

PARTNERRE LTD  
Form 10-Q  
November 14, 2003  
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**UNITED STATES**  
**SECURITIES AND EXCHANGE COMMISSION**

Washington, D.C. 20549

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**FORM 10-Q**

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

For the quarterly period ended

September 30, 2003

Commission file number 0-2253

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**PartnerRe Ltd.**

(Exact name of Registrant as specified in its charter)

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**Bermuda**  
(State or other Jurisdiction of  
Incorporation or Organization)

96 Pitts Bay Road

**Not Applicable**  
(I.R.S. Employer  
Identification No.)

HM 08

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**Pembroke, Bermuda**  
(Address of principal executive offices)

(Zip Code)

**(441) 292-0888**

**Registrant's telephone number, including area code**

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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 (the Exchange Act) 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 is an accelerated filer (as defined in Exchange Act Rule 12b-2). Yes  No

The number of the Registrant's common shares (par value \$1.00 per share) outstanding as of November 7, 2003 was 53,648,451

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**INDEPENDENT ACCOUNTANTS REPORT**

To the Board of Directors and Shareholders of PartnerRe Ltd.

We have reviewed the accompanying condensed consolidated balance sheet of PartnerRe Ltd. and subsidiaries as of September 30, 2003 and the related condensed consolidated statements of operations and comprehensive income for the three-month and nine-month periods ended September 30, 2003 and 2002 and of shareholders' equity and cash flows for the nine-month periods ended September 30, 2003 and 2002. These interim financial statements are the responsibility of the Company's management.

We conducted our reviews in accordance with standards established by the American Institute of Certified Public Accountants. 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 auditing standards generally accepted in the United States of America, 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 auditing standards generally accepted in the United States of America, the consolidated balance sheet of PartnerRe Ltd. and subsidiaries as of December 31, 2002 and the related consolidated statements of operations and comprehensive income, shareholders' equity and cash flows for the year then ended (not presented herein); and in our report dated February 10, 2003, we expressed an unqualified opinion on those consolidated financial statements and included an explanatory paragraph relating to the Company's change in method of accounting for goodwill and derivative instruments and hedging activities. In our opinion, the information set forth in the accompanying condensed consolidated balance sheet as of December 31, 2002 is fairly stated, in all material respects, in relation to the consolidated balance sheet from which it has been derived.

Deloitte & Touche

Hamilton, Bermuda

November 3, 2003

**Table of Contents****PartnerRe Ltd.****Condensed Consolidated Balance Sheets**

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

(Unaudited)

	September 30, 2003	December 31, 2002
<b>Assets</b>		
<b>Investments and cash</b>		
Fixed maturities, available for sale, at fair value (amortized cost: 2003, \$5,121,130; 2002, \$3,998,382)	\$ 5,255,480	\$ 4,145,594
Short-term investments, available for sale, at fair value (amortized cost: 2003, \$63,889; 2002, \$3,787)	63,869	3,801
Equities, available for sale, at fair value (cost: 2003, \$568,575; 2002, \$493,893)	621,216	473,163
Trading securities, at fair value (cost: 2003, \$117,031; 2002, \$72,998)	123,211	75,284
Cash and cash equivalents, at fair value, which approximates amortized cost	758,478	710,640
Other invested assets	4,102	3,630
<b>Total investments and cash</b>	<b>6,826,356</b>	<b>5,412,112</b>
Accrued investment income	98,556	66,980
Reinsurance balances receivable	1,256,512	994,502
Reinsurance recoverable on paid and unpaid losses	208,820	216,681
Funds held by reinsured companies	825,674	726,722
Deferred acquisition costs	347,276	304,873
Deposit assets	502,857	359,606
Taxes recoverable	94,276	100,002
Goodwill	429,519	429,519
Other	127,423	126,977
<b>Total Assets</b>	<b>\$ 10,717,269</b>	<b>\$ 8,737,974</b>
<b>Liabilities</b>		
Unpaid losses and loss expenses	\$ 4,323,685	\$ 3,658,416
Policy benefits for life and annuity contracts	960,371	815,978
Unearned premiums	1,188,288	869,925
Funds held under reinsurance treaties	30,859	32,359
Deposit liabilities	529,596	356,091
Long-term debt	220,000	220,000
Net payable for securities purchased	462,338	190,110
Accounts payable, accrued expenses and other	125,183	117,913
Mandatorily Redeemable Preferred Securities	200,000	
<b>Total Liabilities</b>	<b>8,040,320</b>	<b>6,260,792</b>
<b>Trust Preferred and Mandatorily Redeemable Preferred Securities</b>	<b>200,000</b>	<b>400,000</b>
<b>Shareholders Equity</b>		
Common shares (par value \$1.00, issued and outstanding: 2003, 53,638,131; 2002, 52,375,938)	53,638	52,376
Preferred shares (aggregate liquidation preference: 2003, \$290,000,000; 2002, \$250,000,000; par value \$1.00, issued and outstanding: 2003, 11,600,000; 2002, 10,000,000;)	11,600	10,000

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Additional paid-in capital	1,019,673	977,714
Deferred compensation	(159)	(261)
Accumulated other comprehensive income:		
Net unrealized gains on investments, net of tax	153,481	119,605
Currency translation adjustment	(1,216)	(30,820)
Retained earnings	1,239,932	948,568
	<hr/>	<hr/>
<b>Total Shareholders Equity</b>	<b>2,476,949</b>	<b>2,077,182</b>
	<hr/>	<hr/>
<b>Total Liabilities, Trust Preferred and Mandatorily Redeemable Preferred Securities and Shareholders Equity</b>	<b>\$ 10,717,269</b>	<b>\$ 8,737,974</b>
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See Accompanying Notes to Condensed Consolidated Financial Statements

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

(Expressed in thousands, except per share data)

(Unaudited)

	For the three months ended September 30, 2003	For the three months ended September 30, 2002	For the nine months ended September 30, 2003	For the nine months ended September 30, 2002
<b>Revenues</b>				
Gross premiums written	\$ 750,305	\$ 575,581	\$ 2,849,198	\$ 1,990,099
Net premiums written	\$ 743,525	\$ 570,108	\$ 2,817,132	\$ 1,957,881
Decrease (increase) in unearned premiums	144,686	61,829	(259,837)	(280,802)
Net premiums earned	888,211	631,937	2,557,295	1,677,079
Net investment income	65,435	60,186	190,910	178,416
Net realized investment gains (losses)	13,110	791	78,566	(13,363)
Other income	2,869	1,540	6,129	3,564
<b>Total Revenues</b>	<b>969,625</b>	<b>694,454</b>	<b>2,832,900</b>	<b>1,845,696</b>
<b>Expenses</b>				
Losses and loss expenses and life policy benefits	593,875	531,445	1,704,145	1,225,066
Acquisition costs	198,034	136,965	569,354	361,679
Other operating expenses	62,618	41,030	171,967	117,695
Interest expense	6,113	3,267	12,539	9,693
Net foreign exchange losses (gains)	972	(812)	1,267	5,279
<b>Total Expenses</b>	<b>861,612</b>	<b>711,895</b>	<b>2,459,272</b>	<b>1,719,412</b>
<b>Income (Loss) before distributions related to Trust Preferred and Mandatorily Redeemable Preferred Securities and taxes</b>				
	<b>108,013</b>	<b>(17,441)</b>	<b>373,628</b>	<b>126,284</b>
Distributions related to Trust Preferred and Mandatorily Redeemable Preferred Securities	4,010	6,815	17,640	20,445
Income tax (benefit) expense	(12,862)	3,679	(7,162)	3,929
<b>Net income (loss)</b>	<b>116,865</b>	<b>(27,935)</b>	<b>363,150</b>	<b>101,910</b>
<b>Preferred dividends</b>	<b>4,854</b>	<b>5,000</b>	<b>24,421</b>	<b>15,000</b>
<b>Net income (loss) available to common shareholders</b>	<b>\$ 112,011</b>	<b>\$ (32,935)</b>	<b>\$ 338,729</b>	<b>\$ 86,910</b>
<b>Calculation of comprehensive income, net of tax:</b>				
Net income (loss) as reported	\$ 116,865	\$ (27,935)	\$ 363,150	\$ 101,910
Change in unrealized gains or losses on investments	(18,284)	59,911	33,876	74,640
Change in currency translation adjustment	1,557	(4,765)	29,604	19,160
<b>Comprehensive income</b>	<b>\$ 100,138</b>	<b>\$ 27,211</b>	<b>\$ 426,630</b>	<b>\$ 195,710</b>

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<b>Per share data:</b>				
Earnings per common share:				
Basic net income (loss)	\$ 2.09	\$ (0.65)	\$ 6.38	\$ 1.73
Weighted average number of common shares outstanding	53,636.4	50,328.5	53,091.6	50,285.8
Diluted net income (loss)	\$ 2.08	\$ (0.65)	\$ 6.30	\$ 1.68
Weighted average number of common and common equivalent shares outstanding	53,952.0	50,328.5	53,800.9	51,652.7

See Accompanying Notes to Condensed Consolidated Financial Statements



**Table of Contents****PartnerRe Ltd.****Condensed Consolidated Statements of Shareholders Equity**

(Expressed in thousands of U.S. dollars)

(Unaudited)

	Common Shares	Preferred Shares	Additional Paid-In Capital	Deferred Compen- sation	Net Unrealized Gains on Investments, Net of tax	Currency Translation Adjustment	Retained Earnings	Total Share- holders Equity
<b>Balance at December 31, 2002</b>	\$ 52,376	\$ 10,000	\$ 977,714	\$ (261)	\$ 119,605	\$ (30,820)	\$ 948,568	\$ 2,077,182
Issue of common shares	1,262		8,442					9,704
Issue of preferred shares		11,600	269,265					280,865
Redemption of preferred shares (liquidation value of \$250,000, see Note 2)		(10,000)	(232,163)					(242,163)
Adjustment on purchase contracts for common shares			(3,585)					(3,585)
Amortization of deferred compensation				102				102
Net unrealized gains for period					33,876			33,876
Currency translation adjustment						29,604		29,604
Net income							363,150	363,150
Dividends on common shares							(47,365)	(47,365)
Dividends on preferred share (see Note 2)							(24,421)	(24,421)
<b>Balance at September 30, 2003</b>	<b>\$ 53,638</b>	<b>\$ 11,600</b>	<b>\$ 1,019,673</b>	<b>\$ (159)</b>	<b>\$ 153,481</b>	<b>\$ (1,216)</b>	<b>\$ 1,239,932</b>	<b>\$ 2,476,949</b>
<b>Balance at December 31, 2001</b>	<b>\$ 50,164</b>	<b>\$ 10,000</b>	<b>\$ 885,678</b>	<b>\$ (397)</b>	<b>\$ 24,023</b>	<b>\$ (58,043)</b>	<b>\$ 836,684</b>	<b>\$ 1,748,109</b>
Issue of common shares	166		5,072					5,238
Adjustment on purchase contracts for common shares			(3,585)					(3,585)
Amortization of deferred compensation				102				102
Net unrealized gains for period					74,640			74,640
Currency translation adjustment						19,160		19,160
Net income							101,910	101,910
Dividends on common shares							(43,235)	(43,235)
Dividends on preferred shares							(15,000)	(15,000)
<b>Balance at September 30, 2002</b>	<b>\$ 50,330</b>	<b>\$ 10,000</b>	<b>\$ 887,165</b>	<b>\$ (295)</b>	<b>\$ 98,663</b>	<b>\$ (38,883)</b>	<b>\$ 880,359</b>	<b>\$ 1,887,339</b>

See Accompanying Notes to Condensed Consolidated Financial Statements



**Table of Contents****PartnerRe Ltd.****Condensed Consolidated Statements of Cash Flows**

(Expressed in thousands of U.S. dollars)

(Unaudited)

	For the nine months ended September 30, 2003	For the nine months ended September 30, 2002
<b>Cash Flows From Operating Activities</b>		
Net income	\$ 363,150	\$ 101,910
Adjustments to reconcile net income to net cash provided by operating activities:		
Accrual of discount on investments, net of amortization of premium	16,235	(2,707)
Net realized investment (gains) losses	(78,566)	13,363
Changes in:		
Unearned premiums	259,837	280,802
Reinsurance balances receivable	(144,658)	(302,142)
Unpaid losses and loss expenses including life policy benefits	594,656	455,746
Taxes recoverable	(8,204)	4,273
Other changes in assets and liabilities	(111,061)	(17,250)
Other items, net	(6,827)	11,448
<b>Net cash provided by operating activities</b>	<b>884,562</b>	<b>545,443</b>
<b>Cash Flows From Investing Activities</b>		
Sales of fixed maturities	6,567,966	2,120,860
Redemptions of fixed maturities	655,691	220,557
Purchases of fixed maturities	(7,875,296)	(2,674,112)
Net (purchases) sales of short term investments	(60,048)	25,946
Sales of equities	86,134	131,892
Purchases of equities	(174,963)	(284,189)
Other	(11,266)	5,039
<b>Net cash used in investing activities</b>	<b>(811,782)</b>	<b>(454,007)</b>
<b>Cash Flows from Financing Activities</b>		
Cash dividends paid to shareholders	(71,898)	(58,235)
Issue of common shares	9,704	5,238
Issue of preferred shares	280,865	
Redemption of preferred shares	(242,163)	
Adjustment on purchase contract for common shares	(3,585)	(3,585)
<b>Net cash used in financing activities</b>	<b>(27,077)</b>	<b>(56,582)</b>
<b>Effect of exchange rate changes on cash</b>	<b>2,135</b>	<b>6,281</b>
<b>Increase in cash and cash equivalents</b>	<b>47,838</b>	<b>41,135</b>
<b>Cash and cash equivalents beginning of period</b>	<b>710,640</b>	<b>451,614</b>
<b>Cash and cash equivalents end of period</b>	<b>\$ 758,478</b>	<b>\$ 492,749</b>



See Accompanying Notes to Condensed Consolidated Financial Statements

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**PartnerRe Ltd.**

**Notes to Condensed Consolidated Financial Statements**

**(Unaudited)**

**1. General**

PartnerRe Ltd. (the Company) is a leading global reinsurer, providing multi-line reinsurance to insurance companies through its wholly owned subsidiaries, Partner Reinsurance Company Ltd. (Partner Reinsurance Company), PartnerRe SA, and Partner Reinsurance Company of the U.S. (PartnerRe U.S.). Risks reinsured include, but are not limited to, property, casualty, motor, agriculture, aviation/space, catastrophe, credit/surety, engineering/energy, marine, special risk, other lines, and life/annuity and health.

The accompanying unaudited condensed consolidated financial statements have been prepared on the basis of United States generally accepted accounting principles (U.S. GAAP). 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. In the opinion of management, these condensed consolidated financial statements reflect all the normal recurring adjustments and estimates necessary for a fair presentation of the Company's financial position at September 30, 2003 and December 31, 2002 and its results of operations for the three and nine-month periods ended September 30, 2003 and 2002 and shareholders' equity and cash flows for the nine months then ended. Actual results could differ from those estimates and results of operations for any interim period are not necessarily indicative of the results for a full year. These unaudited condensed consolidated financial statements should be read in conjunction with the consolidated financial statements and notes thereto contained in the Company's 2002 Annual Report to Shareholders.

**2. Recent Development**

In May 2003, the Company issued 11.6 million of 6.75% Series C Cumulative Redeemable Preferred Shares (Series C preferred shares) for a total consideration of \$280.9 million after underwriting discounts and commissions totaling \$9.1 million. The Series C preferred shares can not be redeemed before May 8, 2008. Beginning May 8, 2008, the Company may redeem Series C preferred shares at \$25.00 per share plus accrued and unpaid dividends without interest. Dividends on the Series C preferred shares are cumulative from the date of issuance and are payable quarterly in arrears. A portion of the net proceeds from the sale, in the amount of \$250 million, has been used to redeem the Company's existing 8% Series A Preferred Shares (Series A preferred shares). The remaining net proceeds were used for general corporate purposes.

While the redemption of the Series A preferred shares had no impact on the net income of the Company, the difference between the aggregate liquidation value and the carrying value of the Series A preferred shares, which totalled \$7.8 million, was treated as a dividend on preferred shares and resulted in a \$7.8 million reduction to the net income available to common shareholders, which is used in the calculation of earnings per share for the nine-month period ended September 30, 2003.

**3. Change in Accounting Policy**

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In December 2002, the Financial Accounting Standards Board (FASB) issued Statement of Financial Accounting Standards (SFAS) No. 148, Accounting for Stock-Based Compensation Transition and Disclosure (SFAS 148). SFAS 148 amends SFAS No. 123, Accounting for Stock-Based Compensation, by providing alternative methods of transition for a voluntary change to the fair-value based method of accounting for stock-based employee compensation. In addition, SFAS 148 amends the disclosure requirements of SFAS 123 to require prominent disclosures in both annual and interim financial statements about the method of accounting for stock-based employee compensation and the effect of the method used on reported results.

The Company currently uses four types of equity-based compensation; stock options, restricted stock, restricted stock units (RSUs), and stock issued under the Company's employee stock purchase plan. The Company's adoption in 2003, of the fair-value provisions of SFAS 123, as amended by SFAS 148, resulted in the recognition in net income of an expense corresponding to the fair value of the Company's stock options that were granted during the first nine months of 2003. The expense is recognized in net income over the vesting period of the stock options. The Company has elected to use the prospective transition method as described in SFAS 123, which results in the expensing of options granted subsequent to January 1, 2003. Under the provisions of SFAS 123, options were valued at fair value on the date of grant using a Black-Scholes option-valuation model that considered, as at the date of grant, the exercise price and expected life of the option, the current price of the Company's common share and its expected volatility, expected dividends on the common shares, and the risk-free interest rate for the expected life of the option. The adoption of the fair-value provision of SFAS 123 resulted in a charge to net income of \$2.2 million, or \$0.04 per diluted share, in the first nine months of 2003.

Prior to April 1, 2003, the Company accounted for equity-based compensation under the intrinsic-value provisions of Accounting Principles Board No. 25 (APB 25) and although the Company did not recognize the fair value of equity-based compensation in its

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results, the Company disclosed pro-forma net income and earnings per share that reflected the effect of expensing all equity-based compensation. The effect of the Company's adoption of the fair-value provision of SFAS 123 on net income and earnings per share for the three-month period ended March 31, 2003 was as follows (\$ thousands, except per share data):

	<b>For the three months ended March 31, 2003</b>
Net income available to common shareholders:	
As reported	\$ 119,632
As restated	\$ 119,369
Per share data:	
Basic net income as reported	\$ 2.28
Basic net income as restated	\$ 2.28
Diluted net income as reported	\$ 2.23
Diluted net income as restated	\$ 2.22

The following table illustrates the net effect on net income available to common shareholders and net income per share as if the fair value provisions of SFAS 123 had been applied retroactively to all outstanding equity-based compensation for the three-month and nine-month periods ended September 30, 2003 and 2002 (\$ thousands, except per share data):

	<b>For the three months ended September 30, 2003</b>	<b>For the three months ended September 30, 2002</b>	<b>For the nine months ended September 30, 2003</b>	<b>For the nine months ended September 30, 2002</b>
Net income (loss) available to common shareholders:				
As reported	\$ 112,011	\$ (32,935)	\$ 338,729	\$ 86,910
Add: Stock-related compensation expense included in net income as reported	\$ 840	\$	\$ 2,165	\$
Less: Total stock-related compensation expense determined under fair-value method for all grants	\$ 2,827	\$ 2,403	\$ 8,592	\$ 6,671
Pro forma	\$ 110,024	\$ (35,338)	\$ 332,302	\$ 80,239
Net income (loss) per common share:				
Basic				
As reported	\$ 2.09	\$ (0.65)	\$ 6.38	\$ 1.73
Pro forma	\$ 2.05	\$ (0.70)	\$ 6.26	\$ 1.60
Diluted				
As reported	\$ 2.08	\$ (0.65)	\$ 6.30	\$ 1.68
Pro forma	\$ 2.04	\$ (0.70)	\$ 6.18	\$ 1.55
Weighted average assumptions used:				

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Risk-free interest rate	4.1%	4.1%	3.7%	5.0%
Expected life	7 years	7 years	7 years	7 years
Expected volatility	25%	25%	25%	25%
Dividend yield	2%	2%	2%	2%

### 4. New Accounting Pronouncements

During the third quarter of 2003, the Company adopted SFAS No. 150 Accounting for Certain Financial Instruments with Characteristics of both Liabilities and Equity (SFAS 150). The statement establishes standards for how an issuer classifies and measures certain financial instruments with characteristics of both liabilities and equity and requires that an issuer classify a financial instrument that is within its scope as a liability (or an asset in some circumstances). As a result of the adoption of SFAS 150, the Company has reclassified its Mandatorily Redeemable Preferred Securities as liabilities on its September 30, 2003 balance sheet. The Company also reclassified distributions related to these securities to interest expense on the income statement for the three months ended September 30, 2003. This new presentation had no impact on the Company's equity, capitalization, book value and results for all periods presented. In October 2003, the FASB deferred for an indefinite period the application of SFAS 150 to certain non-controlling interests that are classified as equity in the financial statements of an entity's subsidiary until it could consider certain implementation issues associated with the measurement and recognition for these non-controlling interests. This deferral applies to the Company's Trust Preferred securities.



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**PartnerRe Ltd.**

**Notes to Condensed Consolidated Financial Statements**

**(Unaudited)**

In April 2003, the FASB issued SFAS No. 149 *Amendment of Statement 133 on Derivative Instruments and Hedging Activities* (SFAS 149). The statement amends and clarifies financial accounting and reporting for derivative instruments, including certain derivative instruments embedded in other contracts and for hedging activities under SFAS No. 133, *Accounting for Derivative Instruments and Hedging Activities*. The statement was effective for contracts entered into or modified after June 30, 2003. The adoption of SFAS 149 did not have a material impact on the Company's results of operations or financial position.

In February 2003, the Derivatives Implementation Group of the FASB issued SFAS 133 Implementation Issue No. B36 *Embedded Derivatives: Modified Coinsurance Arrangements and Debt Instruments That Incorporate Credit Risk Exposures That Are Unrelated or Only Partially Related to the Creditworthiness of the Obligor under Those Instruments*. This new guidance addresses the potential for embedded derivatives within funds held balances relating to certain reinsurance contracts. The guidance will be effective for fiscal quarters beginning after September 15, 2003. At September 30, 2003 the carrying value of funds held balances containing such arrangements was \$447.5 million. For these balances the Company is in the process of determining the nature of each embedded derivative, the appropriate valuation of such derivatives and the effect that the adoption of this new guidance will have on its results of operations or financial position.

In January 2003, the FASB issued Interpretation No. 46 (FIN 46), *Consolidation of Variable Interest Entities* and in October 2003 issued a FASB Staff Position (FSP) deferring the effective date for applying the provisions of FIN 46 and an exposure draft (the *Interpretation*), *Consolidation of Variable Interest Entities* a modification of FASB Interpretation No. 46 to clarify and provide certain limited-scope exceptions to the application of FIN 46. FIN 46 requires a variable interest entity to be consolidated by a company if that company is subject to a majority of the risk of loss from the variable interest entity's activities or entitled to receive a majority of the entity's residual returns or both. A variable interest entity is a corporation, partnership, trust, or any other legal structure used for business purposes that either (a) does not have equity investors with voting rights or (b) has equity investors that do not provide sufficient financial resources for the entity to support its activities. A variable interest entity may be essentially passive or it may engage in research and development or other activities on behalf of another company. The Interpretation contains technical corrections and addresses implementation issues that have arisen since the issuance of FIN 46. The application date of FIN 46, as modified by the FSP, applies in the first reporting period ending after December 15, 2003 while certain of the disclosure requirements apply to all financial statements issued after January 31, 2003. The proposed Interpretation would also be effective for the first reporting period ending after December 15, 2003. The Company is in the process of determining the effect that the adoption of this new guidance will have on its results of operations or financial position.

In November 2002, the FASB issued Interpretation No. 45 (FIN 45) *Guarantor's Accounting and Disclosure Requirements for Guarantees, Including Indirect Guarantees of Indebtedness of Others*. FIN 45 elaborates on the existing disclosure requirements for most guarantees. It also clarifies that at the time a company issues a guarantee, the company must recognize an initial liability for the fair value of the obligation it assumes under that guarantee and must disclose that information in its interim and annual financial statements. The initial recognition and measurement provisions apply on a prospective basis to guarantees issued or modified after December 31, 2002. The disclosure requirements are effective for financial statements of interim or annual periods ending after December 15, 2002. The adoption of FIN 45 did not have a material impact on the Company's results of operations or financial position.

**5. Weather Derivatives**

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In the normal course of its operations, the Company enters into weather related transactions that are structured as either traditional reinsurance or as derivatives depending upon the nature of the underlying risk. When those transactions are structured as derivatives, the derivatives are marked to market through the net realized investment gain and loss line on the Company's Condensed Consolidated Statement of Operations, in accordance with Emerging Issue Task Force Issue No. 99-2.

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**PartnerRe Ltd.**

**Notes to Condensed Consolidated Financial Statements**

**(Unaudited)**

**6. Credit Agreement**

In June 2003, the Company renewed its syndicated, unsecured 364-day credit facility on substantially the same terms and conditions except for an increase in the lenders' commitment from \$600 million to \$700 million. The customary default and cross default provisions remained unchanged. This facility is used primarily for the issuance of letters of credit. At September 30, 2003, irrevocable letters of credit were issued under the terms of certain reinsurance agreements in the amount of \$293 million in respect of reported loss and unearned premiums reserves.

**7. Segment Information**

The Company monitors the performance of its underwriting operations in two major segments, Non-life and Life. The Non-life segment is further divided into three sub-segments, U.S. Property and Casualty, Global (Non-U.S.) Property and Casualty and Worldwide Specialty. Sub-segments represent markets that are reasonably homogeneous in terms of geography, client types, buying patterns, underlying risk patterns and approach to risk management.

The U.S. Property and Casualty sub-segment is comprised of property, casualty and motor risks generally originating in the United States and written by PartnerRe U.S. The Global (Non-U.S.) Property and Casualty sub-segment is comprised of property, casualty and motor business generally originating outside of the United States, written by Partner Reinsurance Company and PartnerRe SA. The Worldwide 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, inasmuch as appropriate risk management for these lines requires a globally diversified portfolio of risks. This 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, catastrophe, credit/surety, engineering/energy, marine, special risk, and other lines. The Life segment includes life, health and annuity lines of business generally written outside of the United States.

Because the Company does not manage its assets by segment, investment income is not allocated to the Non-life sub-segments of the reinsurance operations. However, because of the interest sensitive nature of some of the Company's Life products, investment income is considered in Management's assessment of the profitability of the Life segment of the reinsurance operations. The following items are not considered in evaluating the results of each segment: net realized investment gains/losses, other income, other operating expenses, interest expense, distributions related to Trust Preferred and Mandatorily Redeemable Preferred Securities, net foreign exchange gains or losses, income tax expense or benefit and preferred share dividends. Segment revenues and profits or losses are shown net of intercompany transactions.

Management measures segment results for the Non-life sub-segments on the basis of the technical ratio, which is obtained by dividing the sum of the loss and loss adjustment expenses and acquisition costs by net premiums earned. The technical ratio differs from the combined ratio as it does not include the impact of other operating expenses. Management measures segment results for the Life segment on the basis of allocated life technical result, which includes revenues from net premiums earned and allocated investment income and expenses from loss and loss expenses and acquisition costs. The following table provides a summary of the segment revenues and results for the three-month and nine-month periods ended September 30, 2003 and 2002 (\$ millions except ratios):



**Table of Contents****PartnerRe Ltd.****Notes to Condensed Consolidated Financial Statements****(Unaudited)**

	For the three months ended September 30, 2003	For the three months ended September 30, 2002	For the nine months ended September 30, 2003	For the nine months ended September 30, 2002
<b>NON-LIFE SEGMENT</b>				
U.S. Property and Casualty				
Net premiums written	\$ 198.6	\$ 125.0	\$ 737.6	\$ 475.1
Net premiums earned	213.1	142.1	623.8	399.2
Loss and loss expense ratio (1)	78.0%	77.9%	72.4%	74.2%
Acquisition expense ratio (2)	24.8	27.9	25.7	26.9
Technical ratio (3)	102.8%	105.8%	98.1%	101.1%
Global (Non-U.S.) Property and Casualty				
Net premiums written	\$ 165.0	\$ 139.8	\$ 655.4	\$ 450.3
Net premiums earned	193.6	151.0	610.0	410.0
Loss and loss expense ratio (1)	86.0%	89.7%	73.7%	79.4%
Acquisition expense ratio (2)	27.8	23.1	26.1	23.9
Technical ratio (3)	113.8%	112.8%	99.8%	103.3%
Worldwide Specialty				
Net premiums written	\$ 319.3	\$ 271.6	\$ 1,215.7	\$ 925.0
Net premiums earned	416.3	303.7	1,115.8	766.3
Loss and loss expense ratio (1)	48.8%	83.8%	54.9%	67.1%
Acquisition expense ratio (2)	18.6	18.2	19.1	17.5
Technical ratio (3)	67.4%	102.0%	74.0%	84.6%
<b>TOTAL NON-LIFE SEGMENT</b>				
Gross premiums written	\$ 687.9	\$ 539.8	\$ 2,631.7	\$ 1,876.1
Net premiums written	682.9	536.4	2,608.7	1,850.4
Net premiums earned	823.0	596.8	2,349.6	1,575.5
Loss and loss expense ratio (1)	65.1%	83.9%	64.4%	72.1%
Acquisition expense ratio (2)	22.4	21.8	22.7	21.5
Technical ratio (3)	87.5	105.7	87.1	93.6
Other overhead expense ratio (4)	7.1	6.3	6.8	6.9
Combined ratio (5)	94.6%	112.0%	93.9%	100.5%
<b>LIFE SEGMENT</b>				
Gross premiums written	\$ 62.4	\$ 35.8	\$ 217.5	\$ 114.0
Net premiums written	60.6	33.7	208.4	107.5
Net premiums earned	65.2	35.1	207.7	101.6
Life technical result (6)	\$ (6.6)	\$ (2.7)	\$ (20.1)	\$ (9.5)
Allocated investment income	12.1	8.0	36.0	21.9

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Allocated life technical result	<u>\$ 5.5</u>	<u>\$ 5.3</u>	<u>\$ 15.9</u>	<u>\$ 12.4</u>
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- (1) Loss and loss expense ratio is obtained by dividing losses and loss expenses by net premiums earned.
- (2) Acquisition expense ratio is obtained by dividing acquisition costs by net premiums earned.
- (3) Technical ratio is defined as the sum of the loss and loss expense ratio and the acquisition expense ratio.
- (4) Other overhead expense ratio is obtained by dividing other operating expenses by net premiums earned.
- (5) Combined ratio is the sum of the loss and loss expense ratio and expense ratio. The expense ratio is defined as the sum of the acquisition expense ratio and the other overhead expense ratio.
- (6) Technical result is defined as net premiums earned less losses and loss expenses and acquisition costs.

**Table of Contents****PartnerRe Ltd.****Notes to Condensed Consolidated Financial Statements****(Unaudited)**

	For the three months ended September 30, 2003	For the three months ended September 30, 2002	For the nine months ended September 30, 2003	For the nine months ended September 30, 2002
	<u>          </u>	<u>          </u>	<u>          </u>	<u>          </u>
<b>Reconciliation of technical result to Net Income</b>				
<b>(Loss):</b>				
U.S. Property and Casualty	\$ (6.0)	\$ (8.3)	\$ 12.0	\$ (4.5)
Global (Non-U.S.) Property and Casualty	(26.8)	(19.3)	1.4	(13.5)
Worldwide Specialty	135.7	(6.2)	290.5	117.8
	<u>          </u>	<u>          </u>	<u>          </u>	<u>          </u>
Non-life technical result	\$ 102.9	\$ (33.8)	\$ 303.9	\$ 99.8
Life technical result	(6.6)	(2.7)	(20.1)	(9.5)
	<u>          </u>	<u>          </u>	<u>          </u>	<u>          </u>
Total technical result	\$ 96.3	\$ (36.5)	\$ 283.8	\$ 90.3
Other operating expenses	(62.6)	(41.0)	(172.0)	(117.7)
Net investment income	65.4	60.2	190.9	178.4
Other income	2.9			