gain of $80 million in the six months ended June 30, 2013 and primarily related to treasury note futures.

Net realized and unrealized investment gains (losses) on funds held – directly managed of $3 million gain and $17 million loss in the six months ended June 30, 2014 and 2013, respectively, primarily due to changes in risk-free interest rates related to the segregated investment portfolio underlying the funds held – directly managed account.

Other Operating Expenses

The Company's total other operating expenses for the three months and six months ended June 30, 2014 and 2013 were as follows (in millions of U.S. dollars):

	For the three months ended June 30, 2014	% Change	For the three months ended June 30, 2013	For the six months ended June 30, 2014	% Change	For the six months ended June 30, 2013
Other operating expenses	$107	(26)%	$145	$219	(16)%	$261

Three-month result

Other operating expenses represent 7.9% and 12.0% of net premiums earned (Non-life and Life and Health) for the three months ended June 30, 2014 and 2013, respectively. Other operating expenses included in Corporate and Other were $30 million and $68 million, of which $29 million and $66 million are related to corporate activities for the three months ended June 30, 2014 and 2013, respectively.

Other operating expenses decreased by $38 million, or 26%, in the three months ended June 30, 2014 compared to the same period of 2013 primarily due to the restructuring charge in the three months ended June 30, 2013, as described in Executive Overview above.

Six-month result

Other operating expenses represent 8.4% and 11.1% of net premiums earned (Non-life and Life and Health) for the six months ended June 30, 2014 and 2013, respectively. Other operating expenses included in Corporate and Other were

$59 million and $100 million, of which $57 million and $96 million are related to corporate activities for the six months ended June 30, 2014 and 2013, respectively.
Other operating expenses decreased by $42 million, or 16%, in the six months ended June 30, 2014 compared to the same period of 2013 primarily due to the restructuring charge in the six months ended June 30, 2013, as described in Executive Overview above.

Income Taxes

The Company's effective income tax rate, which we calculate as income tax expense or benefit divided by net income or loss before taxes, may fluctuate significantly from period to period depending on the geographic distribution of pre-tax net income or loss in any given period between different jurisdictions with comparatively higher tax rates and those with comparatively lower tax rates. The geographic distribution of pre-tax net income or loss can vary significantly between periods due to, but not limited to, the following factors: the business mix of net premiums written and earned; the geographic location, quantum and nature of net losses and loss expenses incurred; the quantum and geographic location of other operating expenses, net investment income, net realized and unrealized investment gains and losses; and the quantum of specific adjustments to determine the income tax basis in each of the Company's operating jurisdictions. In addition, a significant portion of the Company's gross and net premiums are currently written and earned in Bermuda, a non-taxable jurisdiction, including the majority of the Company's catastrophe business, which can result in significant volatility in the Company's pre-tax net income or loss from period to period.

The Company's income tax expense (benefit) and effective income tax rate for the three months and six months ended June 30, 2014 and 2013 were as follows (in millions of U.S. dollars):

	For the three months ended June 30, 2014	For the three months ended June 30, 2013	For the six months ended June 30, 2014	For the six months ended June 30, 2013
Income tax expense (benefit)	$78	$(75)	$141	$(33)
Effective income tax rate	22.3%	29.8%	19.4%	(127.0)%

Three-month result

Income tax expense and the effective income tax rate during the three months ended June 30, 2014 were $78 million and 22.3%, respectively. Income tax expense and the effective income tax rate during the three months ended June 30, 2014 were primarily driven by the geographic distribution of the Company's pre-tax net income between its various taxable and non-taxable jurisdictions. Specifically, the income tax expense and the effective income tax rate included a significant portion of the Company's pre-tax net income recorded in jurisdictions with comparatively higher tax rates, and was driven by net realized and unrealized investment gains and net favorable prior year loss development. The Company's non-taxable jurisdictions and jurisdictions with comparatively lower tax rates recorded a less significant portion of the Company's pre-tax net income, driven by the same factors and the absence of large catastrophic losses.

Income tax benefit and the effective income tax rate during the three months ended June 30, 2013 were $75 million and 29.8%, respectively. Income tax benefit and the effective income tax rate during the three months ended June 30, 2013 were primarily driven by the geographic distribution of the Company's pre-tax net loss between its various taxable and non-taxable jurisdictions. Specifically, the income tax benefit and the effective income tax rate included a significant pre-tax net loss recorded in jurisdictions with comparatively higher tax rates driven by net realized and unrealized investment losses, large catastrophic losses related to the European and Alberta Floods and charges related to the restructuring, which were partially offset by net favorable prior year loss development. The Company's non-taxable jurisdictions and jurisdictions with comparatively lower tax rates recorded a modest pre-tax net income, driven by net favorable prior year loss development and partially offset by net realized and unrealized investment losses and large catastrophic losses related to the European and Alberta Floods.

Six-month result

Income tax expense and the effective income tax rate during the six months ended June 30, 2014 were $141 million and 19.4%, respectively. Income tax expense and the effective income tax rate during the six months ended June 30, 2014 were primarily driven by the geographic distribution of the Company's pre-tax net income between its various taxable and non-taxable jurisdictions. Specifically, the income tax expense and the effective income tax rate included a relatively even distribution of the Company's pre-tax net income between its various jurisdictions. The Company's

pre-tax net income recorded in jurisdictions with comparatively higher tax rates was driven by net realized and unrealized investment gains and net favorable prior year loss development. The Company's non-taxable jurisdictions and jurisdictions with comparatively lower tax rates recorded a less significant portion of the Company's pre-tax net income, driven by the same factors and the absence of large catastrophic losses.

Income tax benefit and the effective income tax rate during the six months ended June 30, 2013 were $33 million and (127.0)%, respectively. Income tax benefit and the effective income tax rate during the six months ended June 30, 2013 were primarily driven by the geographic distribution of the Company's modest pre-tax net income between its various taxable and

non-taxable jurisdictions. Specifically, the income tax benefit and the effective income tax rate included pre-tax net income recorded in non-taxable jurisdictions and jurisdictions with comparatively lower tax rates were driven by net favorable prior year loss development and partially offset by net realized and unrealized investment losses and large catastrophic losses related to the European and Alberta Floods. The Company's taxable jurisdictions recorded a pre-tax net loss driven by significant net realized and unrealized investment losses, large catastrophic losses related to the European and Alberta Floods and the charges related to the restructuring, which were partially offset by net favorable prior year loss development.

Financial Condition, Liquidity and Capital Resources

The Company purchased, as part of its acquisition of Paris Re, an investment portfolio and a funds held – directly managed account. The discussion of the acquired Paris Re investment portfolio is included in the discussion of Investments below. The discussion of the segregated investment portfolio underlying the funds held – directly managed account is included separately in Funds Held – Directly Managed below.

Investments

Investment philosophy

The Company employs a prudent investment philosophy. It maintains a high quality, well balanced and liquid portfolio having the dual objectives of optimizing current investment income and achieving capital appreciation. The Company's invested assets are comprised of total investments, cash and cash equivalents and accrued investment income. From a risk management perspective, the Company allocates its invested assets into two categories: liability funds and capital funds. For additional information on the Company's capital and liability funds, see Financial Condition, Liquidity and Capital Resources—Investments in Item 7 of Part II of the Company's Annual Report on Form 10-K for the year ended December 31, 2013.

The Company's total invested assets (including funds held – directly managed) at June 30, 2014 and December 31, 2013 were split between liability and capital funds as follows (in millions of U.S. dollars):

	June 30, 2014	% of Total Invested Assets		December 31, 2013	% of Total Invested Assets	
Liability funds	$10,180	58	%	$10,366	59	%
Capital funds	7,344	42		7,118	41	
Total invested assets	$17,524	100	%	$17,484	100	%

The modest increase of $40 million in total invested assets at June 30, 2014 compared to December 31, 2013 was primarily related to an increase in fixed maturities which was partially offset by decreases in cash and cash equivalents and the funds – held directly managed account (see Funds Held – Directly Managed below). The increase in fixed maturities was primarily related to decreases in U.S. and European risk-free interest rates and the reinvestment of net investment income. The decrease in cash and cash equivalents was primarily related to payments for the Company's share repurchases, dividends and taxes, which were partially offset by cash flow provided by underwriting activities.

The liability funds were comprised of cash and cash equivalents, accrued investment income and high quality fixed income securities. The decrease in the liability funds at June 30, 2014 compared to December 31, 2013 was primarily driven by an increase in net reinsurance assets related to new business written and losses paid during the six months ended June 30, 2014.

The capital funds were generally comprised of accrued investment income, investment grade and below investment grade fixed maturity securities, preferred and common stocks, private placement equity and bond investments, emerging markets and high-yield fixed income securities and certain other specialty asset classes. The increase in the capital funds at June 30, 2014 compared to December 31, 2013 was primarily driven by the increase in total invested assets and decrease in liability funds, as described above. At June 30, 2014, approximately 61% of the capital funds were invested in cash and cash equivalents and investment grade fixed income securities.

Overview

Total investments and cash (excluding the funds held – directly managed account) were $16.8 billion at June 30, 2014 compared to $16.6 billion at December 31, 2013. The major factors contributing to the increase in the six months ended June 30, 2014 were:

- net realized and unrealized gains related to the investment portfolio of $305 million primarily resulting from an increase in the fixed maturity and short-term investment portfolios of $299 million, reflecting modest decreases in U.S. and European risk-free interest rates and narrowing credit spreads, and an increase in the equity portfolio of $52 million.

These factors were partially offset by a decrease in other invested assets of $48 million primarily driven by losses on treasury note futures (see discussion related to duration below);

- net cash provided by operating activities of $221 million; and
- a decrease in net receivable for securities sold of $73 million; partially offset by
- a net decrease of $286 million, due to the repurchase of common shares of $313 million under the Company's share repurchase program, partially offset by the issuance of common shares under the Company's employee equity plans of $27 million;
- dividend payments on common and preferred shares totaling $97 million; and
- various other factors which net to approximately $68 million, the largest being the amortization of net premium on investments.

Trading securities

The following discussion relates to the composition of the Company's trading securities. The Company's other invested assets and the investments underlying the funds held – directly managed account are discussed separately below.

Trading securities are carried at fair value with changes in fair value included in net realized and unrealized investment gains and losses in the Condensed Consolidated Statements of Operations.

At June 30, 2014, approximately 95% of the Company's fixed maturity and short-term investments, which includes fixed income type mutual funds, were publicly traded and approximately 92% were rated investment grade (BBB- or higher) by Standard & Poor's (or estimated equivalent).

The average credit quality, the average yield to maturity and the expected average duration of the Company's fixed maturities and short-term investments, which includes fixed income type mutual funds, at June 30, 2014 and December 31, 2013 were as follows:

	June 30, 2014		December 31, 2013	
Average credit quality	A		A	
Average yield to maturity	2.2	%	2.5	%
Expected average duration	3.4	years	3.0	years

The average credit quality on fixed maturities, short-term investments and cash and cash equivalents at June 30, 2014 was comparable to December 31, 2013.

The average yield to maturity on fixed maturities, short-term investments and cash and cash equivalents decreased to 2.2% at June 30, 2014, compared to 2.5% at December 31, 2013 primarily due to decreases in U.S. and European longer-term risk-free interest rates and narrowing credit spreads.

The expected average duration on fixed maturities, short-term investments and cash and cash equivalents increased to 3.4 years at June 30, 2014 compared to 3.0 years at December 31, 2013 primarily due to an increase in the measured duration of the underlying reinsurance liabilities. For the purposes of managing portfolio duration, the Company uses exchange traded treasury note futures. The use of treasury note futures reduced the expected average duration of the investment portfolio from 4.2 years to 3.4 years at June 30, 2014, and reflects the Company's decision to continue to hedge against potential further rises in risk-free interest rates.

The Company's investment portfolio generated a total accounting return (calculated based on the carrying value of all investments in local currency) of 2.0% and 3.7% in the three months and six months ended June 30, 2014, respectively, compared to a negative total return of 1.0% and 0.1%, respectively, in the same periods of 2013. The total accounting return in the three months and six months ended June 30, 2014 was primarily due to decreases in U.S. and European longer-term risk-free interest rates, improvements in worldwide equity markets and narrowing credit spreads, while the same period of 2013 was primarily impacted by increases in U.S. and European risk-free interest rates.

The cost, fair value and credit ratings of the Company's fixed maturities, short-term investments and equities classified as trading at June 30, 2014 were as follows (in millions of U.S. dollars):

June 30, 2014	Cost [(1)]	Fair Value	Credit Rating [(2)] AAA	AA	A	BBB	Below investment grade/ Unrated
Fixed maturities							
U.S. government	$1,811	$1,827	$—	$1,827	$—	$—	$—
U.S. government sponsored enterprises	29	29	—	29	—	—	—
U.S. states, territories and municipalities	211	221	30	64	—	—	127
Non-U.S. sovereign government, supranational and government related	2,187	2,289	860	1,320	99	10	—
Corporate	5,694	5,981	207	532	2,431	2,384	427
Asset-backed securities	1,193	1,214	294	217	161	16	526
Residential mortgage-backed securities	2,371	2,395	338	1,987	54	—	16
Other mortgage-backed securities	50	51	17	18	14	—	2
Fixed maturities	13,546	14,007	1,746	5,994	2,759	2,410	1,098
Short-term investments	32	32	6	6	—	20	—
Total fixed maturities and short-term investments	13,578	14,039	$1,752	$6,000	$2,759	$2,430	$1,098
Equities	1,025	1,253					
Total	$14,603	$15,292					
% of Total fixed maturities and short-term investments			12 %	43 %	20 %	17 %	8 %

(1) Cost is amortized cost for fixed maturities and short-term investments and cost for equity securities.

(2) All references to credit rating reflect Standard & Poor’s (or estimated equivalent). Investment grade reflects a rating of BBB- or above.

The increase of $0.4 billion in the fair value of the Company’s fixed maturities from $13.6 billion at December 31, 2013 to $14.0 billion at June 30, 2014 primarily reflects decreases in U.S. and European longer-term risk-free interest rates and the reinvestment of net investment income. At June 30, 2014, there has been a modest shift in the distribution of the fixed maturity portfolio compared to December 31, 2013 as the Company decreased its holdings of corporate bonds (primarily due to narrowing credit spreads) and increased its holdings of U.S. government securities, residential mortgage-backed securities and asset-backed securities.

The U.S. government category includes U.S. treasuries which are not rated, however, they are generally considered to have a credit quality equivalent to or greater than AA+ corporate issues.

The U.S. government sponsored enterprises (GSEs) category includes securities that carry the implicit backing of the U.S. government and securities issued by U.S. government agencies (such as the Federal Home Loan Mortgage Corporation, or Freddie Mac as it is commonly known, and the Federal National Mortgage Association, or Fannie Mae as it is commonly known, and other federally owned or established corporations). At June 30, 2014, 60% of this category was rated AA with the remaining 40%, although not specifically rated, generally considered to have a credit quality equivalent to AA+ corporate issues.

The U.S. states, territories and municipalities category includes obligations of U.S. states, territories, or counties.

The non-U.S. sovereign government, supranational and government related category includes obligations of non-U.S. sovereign governments, political subdivisions, agencies and supranational debt. The fair value and credit ratings of non-U.S. sovereign government, supranational and government related obligations at June 30, 2014 were as follows (in millions of U.S. dollars):

June 30, 2014	Non-U.S. Sovereign Government	Supranational Debt	Non-U.S. Government Related	Fair Value	Credit Rating [1] AAA	AA	A	BBB
Non-European Union								
Canada	$133	$—	$343	$476	$195	$182	$99	$—
Singapore	100	—	—	100	100	—	—	—
New Zealand	80	—	—	80	—	80	—	—
All Other	44	—	—	44	1	33	—	10
Total Non-European Union	$357	$—	$343	$700	$296	$295	$99	$10
European Union								
France	$503	$—	$9	$512	$—	$512	$—	$—
Germany	305	—	—	305	305	—	—	—
Belgium	214	—	—	214	—	214	—	—
Netherlands	198	—	—	198	198	—	—	—
Austria	190	—	—	190	—	190	—	—
Supranational	—	140	—	140	31	109	—	—
All Other	30	—	—	30	30	—	—	—
Total European Union	$1,440	$140	$9	$1,589	$564	$1,025	$—	$—
Total	$1,797	$140	$352	$2,289	$860	$1,320	$99	$10
% of Total	79 %	6 %	15 %	100 %	38 %	58 %	4 %	—

(1) All references to credit rating reflect Standard & Poor's (or estimated equivalent).

At June 30, 2014, the Company did not have any investments in securities issued by peripheral European Union (EU) sovereign governments (Portugal, Italy, Ireland, Greece and Spain).

Corporate bonds are comprised of obligations of U.S. and foreign corporations. The fair values of corporate bonds issued by U.S. and foreign corporations by economic sector at June 30, 2014 were as follows (in millions of U.S. dollars):

June 30, 2014	U.S.	Foreign	Fair Value	Percentage to Total Fair Value of Corporate Bonds
Sector				
Finance	$1,016	$476	$1,492	25 %
Consumer noncyclical	563	238	801	13
Communications	388	364	752	13
Utilities	285	290	575	10
Energy	252	259	511	9
Industrials	323	144	467	8
Consumer cyclical	294	59	353	6
Insurance	255	38	293	5
Basic materials	71	112	183	3

Technology	156	—	156	3
Real estate investment trusts	136	7	143	2
Government guaranteed corporate debt	—	119	119	2
All Other	—	136	136	1
Total	$3,739	$2,242	$5,981	100 %
% of Total	63 %	37 %	100 %	

At June 30, 2014, other than the U.S., no other country accounted for more than 10% of the Company’s corporate bonds.

At June 30, 2014, the ten largest issuers accounted for 18% of the corporate bonds held by the Company (6% of total investments and cash) and no single issuer accounted for more than 3% of total corporate bonds (1% of total investments and cash). Within the finance sector, substantially all (more than 99%) corporate bonds were rated investment grade and 77% were rated A- or better at June 30, 2014.

At June 30, 2014, the fair value of the Company's corporate bond portfolio issued by companies in the European Union was as follows (in millions of U.S. dollars):

June 30, 2014	Government Guaranteed Corporate Debt	Finance Sector Corporate Bonds	Non-Finance Sector Corporate Bonds	Fair Value
European Union				
United Kingdom	$—	$137	$407	$544
Netherlands	—	85	162	247
France	—	41	164	205
Spain	—	42	94	136
Germany	112	8	13	133
Italy	—	17	79	96
Luxembourg	—	—	91	91
All Other	—	18	86	104
Total	$112	$348	$1,096	$1,556
% of Total	7 %	22 %	71 %	100 %

At June 30, 2014, the Company did not hold any government guaranteed corporate debt issued in peripheral EU countries (Portugal, Italy, Ireland, Greece and Spain) and held less than $79 million in total finance sector corporate bonds issued by companies in those countries.

Asset-backed securities, residential mortgaged-backed securities and other mortgaged-backed securities include U.S. and non-U.S. originations. The fair value and credit ratings of asset-backed securities, residential mortgaged-backed securities and other mortgaged-backed securities at June 30, 2014 were as follows (in millions of U.S. dollars):

	Credit Rating [1]							
June 30, 2014	GNMA [2]	GSEs [3]	AAA	AA	A	BBB	Below investment grade/ Unrated	Fair Value
Asset-backed securities								
U.S.	$—	$—	$133	$139	$104	$—	$506	$882
Non-U.S.	—	—	161	78	57	16	20	332
Asset-backed securities	$—	$—	$294	$217	$161	$16	$526	$1,214
Residential mortgaged-backed securities								
U.S.	$451	$1,467	$8	$—	$—	$—	$16	$1,942
Non-U.S.	—	—	330	69	54	—	—	453
Residential mortgaged-backed securities	$451	$1,467	$338	$69	$54	$—	$16	$2,395
Other mortgaged-backed securities								
U.S.	$5	$—	$8	$13	$14	$—	$2	$42
Non-U.S.	—	—	9	—	—	—	—	9

Other mortgaged-backed securities	$5	$—	$17	$13	$14	$—	$2	$51
Total	$456	$1,467	$649	$299	$229	$16	$544	$3,660
% of Total	13 %	40 %	18 %	8 %	6 %	— %	15 %	100 %

(1) All references to credit rating reflect Standard & Poor's (or estimated equivalent).

(2) GNMA represents the Government National Mortgage Association. The GNMA, or Ginnie Mae as it is commonly known, is a wholly owned U.S. government corporation within the Department of Housing and Urban Development which guarantees mortgage loans of qualifying first-time home buyers and low-income borrowers.

(3) GSEs, or government sponsored enterprises, includes securities that are issued by U.S. government agencies, such as Freddie Mac and Fannie Mae.

Residential mortgage-backed securities includes U.S. residential mortgage-backed securities, which generally have a low risk of default and carry the implicit backing of the U.S. government. The issuers of these securities are U.S. government agencies or GSEs, which set standards on the mortgages before accepting them into the program. Although these U.S. government backed securities do not carry a formal rating, they are generally considered to have a credit quality equivalent to or greater than AA+ corporate issues. They are considered prime mortgages and the major risk is uncertainty of the timing of prepayments. While there have been market concerns regarding sub-prime mortgages, the Company did not have direct exposure to these types of securities in its own investment portfolio at June 30, 2014, other than $19 million of investments in distressed asset vehicles (included in Other invested assets). At June 30, 2014, the Company's U.S. residential mortgage-backed securities included approximately $7 million (less than 1% of U.S. residential mortgage-backed securities) of collateralized mortgage obligations, where the Company deemed the entry point and price of the investment to be attractive.

Other mortgaged-backed securities includes U.S. and non-U.S. commercial mortgage-backed securities.

Short-term investments consisted of U.S. and non-U.S. government obligations and foreign corporate bonds. At June 30, 2014, the fair value and credit ratings of short-term investments were as follows (in millions of U.S. dollars):

June 30, 2014	U.S. Government	Non-U.S. Government	Corporate	Fair Value	Credit Rating [1] AAA	AA	A	BBB
Country								
Spain	$—	$—	$9	$9	$—	$—	$—	$9
Netherlands	—	—	6	6	—	—	—	6
Canada	—	5	—	5	5	—	—	—
All Other	7	1	4	12	1	6	—	5
Total	$7	$6	$19	$32	$6	$6	$—	$20
% of Total	20 %	19 %	61 %	100 %	19 %	20 %	—	61 %

(1) All references to credit rating reflect Standard & Poor's (or estimated equivalent). Investment grade reflects a rating of BBB- or above.

Equities are comprised of publicly traded common stocks, public exchange traded funds (ETFs), real estate investment trusts (REITs) and funds holding fixed income securities. The fair value of equities (including equities held in ETFs, REITs and funds holding fixed income securities) at June 30, 2014 were as follows (in millions of U.S. dollars):

June 30, 2014	Fair Value	Percentage to Total Fair Value of Equities	
Sector			
Real estate investment trusts	$225	22	%
Energy	154	15	
Finance	128	13	
Insurance	123	12	
Consumer noncyclical	100	10	
Communications	81	8	
Technology	60	6	
Industrials	50	5	
Consumer cyclical	41	4	
All Other	54	5	
Total	$1,016	100	%
Mutual funds and exchange traded funds			
Funds holding fixed income securities	190		
Funds and ETFs holding equities	47		
Total equities	$1,253		

At June 30, 2014, the Company's "insurance sector" equities included an investment of $101 million in Essent Group Ltd. (Essent), the U.S. mortgage guaranty insurance company that conducted an initial public offering in the fourth quarter of 2013.

At June 30, 2014, U.S. issuers represented 61% of the publicly traded common stocks and ETFs. At June 30, 2014, the ten largest common stocks accounted for 27% of equities (excluding equities held in ETFs and funds holding fixed income securities). At June 30, 2014, other than the Company's investment in Essent, no single common stock issuer accounted for more than 3% of total equities (excluding equities held in ETFs and funds holding fixed income securities) or more than 1% of the Company's total investments and cash and cash equivalents. At June 30, 2014, approximately 96% (or $182 million) of the funds holding fixed income securities were emerging markets funds. At June 30, 2014, the Company held less than $3 million of equities (excluding equities held in ETFs and funds holding fixed income securities) issued by finance sector institutions based in peripheral EU countries (Portugal, Ireland, Italy, Greece and Spain).

Maturity Distribution

The distribution of fixed maturities and short-term investments at June 30, 2014, by contractual maturity date, was as follows (in millions of U.S. dollars):

June 30, 2014	Cost	Fair Value
One year or less	$425	$428
More than one year through five years	5,043	5,212
More than five years through ten years	3,648	3,790
More than ten years	848	949
Subtotal	9,964	10,379
Mortgage/asset-backed securities	3,614	3,660
Total	$13,578	$14,039

Actual maturities may differ from contractual maturities because certain borrowers have the right to call or prepay certain obligations with or without call or prepayment penalties.

Other Invested Assets

At June 30, 2014, the Company's other invested assets consisted primarily of investments in non-publicly traded companies, asset-backed securities, notes and loan receivables, note securitizations, annuities and residuals and other specialty asset classes. These assets, together with the Company's derivative financial instruments that were in a net unrealized gain or loss position are

reported within Other invested assets in the Company's Condensed Consolidated Balance Sheets. The fair value and notional value (if applicable) of other invested assets at June 30, 2014 were as follows (in millions of U.S. dollars):

June 30, 2014	Carrying Value (1)	Notional Value of Derivatives
Strategic investments	$188	$ n/a
Asset-backed securities (including annuities and residuals)	30	n/a
Notes and loan receivables and notes securitizations	39	n/a
Total return swaps	—	43
Interest rate swaps (2)	(9)	202
Insurance-linked securities (3)	(1)	171
Futures contracts	2	2,988
Foreign exchange forward contracts	(2)	2,130
Foreign currency option contracts	1	86
TBAs	2	154
Other	43	n/a
Total	$293	

n/a: Not applicable

(1) Included in Other invested assets are investments that are accounted for using the cost method of accounting, equity method of accounting and fair value accounting.

(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.

(3) 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.

At June 30, 2014, the Company's strategic investments included $188 million of investments classified in other invested assets. These strategic investments include investments in non-publicly traded companies, private placement equity and bond investments and other specialty asset classes, and the investments in distressed asset vehicles comprised of sub-prime mortgages, which were discussed above in the residential mortgaged-backed securities category of Investments—Trading Securities. In addition to the Company's strategic investments that are classified in other invested assets, strategic investments of $140 million are recorded in equities and other assets at June 30, 2014.

At June 30, 2014, the Company's principal finance activities included $94 million of investments classified in Other invested assets, which were comprised primarily of asset-backed securities, notes and loan receivables, notes securitizations, annuities and residuals and private placement equity investments, which were partially offset by the combined fair value of total return and interest rate swaps related to principal finance activities.

For total return swaps within the principal finance portfolio, the Company uses internal valuation models to estimate the fair value of these derivatives and develops assumptions that require significant judgment, such as the timing of future cash flows, credit spreads and the general level of interest rates. For interest rate swaps, the Company uses externally modeled quoted prices that use observable market inputs. At June 30, 2014, all of the Company's principal finance total return and interest rate swap portfolio was related to tax advantaged real estate backed transactions.

Although the Company has not entered into any credit default swaps at June 30, 2014, the Company also utilizes credit default swaps to mitigate the risk associated with certain of its underwriting obligations, most notably in the credit/surety line, to replicate investment positions or to manage market exposures and to reduce the credit risk for specific fixed maturities in its investment portfolio. The Company uses externally modeled quoted prices that use

observable market inputs to estimate the fair value of these swaps.

The Company has entered into various weather derivatives and longevity total return swaps for which the underlying risks reference parametric weather risks and longevity risks, respectively. The Company uses internal valuation models to estimate the fair value of these derivatives and develops assumptions that require significant judgment, except for exchange traded weather derivatives. In determining the fair value of exchange traded weather derivatives, the Company uses quoted market prices.

The Company uses exchange traded treasury note futures for the purposes of managing portfolio duration. The Company also uses equity futures to replicate equity investment positions.

The Company utilizes foreign exchange forward contracts and foreign currency option contracts as part of its overall currency risk management and investment strategies.
The Company utilizes to-be-announced mortgage-backed securities (TBAs) as part of its overall investment strategy and to enhance investment performance. TBAs represent commitments to purchase future issuances of U.S. government agency mortgage-backed securities. For the period between purchase of a TBA and issuance of the underlying security, the Company's position is accounted for as a derivative. The Company's policy is to maintain designated cash balances at least equal to the amount of outstanding TBA purchases.
At June 30, 2014, the Company's other invested assets did not include any exposure to peripheral EU countries (Portugal, Italy, Ireland, Greece and Spain) and included direct exposure to mutual fund investments in other EU countries of less than $3 million. The counterparties to the Company's foreign exchange forward contracts and foreign currency option contracts include European finance sector institutions rated A- or better by Standard & Poor's and the Company manages its exposure to individual institutions. The Company also has exposure to the euro related to the utilization of foreign exchange forward contracts and other derivative financial instruments in its hedging strategy (see Quantitative and Qualitative Disclosures About Market Risk—Foreign Currency Risk in Item 3 of Part I of this report).
Funds Held – Directly Managed
For a discussion of the funds held – directly managed account and the related quota share retrocession agreement, see Business—Reserves—Reserve Agreement in Item 1 of Part I of the Company's Annual Report on Form 10-K for the year ended December 31, 2013. See also Quantitative and Qualitative Disclosures about Market Risk—Counterparty Credit Risk in Item 7A of Part II of the Company's Annual Report on Form 10-K for the year ended December 31, 2013 and in Item 3 below. The composition of the investments underlying the funds held – directly managed account at June 30, 2014 is discussed below.
At June 30, 2014, approximately 98% of the fixed income investments underlying the funds held – directly managed account were publicly traded and substantially all (more than 99%) were rated investment grade (BBB- or higher) by Standard & Poor's (or estimated equivalent).
The average credit quality, the average yield to maturity and the expected average duration of the fixed maturities, short-term investments and cash and cash equivalents underlying the funds held – directly managed account at June 30, 2014 and December 31, 2013 were as follows:

	June 30, 2014		December 31, 2013	
Average credit quality	AA		AA	
Average yield to maturity	1.1	%	1.2	%
Expected average duration	3.4	years	2.9	years

The increase in the expected average duration of fixed maturities, short-term investments and cash and cash equivalents underlying the funds held – directly managed account at June 30, 2014 compared to December 31, 2013 was primarily due to the release of certain shorter duration investments related to the commutation of a portion of the funds held agreement with Colisée Re. The average credit quality and the average yield to maturity of the fixed maturities underlying the funds held – directly managed account at June 30, 2014 were comparable to December 31, 2013.
The cost, fair value and credit rating of the investments underlying the funds held – directly managed account at June 30, 2014 were as follows (in millions of U.S. dollars):

June 30, 2014	Cost (1)	Fair Value	Credit Rating (2) AAA	AA	A	BBB
Fixed maturities						
U.S. government	$104	$105	$—	$105	$—	$—
U.S. government sponsored enterprises	47	50	—	50	—	—
Non-U.S. sovereign government, supranational and government related	122	128	34	79	15	—
Corporate	204	215	27	74	76	38
Fixed maturities	477	498	$61	$308	$91	$38
Other invested assets	28	16				
Total (3)	$505	$514				
% of Total fixed maturities			12 %	62 %	18 %	8 %

(1) Cost is amortized cost for fixed maturities and short-term investments.

(2) All references to credit rating reflect Standard & Poor's (or estimated equivalent).

(3) In addition to the fair value of $514 million of investments underlying the funds held – directly managed account at June 30, 2014, the funds held – directly managed account also includes cash and cash equivalents of $41 million, accrued investment income of $6 million and other assets and liabilities related to the underlying business of $109 million. Accordingly, the total balance in the funds held – directly managed account was $670 million at June 30, 2014.

The decrease in the fair value of the investment portfolio underlying the funds held – directly managed account from $561 million at December 31, 2013 to $514 million at June 30, 2014 was primarily related to the commutation of a portion of the funds held agreement with Colisée Re and the run-off of the underlying liabilities associated with this account.

The U.S. government category includes U.S. treasuries which are not rated, however, they are generally considered to have a credit quality equivalent to or greater than AA+ corporate issues.

The U.S. government sponsored enterprises (GSEs) category includes securities that carry the implicit backing of the U.S. government and securities issued by U.S. government agencies (such as Freddie Mac and Fannie Mae). At June 30, 2014, 82% of this category was rated AA with the remaining 18%, although not specifically rated, generally considered to have a credit quality equivalent to AA+ corporate issues.

The non-U.S. sovereign government, supranational and government related category includes obligations of non-U.S. sovereign governments, political subdivisions, agencies and supranational debt. The fair value and credit ratings of non-U.S. sovereign government, supranational and government related obligations underlying the funds held – directly managed account at June 30, 2014 were as follows (in millions of U.S. dollars):

June 30, 2014	Non-U.S. Sovereign Government	Supranational Debt	Non-U.S. Government Related	Fair Value	Credit Rating (1) AAA	AA	A
Non-European Union							
Canada	$3	$—	$18	$21	$5	$6	$10
All Other	—	3	—	3	3	—	—
Total Non-European Union	$3	$3	$18	$24	$8	$6	$10
European Union							
France	$14	$—	$25	$39	$—	39	$—

Belgium	20	—	—	20	—	20	—
All Other	10	35	—	45	26	14	5
Total European Union	$44	$35	$25	$104	$26	$73	$5
Total	$47	$38	$43	$128	$34	$79	$15
% of Total	37 %	29 %	34 %	100 %	27 %	61 %	12 %

(1) All references to credit rating reflect Standard & Poor's (or estimated equivalent).

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At June 30, 2014, the investments underlying the funds held – directly managed account included less than $1 million of securities issued by peripheral European Union (EU) sovereign governments (Portugal, Italy, Ireland, Greece and Spain).

Corporate bonds underlying the funds held – directly managed account are comprised of obligations of U.S. and foreign corporations. The fair value of corporate bonds issued by U.S. and foreign corporations underlying funds held – directly managed account by economic sector at June 30, 2014 were as follows (in millions of U.S. dollars):

June 30, 2014	U.S.		Foreign		Fair Value		Percentage to Total Fair Value of Corporate Bonds	
Sector								
Finance	$10		$63		$73		34	%
Consumer noncyclical	27		7		34		16	
Energy	6		25		31		15	
Utilities	6		16		22		10	
Communications	5		8		13		6	
Basic materials	7		5		12		6	
Consumer cyclical	7		1		8		4	
Government guaranteed corporate debt	—		8		8		4	
All Other	11		3		14		5	
Total	$79		$136		$215		100	%
% of Total	37	%	63	%	100	%		

At June 30, 2014, other than the U.S., France and the Netherlands, which accounted for 37%, 14%, and 14%, respectively, no other country accounted for more than 10% of the Company's corporate bonds underlying the funds held – directly managed account.

At June 30, 2014, the ten largest issuers accounted for 37% of the corporate bonds underlying the funds held – directly managed account and no single issuer accounted for more than 6% of corporate bonds underlying the funds held – directly managed account (or more than 2% of the investments and cash underlying the funds held – directly managed account). At June 30, 2014, all of the finance sector corporate bonds held were rated investment grade (BBB- or higher) by Standard & Poor's (or estimated equivalent) and 98% were rated A- or better.

At June 30, 2014, the fair value of corporate bonds underlying the funds held – directly managed account that were issued by companies in the European Union were as follows (in millions of U.S. dollars):

June 30, 2014	Government Guaranteed Corporate Debt		Finance Sector Corporate Bonds		Non-Finance Sector Corporate Bonds		Fair Value	
European Union								
France	$—		$12		$19		$31	
Netherlands	—		14		16		30	
United Kingdom	1		9		6		16	
Germany	7		—		2		9	
All Other	—		6		6		12	
Total	$8		$41		$49		$98	
% of Total	8	%	42	%	50	%	100	%

At June 30, 2014, corporate bonds underlying the funds held – directly managed account included less than $6 million of finance sector corporate bonds issued by companies in peripheral EU countries (Portugal, Italy, Ireland, Greece and Spain).

Other invested assets underlying the funds held – directly managed account primarily consists of real estate fund investments.

Maturity Distribution

The distribution of fixed maturities and short-term investments underlying the funds held – directly managed account at June 30, 2014, by contractual maturity date was as follows (in millions of U.S. dollars):

June 30, 2014	Cost	Fair Value
One year or less	$71	$72
More than one year through five years	249	261
More than five years through ten years	157	165
Total	$477	$498

Actual maturities may differ from contractual maturities because certain borrowers have the right to call or prepay certain obligations with or without call or prepayment penalties.

European Exposures

For a discussion of the Company's management of the recent uncertainties related to European sovereign debt exposures, the uncertainties surrounding Europe in general and the Company's responses to them, see Financial Condition, Liquidity and Capital Resources—Investments—European exposures in Item 7 of Part II of the Company's Annual Report on Form 10-K for the year ended December 31, 2013.

There have not been any significant changes to the Company's guidelines adopted in response to the European crisis during the six months ended June 30, 2014.

The Company's exposures to European sovereign governments and other European related investment risks are discussed above within each category of the Company's investment portfolio and the investments underlying the funds held – directly managed account. In addition, the Company's other investment and derivative exposures to European counterparties are discussed in Other Invested Assets above. See Risk Factors in Item 1A of Part I of the Company's Annual Report on Form 10-K for the year ended December 31, 2013 for further discussion of the Company's exposure to the European sovereign debt crisis.

Funds Held by Reinsured Companies (Cedants)

In addition to the funds held – directly managed account described above, the Company writes certain business on a funds held basis. Funds held by reinsured companies at June 30, 2014 have not changed significantly since December 31, 2013. See Funds Held by Reinsured Companies (Cedants) in Item 7 of Part II of the Company's Annual Report on Form 10-K for the year ended December 31, 2013.

Unpaid Losses and Loss Expenses

The Company establishes loss reserves to cover the estimated liability for the payment of all losses and loss expenses incurred with respect to premiums earned on the contracts that the Company writes. Loss reserves do not represent an exact calculation of the liability. Estimates of ultimate liabilities are contingent on many future events and the eventual outcome of these events may be different from the assumptions underlying the reserve estimates. The Company believes that the recorded unpaid losses and loss expenses represent Management's best estimate of the cost to settle the ultimate liabilities based on information available at June 30, 2014.

At June 30, 2014 and December 31, 2013, the Company recorded gross and net Non-life reserves for unpaid losses and loss expenses as follows (in millions of U.S. dollars):

	June 30, 2014	December 31, 2013
Gross Non-life reserves for unpaid losses and loss expenses	$10,400	$10,646
Net Non-life reserves for unpaid losses and loss expenses	10,155	10,379
Net reserves guaranteed by Colisée Re	625	727

The net Non-life reserves for unpaid losses and loss expenses at June 30, 2014 and December 31, 2013 include $625 million and $727 million, respectively, of reserves guaranteed by Colisée Re (see Item 1 of Part I and Note 8 to Consolidated Financial Statements included in Item 8 of Part II of the Company's Annual Report on Form 10-K for the year ended December 31, 2013 for a discussion of the Reserve Agreement).

The net Non-life reserves for unpaid losses and loss expenses for the six months ended June 30, 2014 were as follows (in millions of U.S. dollars):

	For the six months ended June 30, 2014
Net liability at December 31, 2013	$10,379
Net incurred losses related to:	
Current year	1,490
Prior years	(325)
	1,165
Change in Paris Re Reserve Agreement	(8)
Net paid losses	(1,403)
Effects of foreign exchange rate changes	22
Net liability at June 30, 2014	$10,155

The decrease in net Non-life reserves for unpaid losses and loss expenses from $10,379 million at December 31, 2013 to $10,155 million at June 30, 2014 primarily reflects the payment of losses which was partially offset by net incurred losses during the six months ended June 30, 2014. The paid losses during the six months ended June 30, 3014 include the annual settlement of certain significant agricultural contracts related to the 2013 crop year and the commutation of a portion of the net reserves guaranteed by Colisée Re.

See Critical Accounting Policies and Estimates—Losses and Loss Expenses and Life Policy Benefits and Results by Segment above for a discussion of losses and loss expenses and prior years' reserve developments. See also Business—Reserves in Item 1 of Part I of the Company's Annual Report on Form 10-K for the year ended December 31, 2013 for a discussion of the impact of foreign exchange on unpaid losses and loss expenses.

Policy Benefits for Life and Annuity Contracts

At June 30, 2014 and December 31, 2013, the Company recorded gross and net policy benefits for life and annuity contracts as follows (in millions of U.S. dollars):

	June 30, 2014	December 31, 2013
Gross policy benefits for life and annuity contracts	$2,127	$1,974
Net policy benefits for life and annuity contracts	2,104	1,967

The net policy benefits for life and annuity contracts for the six months ended June 30, 2014 were as follows (in millions of U.S. dollars):

	For the six months ended June 30, 2014
Net liability at December 31, 2013	$1,967
Net incurred losses related to:	
Current year	476
Prior years	(8)
	468
Net paid losses	(349)
Effects of foreign exchange rate changes	18
Net liability at June 30, 2014	$2,104

The increase in net policy benefits for life and annuity contracts from $1,967 million at December 31, 2013 to $2,104 million at June 30, 2014 is primarily due to net incurred losses, which were partially offset by paid losses. The net incurred losses for the Company's Life and Health reserves will generally exceed net paid losses in any one given year due to the long-term nature of the liabilities and the growth in the book of business.

See Critical Accounting Policies and Estimates—Losses and Loss Expenses and Life Policy Benefits and Results by Segment above for a discussion of life policy benefits and prior years' reserve developments. See also Business—Reserves in Item 1 of Part I of the Company's Annual Report on Form 10-K for the year ended December 31, 2013.

Reinsurance Recoverable on Paid and Unpaid Losses

The Company has exposure to credit risk related to reinsurance recoverable on paid and unpaid losses. See Note 9 to Consolidated Financial Statements and Quantitative and Qualitative Disclosures about Market Risk—Counterparty Credit Risk in Item 7A of Part II of the Company's Annual Report on Form 10-K for the year ended December 31, 2013 for a discussion of the Company's risk related to reinsurance recoverable on paid and unpaid losses and the Company's process to evaluate the financial condition of its reinsurers.

Contractual Obligations and Commitments

In the normal course of its business, the Company is a party to a variety of contractual obligations, which are discussed in the Company's Annual Report on Form 10-K for the year ended December 31, 2013. These contractual obligations are considered by the Company when assessing its liquidity requirements and the Company is confident in its ability to meet all of its obligations. Other than the commutation of one significant treaty accounted for using deposit accounting, the Company's contractual obligations at June 30, 2014 have not changed materially compared to December 31, 2013.

Shareholders' Equity and Capital Resources Management

Shareholders' equity attributable to PartnerRe Ltd. common shareholders was $6.9 billion at June 30, 2014, a 3% increase compared to $6.7 billion at December 31, 2013. The major factors contributing to the increase in shareholders' equity during the six months ended June 30, 2014 were:

- comprehensive income of $583 million, which was primarily related to net income; partially offset by
- a net decrease of $286 million, due to the repurchase of common shares of $313 million under the Company's share repurchase program, partially offset by the issuance of common shares under the Company's employee equity plans of $27 million; and
- dividend payments of $97 million related to the Company's common and preferred shares.

See Results of Operations and Review of Net Income (Loss) above for a discussion of the Company's net income for the six months ended June 30, 2014.

As part of its long-term strategy, the Company will continue to actively manage capital resources to support its operations throughout the reinsurance cycle and for the benefit of its shareholders, subject to the ability to maintain strong ratings from the major rating agencies and the unquestioned ability to pay claims as they arise. Generally, the Company seeks to increase its capital when its current capital position is not sufficient to support the volume of attractive business opportunities available. Conversely, the Company will seek to reduce its capital, through the payment of dividends on its common shares or share repurchases, when available business opportunities are insufficient or unattractive to fully utilize the Company's capital at adequate returns. The Company may also seek to reduce or restructure its capital through the repayment or purchase of debt obligations, or increase or restructure its capital through the issuance of debt, when opportunities arise.

Management uses certain key measures to evaluate its financial performance and the overall growth in value generated for the Company's common shareholders. For a discussion related to growth in Diluted Tangible Book Value per Share plus dividends see Key Financial Measures above.

The capital structure of the Company at June 30, 2014 and December 31, 2013 was as follows (in millions of U.S. dollars):

	June 30, 2014			December 31, 2013		
Capital Structure:						
Senior notes [1]	$750	10	%	$750	10	%
Capital efficient notes [2]	63	1		63	1	
Preferred shares, aggregate liquidation value	854	11		854	11	
Common shareholders' equity attributable to PartnerRe Ltd.	6,056	78		5,856	78	

Total Capital	$7,723	100 %	$7,523	100 %

(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 June 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 June 30, 2014 and December 31, 2013.

The increase in total capital during the six months ended June 30, 2014 was related to the same factors above describing the increase in shareholders' equity attributable to PartnerRe Ltd.

Indebtedness

There was no change in the Company's indebtedness at June 30, 2014 compared to December 31, 2013 and the Company did not enter into any short-term borrowing arrangements during the six months ended June 30, 2014. See Note 10 to Consolidated Financial Statements included in the Company's Annual Report on Form 10-K for the year ended December 31, 2013 for a discussion of the Company's indebtedness.

Shareholders' Equity

Share Repurchases

In September 2013, the Board approved a new share repurchase authorization of up to a total of 6 million common shares. Unless terminated earlier by resolution of the Board, the program will expire when the Company has repurchased all shares authorized for repurchase thereunder. At June 30, 2014, the Company had approximately 1.9 million common shares remaining under its current share repurchase authorization and approximately 37.3 million common shares were held in treasury and are available for reissuance.

During the six months ended June 30, 2014, the Company repurchased approximately 3.1 million of its common shares under its authorized share repurchase program at a total cost of $313 million, representing an average cost of $101.97 per share. These shares were repurchased at a discount to diluted book value per share at December 31, 2013 of approximately 7%.

Subsequently, during the period from July 1, 2014 to July 28, 2014, the Company repurchased 0.2 million common shares at a total cost of $18 million, representing an average cost of $109.49 per share. Following these repurchases, the Company had approximately 1.7 million common shares remaining under its current share repurchase authorization and approximately 37.5 million common shares are held in treasury and are available for reissuance.

Liquidity

Liquidity is a measure of the Company's ability to access sufficient cash flows to meet the short-term and long-term cash requirements of its business operations. Management believes that its significant cash flows from operations and high quality liquid investment portfolio will provide sufficient liquidity for the foreseeable future. At June 30, 2014 and December 31, 2013, cash and cash equivalents were $1.2 billion and $1.5 billion, respectively. The decrease in cash and cash equivalents was primarily due to the Company's share repurchases, dividend payments and taxes paid, which were partially offset by net cash provided by underwriting activities.

Net cash provided by operating activities decreased modestly to $221 million in the six months ended June 30, 2014 from $231 million in same period of 2013 primarily due to higher taxes paid in 2013, which was partially offset by higher underwriting cash flows.

Net cash used in investing activities was $86 million in the six months ended June 30, 2014 compared to net cash provided by investing activities of $489 million in the same period of 2013. The net cash used in investing activities in the six months ended June 30, 2014 primarily reflects the reinvestment of a portion of the net cash flows from operating activities that were not used to fund financing activities. The net cash provided by investing activities in the six months ended June 30, 2013 reflects the sale and maturity of investments to fund financing activities.

Net cash used in financing activities was $421 million in the six months ended June 30, 2014 compared to $567 million in the same period of 2013. Net cash used in financing activities in the six months ended June 30, 2014 was primarily related to the Company's share repurchases and dividend payments on common and preferred shares. Net cash used in financing activities in the six months ended June 30, 2013 was related to the Company's redemption of the Series C preferred shares, share repurchases and dividend payments on common and preferred shares, which were

partially offset by proceeds from the issuance of the Series F preferred shares.

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

The Company believes that annual positive cash flows from operating activities will be sufficient to cover claims payments, absent a series of additional large catastrophic loss activity. In the event that paid losses accelerate beyond the Company's ability to fund such payments from operating cash flows, the Company would use its cash balances available, liquidate a portion of its high quality and liquid investment portfolio or access certain uncommitted credit facilities. As discussed in Investments above, the Company's investments and cash totaled $16.8 billion at June 30, 2014, the main components of which were investment grade fixed maturities, short-term investments and cash and cash equivalents totaling $14.1 billion.

Financial strength ratings and senior unsecured debt ratings represent the opinions of rating agencies on the Company's capacity to meet its obligations. There was no change in the Company's current financial strength ratings at June 30, 2014 compared to December 31, 2013. See also Shareholders' Equity and Capital Resources Management—Liquidity in Item 7 of Part II of the Company's Annual Report on Form 10-K for the year ended December 31, 2013.

Credit Agreements

In the normal course of its operations, the Company enters into agreements with financial institutions to obtain unsecured and secured credit facilities. These facilities are used primarily for the issuance of letters of credit, although a portion of these facilities may also be used for liquidity purposes. The Company's credit facilities have not changed significantly since December 31, 2013. See Credit Agreements in Item 7 of Part II and Note 19 to the Consolidated Financial Statements included in the Company's Annual Report on Form 10-K for the year ended December 31, 2013 for further information related to the credit facilities available to the Company.

Currency

See Results of Operations and Review of Net Income (Loss) above for a discussion of the impact of foreign exchange and net foreign exchange gains and losses during the six months ended June 30, 2014 and 2013.

The foreign exchange gain or loss resulting from the translation of the Company's subsidiaries' and branches' financial statements (expressed in euro or Canadian dollar functional currency) into U.S. dollars is classified in the currency translation adjustment account, which is a component of accumulated other comprehensive income or loss in shareholders' equity. The currency translation adjustment account increased by $2 million during the six months ended June 30, 2014 primarily due to the translation of the Company's branches with a Canadian dollar functional currency.

The reconciliation of the currency translation adjustment for the six months ended June 30, 2014 was as follows (in millions of U.S. dollars):

	For the six months ended June 30, 2014
Currency translation adjustment at December 31, 2013	$1
Change in currency translation adjustment included in other comprehensive income	2
Currency translation adjustment at June 30, 2014	$3

From time to time, the Company enters into net investment hedges. At June 30, 2014, there were no outstanding foreign exchange contracts hedging the Company's net investment exposure.

See Quantitative and Qualitative Disclosures About Market Risk—Foreign Currency Risk in Item 3 of Part I below for a discussion of the Company's risk related to changes in foreign currency movements.

New Accounting Pronouncements

See Note 3 to the Condensed Consolidated Financial Statements included in Item 1 of Part I of this report.

ITEM 3. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

Overview

Management believes that the Company is principally exposed to five types of market related risk: interest rate risk, credit spread risk, foreign currency risk, counterparty credit risk and equity price risk. How these risks relate to the Company, and the process used to manage them, is discussed in Item 7A of Part II of the Company's Annual Report on

Form 10-K for the year ended

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December 31, 2013. The following discussion of market risks at June 30, 2014 focuses only on material changes from December 31, 2013 in the Company's market risk exposures, or how those exposures are managed.

Interest Rate Risk

The Company's fixed maturity portfolio and the fixed maturity securities in the investment portfolio underlying the funds held – directly managed account are exposed to interest rate risk. Fluctuations in interest rates have a direct impact on the market valuation of these securities. The Company manages interest rate risk on liability funds by constructing bond portfolios in which the economic impact of a general interest rate shift is comparable to the impact on the related liabilities. The Company believes that this process of matching the duration mitigates the overall interest rate risk on an economic basis. The Company manages the exposure to interest rate volatility on capital funds by choosing a duration profile that it believes will optimize the risk-reward relationship. For additional information on liability funds and capital funds, see Financial Condition, Liquidity and Capital Resources in Item 7 of Part II of the Company's Annual Report on Form 10-K for the year ended December 31, 2013.

At June 30, 2014, the Company estimates that the hypothetical case of an immediate 100 basis points or 200 basis points parallel shift in global bond curves would result in a change in the fair value of investments exposed to interest rate risk, the fair value of funds held – directly managed account exposed to interest rate risk, total invested assets, and shareholders' equity attributable to PartnerRe Ltd. as follows (in millions of U.S. dollars):

	-200 Basis Points	% Change	-100 Basis Points	% Change	June 30, 2014	+100 Basis Points	% Change	+200 Basis Points	% Change
Fair value of investments exposed to interest rate risk (1)(2)	$ 16,041	7 %	$ 15,524	3 %	$ 15,007	$ 14,490	(3)%	$ 13,973	(7)%
Fair value of funds held – directly managed account exposed to interest rate risk (2)	575	7	557	3	539	521	(3)	503	(7)
Total invested assets (3)	18,594	6	18,059	3	17,524	16,989	(3)	16,454	(6)
Shareholders' equity attributable to PartnerRe Ltd.	7,980	15	7,445	8	6,910	6,375	(8)	5,840	(15)

(1) Includes certain other invested assets, certain cash and cash equivalents and funds holding fixed income securities.
(2) Excludes accrued interest.
(3) Includes total investments, cash and cash equivalents, the investment portfolio underlying the funds held – directly managed account and accrued interest.

The changes do not take into account any potential mitigating impact from the equity market, taxes or the corresponding change in the economic value of the Company's reinsurance liabilities, which, as noted above, would substantially offset the economic impact on invested assets, although the offset would not be reflected in the Condensed Consolidated Balance Sheet.

As discussed above, the Company strives to match the foreign currency exposure in its fixed income portfolio to its multicurrency liabilities. The Company believes that this matching process creates a diversification benefit. Consequently, the exact market value effect of a change in interest rates will depend on which countries experience interest rate changes and the foreign currency mix of the Company's fixed maturity portfolio at the time of the interest rate changes. See Foreign Currency Risk below.

The impact of an immediate change in interest rates on the fair value of investments and funds held – directly managed exposed to interest rate risk, the Company's total invested assets and shareholders' equity attributable to PartnerRe Ltd.,

in both absolute terms and as a percentage of total invested assets and shareholders' equity attributable to PartnerRe Ltd., has not changed significantly at June 30, 2014 compared to December 31, 2013.

For additional information related to the Company's debt obligations and preferred securities, see Item 7A of Part II of the Company's Annual Report on Form 10-K for the year ended December 31, 2013. For additional information related to the Company's debt obligations also see Note 4 to the Condensed Consolidated Financial Statements in Item 1 of Part I of this report.

Credit Spread Risk

The Company's fixed maturity portfolio and the fixed maturity securities in the investment portfolio underlying the funds held – directly managed account are exposed to credit spread risk. Fluctuations in market credit spreads have a direct impact on the market valuation of these securities. The Company manages credit spread risk by the selection of securities within its fixed maturity

portfolio. Changes in credit spreads directly affect the market value of certain fixed maturity securities, but do not necessarily result in a change in the future expected cash flows associated with holding individual securities. Other factors, including liquidity, supply and demand, and changing risk preferences of investors, may affect market credit spreads without any change in the underlying credit quality of the security.

At June 30, 2014, the Company estimates that the hypothetical case of an immediate 100 basis points or 200 basis points parallel shift in global credit spreads would result in a change in the fair value of investments and the fair value of funds held –directly managed account exposed to credit spread risk, total invested assets and shareholders' equity attributable to PartnerRe Ltd. as follows (in millions of U.S. dollars):

	-200 Basis Points	% Change	-100 Basis Points	% Change	June 30, 2014	+100 Basis Points	% Change	+200 Basis Points	% Change
Fair value of investments exposed to credit spread risk (1)(2)	$ 15,877	6 %	$ 15,442	3 %	$15,007	$ 14,572	(3)%	$ 14,137	(6)%
Fair value of funds held – directly managed account exposed to credit spread risk (2)	553	3	546	1	539	532	(1)	525	(3)
Total invested assets (3)	18,408	5	17,966	3	17,524	17,082	(3)	16,640	(5)
Shareholders' equity attributable to PartnerRe Ltd.	7,794	13	7,352	6	6,910	6,468	(6)	6,026	(13)

(1) Includes certain other invested assets, certain cash and cash equivalents and funds holding fixed income securities.
(2) Excludes accrued interest.
(3) Includes total investments, cash and cash equivalents, the investment portfolio underlying the funds held – directly managed account and accrued interest.

The changes above also do not take into account any potential mitigating impact from the equity market, taxes, and the change in the economic value of the Company's reinsurance liabilities, which may offset the economic impact on invested assets.

The impact of an immediate change in credit spreads on the fair value of investments and funds held – directly managed exposed to credit spread risk, the Company's total invested assets and shareholders' equity attributable to PartnerRe Ltd., in both absolute terms and as a percentage of total invested assets and shareholders' equity attributable to PartnerRe Ltd., has not changed significantly at June 30, 2014 compared to December 31, 2013.

Foreign Currency Risk

Through its multinational reinsurance operations, the Company conducts business in a variety of non-U.S. currencies, with the principal exposures being the euro, Canadian dollar, British pound, New Zealand dollar, and Australian dollar. As the Company's reporting currency is the U.S. dollar, foreign exchange rate fluctuations may materially impact the Company's Condensed Consolidated Financial Statements.

The Company's gross and net exposure in its Condensed Consolidated Balance Sheet at June 30, 2014 to foreign currency as well as the associated foreign currency derivatives the Company has entered into to manage this exposure, was as follows (in millions of U.S. dollars):

	euro	CAD	GBP	NZD	AUD	Other	Total (1)
Total assets	$4,439	$1,027	$1,916	$158	$82	$805	$8,427
Total liabilities	(4,339)	(564)	(1,277)	(230)	(168)	(1,499)	(8,077)

Total gross foreign currency exposure	100	463	639	(72)	(86)	(694)	350
Total derivative amount	(392)	(32)	(598)	92	95	729	(106)
Net foreign currency exposure	$(292)	$431	$41	$20	$9	$35	$244

(1) As the U.S. dollar is the Company's reporting currency, there is no currency risk attached to the U.S. dollar and it is excluded from this table. The U.S. dollar accounted for the difference between the Company's total foreign currency exposure in this table and the total assets and total liabilities in the Company's Condensed Consolidated Balance Sheet at June 30, 2014.

The above numbers include the Company's investment in certain of its subsidiaries and branches, whose functional currencies are the euro or Canadian dollar.

At June 30, 2014, assuming all other variables remain constant and disregarding any tax effects, a change in the U.S. dollar of 10% or 20% relative to all of the other currencies held by the Company simultaneously would result in a change in the Company's net assets of $24 million and $49 million, respectively, inclusive of the effect of foreign exchange forward contracts and other derivative financial instruments.

Counterparty Credit Risk

The Company has exposure to credit risk primarily as a holder of fixed maturity securities. The Company controls this exposure by emphasizing investment grade credit quality in the fixed maturity securities it purchases. At June 30, 2014, approximately 55% of the Company's fixed maturity portfolio (including the funds held – directly managed account and funds holding fixed maturity securities) was rated AA (or equivalent rating) or better. At June 30, 2014, approximately 74% the Company's fixed maturity and short-term investments (including funds holding fixed maturity securities and excluding the funds held – directly managed account) were rated A- or better and 8% were rated below investment grade or not rated. The Company believes this high quality concentration reduces its exposure to credit risk on fixed maturity investments to an acceptable level.

At June 30, 2014, the Company was not exposed to any significant credit concentration risk on its investments, excluding securities issued by the U.S. government which are rated AA+. The single largest non-U.S. sovereign government issuer accounted for less than 22% of the Company's total non-U.S. sovereign government, supranational and government related category (excluding the funds held – directly managed account) and less than 3% of total investments and cash (excluding the funds held – directly managed account) at June 30, 2014. In addition, the single largest corporate issuer and the top 10 corporate issuers accounted for less than 3% and less than 18% of the Company's total corporate fixed maturity securities (excluding the funds held – directly managed account), respectively, at June 30, 2014. Within the segregated investment portfolio underlying the funds held – directly managed account, the single largest corporate issuer and the top 10 corporate issuers accounted for less than 6% and less than 38% of total corporate fixed maturity securities underlying the funds held – directly managed account at June 30, 2014, respectively.

The Company keeps cash and cash equivalents in several banks and ensures that there are no significant concentrations at any point in time, in any one bank.

To a lesser extent, the Company is also exposed to the following credit risks:

- as a party to foreign exchange forward contracts and other derivative contracts;
- in its underwriting operations, most notably in the credit/surety line and for alternative risk products;
- the credit risk of its cedants in the event of their insolvency or their failure to honor the value of the funds held balances due to the Company;
- the credit risk of Colisée Re in the event of insolvency or Colisée Re's failure to honor the value of the funds held balances for any other reason;
- the credit risk of AXA or its affiliates in the event of their insolvency or their failure to honor their obligations under the Acquisition Agreements (see Business—Reserves—Reserve Agreement in Item 1 of Part I of the Company's Annual Report on Form 10-K for the year ended December 31, 2013);
- as it relates to its business written through brokers if any of the Company's brokers is unable to fulfill their contractual obligations with respect to payments to the Company;
- as it relates to its reinsurance balances receivable and reinsurance recoverable on paid and unpaid losses; and
- under its retrocessional reinsurance contracts.

The concentrations of the Company's counterparty credit risk exposures have not changed materially at June 30, 2014, compared to December 31, 2013. See Counterparty Credit Risk in Item 7A of Part II of the Company's Annual Report on Form 10-K for the year ended December 31, 2013 for additional discussion of credit risks.

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Equity Price Risk

The Company invests a portion of its capital funds in equity securities (fair market value of $1,063 million, excluding funds holding fixed income securities of $190 million) at June 30, 2014. These equity investments are exposed to equity price risk, defined as the potential for loss in market value due to a decline in equity prices. The Company believes that the effects of diversification and the relatively small size of its investments in equities relative to total invested assets mitigate its exposure to equity price risk. The Company estimates that its equity investment portfolio has a beta versus the S&P 500 Index of approximately 0.91 on average. Portfolio beta measures the response of a portfolio's performance relative to a market return, where a beta of 1 would be an equivalent return to the index. Given the estimated beta for the Company's equity portfolio, a 10% and 20% movement in the S&P 500 Index would result in a change in the fair value of the Company's equity portfolio, total invested assets and shareholders' equity attributable to PartnerRe Ltd. at June 30, 2014 as follows (in millions of U.S. dollars):

	20% Decrease	% Change	10% Decrease	% Change	June 30, 2014	10% Increase	% Change	20% Increase	% Change
Equities [1]	$869	(18)%	$966	(9)%	$1,063	$1,160	9 %	$1,257	18 %
Total invested assets [2]	17,330	(1)	17,427	(1)	17,524	17,621	1	17,718	1
Shareholders' equity attributable to PartnerRe Ltd.	6,716	(3)	6,813	(1)	6,910	7,007	1	7,104	3

(1) Excludes funds holding fixed income securities of $190 million.

(2) Includes total investments, cash and cash equivalents, the investment portfolio underlying the funds held – directly managed account and accrued interest.

This change does not take into account any potential mitigating impact from the fixed maturity securities or taxes.

There was no material change in the absolute or percentage impact of an immediate change of 10% in the S&P 500 Index on the Company's equity portfolio, total invested assets and shareholders' equity attributable to PartnerRe Ltd. at June 30, 2014 compared to December 31, 2013.

ITEM 4. CONTROLS AND PROCEDURES

The Company carried out an evaluation, under the supervision and with the participation of Management, including the Chief Executive Officer and Chief Financial Officer, as of June 30, 2014, of the effectiveness of the design and operation of disclosure controls and procedures, as defined in Rules 13a-15(e) and 15d-15(e) of the Securities Exchange Act of 1934, as amended. Based upon that evaluation, the Chief Executive Officer and Chief Financial Officer concluded that, as of June 30, 2014, the disclosure controls and procedures are effective such that information required to be disclosed by the Company in reports that it files or submits pursuant to the Securities Exchange Act is recorded, processed, summarized and reported within the time periods specified in the rules and forms of the Securities and Exchange Commission and is accumulated and communicated to Management, including its principal executive and principal financial officers, as appropriate, to allow timely decisions regarding required disclosures.
There have been no changes in the Company’s internal control over financial reporting identified in connection with such evaluation that occurred during the three months ended June 30, 2014 that have materially affected, or are reasonably likely to materially affect, the Company’s internal controls over financial reporting.

PART II—OTHER INFORMATION

ITEM 1. LEGAL PROCEEDINGS

There has been no significant change in legal proceedings at June 30, 2014 compared to December 31, 2013. See Note 18(f) to the Consolidated Financial Statements included in the Company's Annual Report on Form 10-K for the year ended December 31, 2013.

ITEM 1A. RISK FACTORS

Cautionary Note Concerning Forward-Looking Statements

Certain statements contained in this document, including Management's Discussion and Analysis, may be considered forward-looking statements as defined in Section 27A of the United States Securities Act of 1933 and Section 21E of the United States Securities Exchange Act of 1934. Forward-looking statements are based on the Company's assumptions and expectations concerning future events and financial performance of the Company and are made pursuant to the safe harbor provisions of the Private Securities Litigation Reform Act of 1995. Such statements, including our expectations regarding the restructuring of our business support operations and the related expected savings, are subject to significant business, economic and competitive risks and uncertainties that could cause actual results to differ materially from those reflected in the forward-looking statements. The Company's forward-looking statements could be affected by numerous foreseeable and unforeseeable events and developments such as exposure to catastrophe, or other large property and casualty losses, adequacy of reserves, risks associated with implementing business strategies and integrating new acquisitions, levels and pricing of new and renewal business achieved, credit, interest, currency and other risks associated with the Company's investment portfolio, changes in accounting policies, and other factors identified in the Company's filings with the Securities and Exchange Commission.

The words believe, anticipate, estimate, project, plan, expect, intend, hope, forecast, evaluate, will likely result or will continue or words of similar impact generally involve forward-looking statements. We caution readers not to place undue reliance on these forward-looking statements, which speak only as of their dates. The Company undertakes no obligation to publicly update or revise any forward-looking statements, whether as a result of new information, future events or otherwise.

See Risk Factors in Item 1A of Part I of the Company's Annual Report on Form 10-K for the year ended December 31, 2013 for a complete review of important risk factors.

ITEM 2. UNREGISTERED SALES OF EQUITY SECURITIES AND USE OF PROCEEDS

The following table provides information about purchases by the Company during the three months ended June 30, 2014 of equity securities that are registered by the Company pursuant to Section 12 of the Exchange Act.

Issuer Purchases of Equity Securities

Period	Total number of shares purchased	Average price paid per share	Total number of shares purchased as part of a publicly announced program [1][2]	Maximum number of shares that may yet be purchased under the program [1]
04/01/2014-04/30/2014	525,000	$ 102.66	525,000	2,623,300
05/01/2014-05/31/2014	425,000	105.99	425,000	2,198,300
06/01/2014-06/30/2014	315,000	108.04	315,000	1,883,300
Total	1,265,000	$ 105.12	1,265,000	

(1) On September 12, 2013, the Company's Board of Directors approved and announced a new share repurchase authorization up to a total of 6 million common shares. Unless terminated earlier by resolution of the Company's Board of Directors, the program will expire when the Company has repurchased all shares authorized for repurchase thereunder.

(2) At June 30, 2014, approximately 37.3 million common shares were held in treasury and available for reissuance.

ITEM 3. DEFAULTS UPON SENIOR SECURITIES

None.

ITEM 4. MINE SAFETY DISCLOSURES

Not applicable.

ITEM 5. OTHER INFORMATION

None.

ITEM 6. EXHIBITS

Exhibits—Included on page 94.

SIGNATURES

Pursuant to the requirements of the Securities Exchange Act of 1934, the Company has duly caused this report to be signed on its behalf by the undersigned thereunto duly authorized.

PartnerRe Ltd.
(Registrant)

	By:	/S/ CONSTANTINOS MIRANTHIS
	Name:	Constantinos Miranthis
	Title:	President and Chief Executive Officer and Director (Principal Executive Officer)
Date: August 1, 2014		
	By:	/S/ WILLIAM BABCOCK
	Name:	William Babcock
	Title:	Executive Vice President & Chief Financial Officer (Principal Financial Officer)
Date: August 1, 2014		

EXHIBIT INDEX

Exhibit Number	Exhibit
15	Letter Regarding Unaudited Interim Financial Information.
31.1	Section 302 Certification of Constantinos Miranthis.
31.2	Section 302 Certification of William Babcock.
32	Section 906 Certifications.
101.1	The following financial information from PartnerRe Ltd.'s Quarterly Report on Form 10–Q for the quarter ended June 30, 2014 formatted in XBRL: (i) Condensed Consolidated Balance Sheets at June 30, 2014 and December 31, 2013; (ii) Condensed Consolidated Statements of Operations and Comprehensive Income (Loss) for the three months and six months ended June 30, 2014 and 2013; (iii) Condensed Consolidated Statements of Shareholders' Equity for the six months ended June 30, 2014 and 2013; (iv) Condensed Consolidated Statements of Cash Flows for the six months ended June 30, 2014 and 2013; and (v) Notes to Condensed Consolidated Financial Statements.