

PARTNERRE LTD
Form 10-Q
May 02, 2014

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

FORM 10-Q

QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934
FOR THE QUARTERLY PERIOD ENDED MARCH 31, 2014

OR

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

For the transition period from to .

Commission file number 1-14536

PartnerRe Ltd.

(Exact name of registrant as specified in its charter)

Bermuda
(State of incorporation)

Not Applicable
(I.R.S. Employer

Identification No.)

90 Pitts Bay Road, Pembroke, HM08, Bermuda

(Address of principal executive offices) (Zip Code)

(441) 292-0888

(Registrant's telephone number, including area code)

Not Applicable

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

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

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

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

Large accelerated filer

Accelerated filer

Non-accelerated filer

Smaller reporting company

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

The number of the registrant's common shares (par value \$1.00 per share) outstanding, net of treasury shares, as of April 29, 2014 was 50,517,202.

PartnerRe Ltd.

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PART I FINANCIAL INFORMATION

Item 1. Financial Statements

REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

To the Board of Directors and Shareholders of PartnerRe Ltd.

We have reviewed the accompanying condensed consolidated balance sheet of PartnerRe Ltd. and subsidiaries (the Company) as of March 31, 2014, and the related condensed consolidated statements of operations and comprehensive income for the three-month periods ended March 31, 2014 and 2013, and of shareholders' equity, and of cash flows for the three-month periods ended March 31, 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 sheets as of December 31, 2013 is fairly stated, in all material respects, in relation to the consolidated balance sheets from which it has been derived.

/s/ Deloitte & Touche Ltd.
Deloitte & Touche Ltd.

Hamilton, Bermuda
May 2, 2014

ITEM 8. FINANCIAL STATEMENTS AND SUPPLEMENTARY DATA**PartnerRe Ltd.****Condensed Consolidated Balance Sheets**

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

	March 31, 2014 (Unaudited)	December 31, 2013 (Audited)
Assets		
Investments:		
Fixed maturities, at fair value (amortized cost: 2014, \$13,562,765; 2013, \$13,376,455)	\$ 13,898,401	\$ 13,593,303
Short-term investments, at fair value (amortized cost: 2014, \$28,820; 2013, \$13,543)	28,821	13,546
Equities, at fair value (cost: 2014, \$1,027,732; 2013, \$1,009,286)	1,249,744	1,221,053
Other invested assets	302,495	320,981
Total investments	15,479,461	15,148,883
Funds held directly managed (cost: 2014, \$756,498; 2013, \$778,569)	764,386	785,768
Cash and cash equivalents	1,269,037	1,496,485
Accrued investment income	190,169	185,717
Reinsurance balances receivable	3,064,301	2,465,713
Reinsurance recoverable on paid and unpaid losses	362,149	308,892
Funds held by reinsured companies	849,256	843,081
Deferred acquisition costs	725,584	644,952
Deposit assets	112,338	351,905
Net tax assets	11,217	14,133
Goodwill	456,380	456,380
Intangible assets	180,088	187,090
Other assets	53,137	149,296
Total assets	\$ 23,517,503	\$ 23,038,295
Liabilities		
Unpaid losses and loss expenses	\$ 10,529,717	\$ 10,646,318
Policy benefits for life and annuity contracts	2,118,479	1,974,133
Unearned premiums	2,299,250	1,723,767
Other reinsurance balances payable	269,487	202,549
Deposit liabilities	92,099	328,588
Net tax liabilities	247,503	284,442
Accounts payable, accrued expenses and other	299,380	291,350
Debt related to senior notes	750,000	750,000
Debt related to capital efficient notes	70,989	70,989
Total liabilities	16,676,904	16,272,136

Shareholders Equity

Common shares (par value \$1.00; issued: 2014, 86,879,432 shares; 2013, 86,657,045 shares)	86,879	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	3,907,347	3,901,627
Accumulated other comprehensive loss	(27,687)	(12,238)
Retained earnings	5,667,868	5,406,797
Common shares held in treasury, at cost (2014, 36,019,611 shares; 2013, 34,213,611 shares)	(2,887,629)	(2,707,461)
Total shareholders equity attributable to PartnerRe Ltd.	6,780,928	6,709,532
Noncontrolling interests	59,671	56,627
Total shareholders equity	6,840,599	6,766,159
Total liabilities and shareholders equity	\$ 23,517,503	\$ 23,038,295

See accompanying Notes to Condensed Consolidated Financial Statements.

PartnerRe Ltd.**Condensed Consolidated Statements of Operations and Comprehensive Income**

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

(Unaudited)

	For the three months ended March 31, 2014	For the three months ended March 31, 2013
Revenues		
Gross premiums written	\$ 1,871,740	\$ 1,756,886
Net premiums written	\$ 1,738,494	\$ 1,636,431
Increase in unearned premiums	(484,712)	(489,751)
Net premiums earned	1,253,782	1,146,680
Net investment income	116,867	123,704
Net realized and unrealized investment gains	142,172	22,943
Other income	404	3,927
Total revenues	1,513,225	1,297,254
Expenses		
Losses and loss expenses and life policy benefits	749,457	660,952
Acquisition costs	264,608	234,200
Other operating expenses	111,462	116,040
Interest expense	12,238	12,229
Amortization of intangible assets	7,002	7,046
Net foreign exchange gains	(670)	(2,043)
Total expenses	1,144,097	1,028,424
Income before taxes and interest in earnings of equity method investments	369,128	268,830
Income tax expense	62,305	41,675
Interest in earnings of equity method investments	6,064	7,215
Net income	312,887	234,370
Net income attributable to noncontrolling interests	(3,044)	
Net income attributable to PartnerRe Ltd.	309,843	234,370
Preferred dividends	14,184	14,699
Loss on redemption of preferred shares		9,135
Net income attributable to PartnerRe Ltd. common shareholders	\$ 295,659	\$ 210,536

Comprehensive income

Net income attributable to PartnerRe Ltd.	\$ 309,843	\$ 234,370
Change in currency translation adjustment	(15,223)	(19,830)
Change in unfunded pension obligation, net of tax	(1)	996
Change in unrealized losses on investments, net of tax	(225)	(233)
Total other comprehensive loss, net of tax	(15,449)	(19,067)

Comprehensive income attributable to PartnerRe Ltd.	\$ 294,394	\$ 215,303
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Per share data attributable to PartnerRe Ltd. common shareholders

Net income per common share:		
Basic net income	\$ 5.72	\$ 3.60
Diluted net income	\$ 5.61	\$ 3.53
Weighted average number of common shares outstanding	51,652,177	58,423,898
Weighted average number of common shares and common share equivalents outstanding	52,727,573	59,590,044
Dividends declared per common share	\$ 0.67	\$ 0.64

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 three months ended March 31, 2014	For the three months ended March 31, 2013
Common shares		
Balance at beginning of period	\$ 86,657	\$ 85,460
Issuance of common shares	222	552
Balance at end of period	86,879	86,012
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	5,720	21,937
Issuance of preferred shares		231,265
Redemption of preferred shares		(269,265)
Balance at end of period	3,907,347	3,845,781
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	(15,223)	(19,830)
Balance at end of period	(14,246)	12,925
Unfunded pension obligation		
Balance at beginning of period	(17,509)	(27,370)
Change in unfunded pension obligation, net of tax	(1)	996
Balance at end of period (net of tax: 2014, \$5,023; 2013, \$7,468)	(17,510)	(26,374)
Unrealized gain on investments		
Balance at beginning of period	4,294	5,212

Change in unrealized losses on investments, net of tax	(225)	(233)
Balance at end of period (net of tax: 2014 and 2013: \$nil)	4,069	4,979
Balance at end of period	(27,687)	(8,470)
Retained earnings		
Balance at beginning of period	5,406,797	4,952,002
Net income	312,887	234,370
Net income attributable to noncontrolling interests	(3,044)	
Dividends on common shares	(34,588)	(37,365)
Dividends on preferred shares	(14,184)	(14,699)
Loss on redemption of preferred shares		(9,135)
Balance at end of period	5,667,868	5,125,173
Common shares held in treasury		
Balance at beginning of period	(2,707,461)	(2,012,157)
Repurchase of common shares	(180,168)	(159,775)
Balance at end of period	(2,887,629)	(2,171,932)
Total shareholders equity attributable to PartnerRe Ltd.	\$ 6,780,928	\$ 6,910,714
Noncontrolling interests	59,671	36,844
Total shareholders equity	\$ 6,840,599	\$ 6,947,558

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 three months ended March 31, 2014	For the three months ended March 31, 2013
Cash flows from operating activities		
Net income	\$ 312,887	\$ 234,370
Adjustments to reconcile net income to net cash provided by operating activities:		
Amortization of net premium on investments	29,366	42,769
Amortization of intangible assets	7,002	7,046
Net realized and unrealized investment gains	(142,172)	(22,943)
Changes in:		
Reinsurance balances, net	(581,275)	(396,018)
Reinsurance recoverable on paid and unpaid losses, net of ceded premiums payable	86,002	91,287
Funds held by reinsured companies and funds held directly managed	17,627	6,240
Deferred acquisition costs	(79,315)	(92,334)
Net tax assets and liabilities	(33,973)	(4,928)
Unpaid losses and loss expenses including life policy benefits	13,732	(242,409)
Unearned premiums	484,712	489,751
Other net changes in operating assets and liabilities	(35,852)	1,831
Net cash provided by operating activities	78,741	114,662
Cash flows from investing activities		
Sales of fixed maturities	1,734,246	1,788,507
Redemptions of fixed maturities	180,311	259,798
Purchases of fixed maturities	(1,963,428)	(1,849,579)
Sales and redemptions of short-term investments	15,830	99,769
Purchases of short-term investments	(31,141)	(64,147)
Sales of equities	9,094	156,123
Purchases of equities	(29,421)	(144,865)
Other, net	13,295	43,337
Net cash (used in) provided by investing activities	(71,214)	288,943
Cash flows from financing activities		
Dividends paid to common and preferred shareholders	(48,772)	(52,064)
Repurchase of common shares	(180,383)	(175,211)
Issuance of common shares, net of taxes paid	(2,581)	15,193
Net proceeds from issuance of preferred shares		241,265

Repurchase of preferred shares		(290,000)
Sale of shares to noncontrolling interests		36,844
Net cash used in financing activities	(231,736)	(223,973)
Effect of foreign exchange rate changes on cash	(3,239)	(14,439)
(Decrease) increase in cash and cash equivalents	(227,448)	165,193
Cash and cash equivalents beginning of period	1,496,485	1,121,705
Cash and cash equivalents end of period	\$ 1,269,037	\$ 1,286,898
Supplemental cash flow information:		
Taxes paid	\$ 95,871	\$ 46,525
Interest paid	\$	\$

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 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.

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 classified as trading securities, certain other invested assets and the segregated investment portfolio underlying the funds held directly managed account. At March 31, 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):

March 31, 2014	Quoted prices in active markets for identical assets (Level 1)	Significant other observable inputs (Level 2)	Significant unobservable inputs (Level 3)	Total
Fixed maturities				
U.S. government and government sponsored enterprises	\$	\$ 1,866,135	\$	\$ 1,866,135
U.S. states, territories and municipalities		16,438	113,467	129,905
Non-U.S. sovereign government, supranational and government related		2,332,066		2,332,066
Corporate		5,989,320		5,989,320
Asset-backed securities		703,750	447,701	1,151,451
Residential mortgage-backed securities		2,384,629		2,384,629
Other mortgage-backed securities		44,895		44,895
Fixed maturities	\$	\$ 13,337,233	\$ 561,168	\$ 13,898,401
Short-term investments	\$	\$ 28,821	\$	\$ 28,821
Equities				
Real estate investment trusts	\$	196,661	\$	\$ 196,661
Energy		160,093		160,093
Insurance		136,040		136,040
Finance		97,863	9,569	130,138
Consumer noncyclical		112,721		112,721
Communications		83,724	2,111	85,835
Technology		55,263	7,400	62,663
Industrials		47,622		47,622
Consumer cyclical		45,709		45,709
Utilities		38,605		38,605
Other		20,929		20,929
Mutual funds and exchange traded funds		25,170	179,505	212,728
Equities	\$	1,020,400	\$ 189,074	\$ 1,249,744
Other invested assets				
Derivative assets				
Foreign exchange forward contracts	\$	\$ 4,404	\$	\$ 4,404
Foreign currency option contracts		398		398
Futures contracts		18,814		18,814
Total return swaps			181	181
Other				
Notes and loan receivables and notes securitization			42,243	42,243
Annuities and residuals			18,945	18,945
Private equities			42,655	42,655

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Derivative liabilities				
Foreign exchange forward contracts			(5,888)	(5,888)
Futures contracts	(5)			(5)
Insurance-linked securities			(740)	(740)
Total return swaps			(483)	(483)
Interest rate swaps			(5,797)	(5,797)
TBAs			(1,388)	(1,388)
Other invested assets	\$ 18,809	\$ (8,271)	\$ 102,801	\$ 113,339
Funds held directly managed				
U.S. government and government sponsored enterprises	\$	\$ 153,426	\$	\$ 153,426
U.S. states, territories and municipalities			301	301
Non-U.S. sovereign government, supranational and government related Corporate		178,839		178,839
Short-term investments		245,067		245,067
Other invested assets			3,477	3,477
			15,223	15,223
Funds held directly managed	\$	\$ 580,809	\$ 15,524	\$ 596,333
Total	\$ 1,039,209	\$ 14,127,666	\$ 719,763	\$ 15,886,638

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
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
Equities	\$	1,034,130	\$ 148,878	\$ 38,045
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				