

PARTNERRE LTD
Form 10-Q
May 04, 2015

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

FORM 10-Q

QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT
OF 1934
FOR THE QUARTERLY PERIOD ENDED MARCH 31, 2015
OR

TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT
OF 1934
For the transition period from _____ to _____
Commission file number 1-14536

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

Bermuda
(State of incorporation) Not Applicable
(I.R.S. Employer
Identification No.)

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

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

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

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

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

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

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

The number of the registrant's common shares (par value \$1.00 per share) outstanding, net of treasury shares, as of April 27, 2015 was 47,734,606.

PartnerRe Ltd.
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PART I—FINANCIAL INFORMATION

Item 1. Financial Statements

REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

To the Board of Directors and Shareholders of PartnerRe Ltd.

We have reviewed the accompanying condensed consolidated balance sheet of PartnerRe Ltd. and subsidiaries (the “Company”) as of March 31, 2015, and the related condensed consolidated statements of operations and comprehensive income, shareholders’ equity and cash flows for the three-month periods ended March 31, 2015 and 2014. These condensed consolidated interim financial statements are the responsibility of the Company’s management.

We conducted our reviews in accordance with the standards of the Public Company Accounting Oversight Board (United States). A review of interim financial information consists principally of applying analytical procedures and making inquiries of persons responsible for financial and accounting matters. It is substantially less in scope than an audit conducted in accordance with the standards of the Public Company Accounting Oversight Board (United States), the objective of which is the expression of an opinion regarding the financial statements taken as a whole.

Accordingly, we do not express such an opinion.

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

We have previously audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), the consolidated balance sheet of PartnerRe Ltd. and subsidiaries as of December 31, 2014, and the related consolidated statements of operations and comprehensive income, shareholders’ equity, and of cash flows for the year then ended (not presented herein); and in our report dated February 26, 2015, we expressed an unqualified opinion on those consolidated financial statements. In our opinion, the information set forth in the accompanying condensed consolidated balance sheet as of December 31, 2014 is fairly stated, in all material respects, in relation to the consolidated balance sheet from which it has been derived.

/s/ Deloitte Ltd.

Deloitte Ltd.

Hamilton, Bermuda

May 4, 2015

PartnerRe Ltd.

Condensed Consolidated Balance Sheets

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

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

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

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

See accompanying Notes to Condensed Consolidated Financial Statements.

PartnerRe Ltd.

Condensed Consolidated Statements of Operations and Comprehensive Income

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

(Unaudited)

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

Weighted average number of common shares and common share equivalents
outstanding

Dividends declared per common share \$0.70 \$0.67

See accompanying Notes to Condensed Consolidated Financial Statements.

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PartnerRe Ltd.

Condensed Consolidated Statements of Shareholders' Equity

(Expressed in thousands of U.S. dollars)

(Unaudited)

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

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| | | | |
|--|-------------|--------------|---|
| Balance at end of period | (3,288,909 |) (2,887,629 |) |
| Total shareholders' equity attributable to PartnerRe Ltd. | \$7,197,145 | \$6,780,928 | |
| Noncontrolling interests | 57,683 | 59,671 | |
| Total shareholders' equity | \$7,254,828 | \$6,840,599 | |
| See accompanying Notes to Condensed Consolidated Financial Statements. | | | |

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PartnerRe Ltd.

Condensed Consolidated Statements of Cash Flows

(Expressed in thousands of U.S. dollars)

(Unaudited)

| | For the three months ended | |
|---|----------------------------|----------------|
| | March 31, 2015 | March 31, 2014 |
| Cash flows from operating activities | | |
| Net income | \$248,099 | \$312,887 |
| Adjustments to reconcile net income to net cash provided by operating activities: | | |
| Amortization of net premium on investments | 29,911 | 29,366 |
| Amortization of intangible assets | 6,768 | 7,002 |
| Net realized and unrealized investment gains | (115,645) | (142,172) |
| Changes in: | | |
| Reinsurance balances, net | (572,301) | (581,275) |
| Reinsurance recoverable on paid and unpaid losses, net of ceded premiums payable | 45,691 | 86,002 |
| Funds held by reinsured companies and funds held – directly managed | 71,350 | 17,627 |
| Deferred acquisition costs | (76,800) | (79,315) |
| Net tax assets and liabilities | | |