# Annual Report 2001

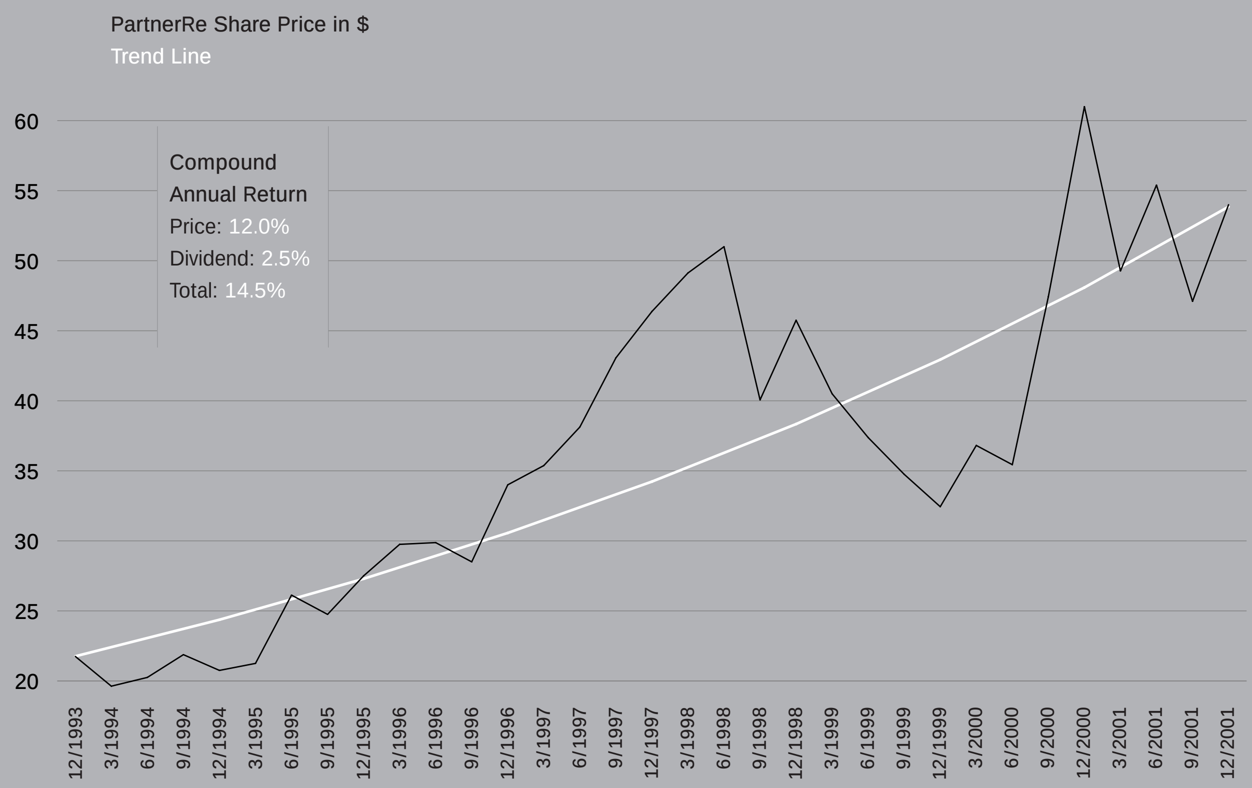
PartnerRe

# Financial Highlights

(expressed in millions of U.S. dollars, except per share data)

| For the years ended December 31, | 1997 | 1998 | 1999 | 2000 | 2001 | |
|---|---|---|---|---|---|---|
| | $ 427.8 | $ 687.0 | $ 1,326.4 | $ 1,380.3 | $ 1,825.1 | Net premiums written |
| | 615.7 | 879.6 | 1,630.4 | 1,525.6 | 1,895.0 | Total revenues |
| | 271.1 | 266.3 | 94.8 | 142.3 | (160.5) | Net income (loss) |
| | | | | | | |
| | | | | | | Earnings (loss) per common share: |
| | $ 4.48 | $ 4.05 | $ 1.73 | $ 3.79 | $ (4.44) | Diluted operating earnings (loss) per share |
| | 4.69 | 4.34 | 1.40 | 2.41 | (3.60) | Diluted net income (loss) per share |
| | | | | | | |
| | 17.9% | 13.3% | 4.9% | 12.1% | (12.1%) | Return on beginning common shareholders' equity |
| | | | | | | Non-life ratios |
| | 39.0% | 56.9% | 77.1% | 70.2% | 100.4% | Loss ratio |
| | 24.4% | 28.6% | 32.7% | 32.3% | 29.8% | Expense ratio |
| | 63.4% | 85.5% | 109.8% | 102.5% | 130.2% | Combined ratio |

| As at December 31, | 1997 | 1998 | 1999 | 2000 | 2001 | |
|---|---|---|---|---|---|---|
| | $ 3,591.8 | $ 7,554.0 | $ 7,560.0 | $ 6,177.4 | $ 7,165.4 | Total assets |
| | 1,978.3 | 2,113.4 | 1,840.7 | 2,086.0 | 1,748.1 | Total shareholders' equity |
| | 29.57 | 33.53 | 31.82 | 35.54 | 29.05 | Diluted book value per common share |
| | 2,496.9 | 2,415.7 | 1,598.0 | 3,056.9 | 2,708.9 | Market capitalization |



Annual Report 2001

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To Our Shareholders:

PartnerRe entered 2001 poised to embrace all the possibilities that the reinsurance market could present. We had welcomed a new President and CEO to the organization, and we were confident that, with his leadership, the Management team would successfully build on the platform created since the Company's inception.

Although faced with extraordinary events during the year, PartnerRe maintained its core strategy and—most importantly—its core principles. The Company responded quickly to the tragic events of September 11 by recognizing its obligations to its clients, replenishing its capital and immediately turning its attention to how we will meet the ever-changing needs of the world's insurance companies. The Board and I are pleased with PartnerRe's position as we enter 2002.

The anticipated turnaround in the reinsurance market has arrived amidst market conditions that have changed the world of risk forever. As PartnerRe embraces this new insurance environment, the Board and I remain assured that the Company will continue to focus on providing the highest quality capacity to its clients and on returning consistent value to our shareholders.

In May 2002, after eight years, I will step down from the PartnerRe Chairmanship and Board. As founding Chairman and Board member, I have been privileged to watch PartnerRe grow from a young catastrophe specialist company into a world-class, multi-line reinsurer. I am proud of what has been achieved. During this period, the Company has been fortunate to have two highly qualified and committed CEOs. I will leave our Company in the hands of a knowledgeable and competent Board of Directors, with John Rollwagen as Chairman, a highly qualified Management team and a strong organization. As owners, you can expect all of them to continue to work diligently to create value for you as a world-class global reinsurer.

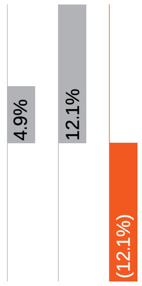
We are grateful for your continued support.

David T. McLaughlin
Chairman of the Board

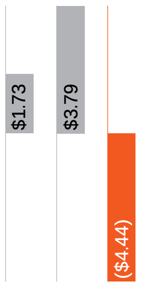
Patrick Thiele
President and Chief Executive Officer

# Letter from the CEO

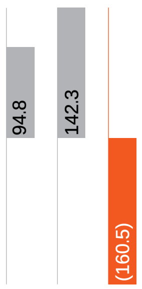
1999
2000
2001




Operating Return on Beginning Common Shareholders' Equity




Diluted Operating Earnings (Loss) Per Common Share




Net Income (Loss) ($ millions)

To Our Shareholders:

As I write this letter, I am mindful that it will be read in the context of September 11. PartnerRe, as a reinsurer, deals with the financial consequences of disaster, but we never forget the human tragedy that accompanies the events. Please do not construe our discussion of the Company's economics as disrespectful of those devastated by that terrible tragedy. It is our hope that we will never again experience such a loss.

## Review of 2001

The events of 2001 will forever be etched in our memories. Staggering losses from the attacks of September 11, both personal and financial, spread around the world. In addition, fallout from the collapse of Enron shook investors and industries, and asbestosis and environmental litigation losses grew. In this difficult environment, PartnerRe met its growth goals for 2001, but not its profit targets, even adjusting for the September 11 disaster.

Our net premiums grew by 32% in 2001. That is substantially more than the 20% target we had set for ourselves. The industry environment of rising prices and tightening terms, which we had forecast, was evident in the first half of 2001 and helped to drive premium growth. Following September 11, those price and term trends intensified and deepened. Demand and supply features shifted as a result of this tragedy and accelerated as we exited the year. As a result, we strongly believe that now is the time to aggressively grow our book of business, and we are well positioned to capitalize on current market opportunities.

Profitability was more problematic. First, the events of September 11 cost us $400 million, or $7.41 per diluted share. But even looking at results exclusive of that, we were not profitable to the degree we had expected. Our adjusted return on beginning common shareholders' equity was 8.7%, not the 13% minimum that we typically shoot for. This shortfall was caused by an increase in the frequency of large losses, including Enron, and by a declining interest rate environment, which affected our investment income.

There is, however, a silver lining. Our profitability issues were due to 2001—not prior year—events. A number of industry participants were obliged to recognize prior reserve deficiencies. This was not the case for PartnerRe, and we have continued confidence in our reserve estimates at year-end 2001.

1999
2000
2001


Diluted Book Value per Common Share


Dividends per Common Share

From an operational standpoint, the Company made solid progress last year. While our attention was focused primarily on the market and our customers, we did accomplish much in the way of strengthening our skills and infrastructure. In 2001, we:

- Enhanced our human resources and infrastructure throughout the group;
- Enhanced client focus by realigning our U.S. and Asian marketing teams and opening a branch office in Hong Kong;
- Raised $400 million in capital to support our clients' needs; and
- Completed the implementation of key business applications designed to improve the efficiency of our organization.

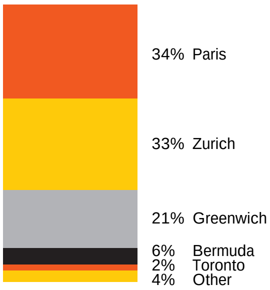
Catastrophes, unfortunately, do happen. Volatility is a fact of life in our industry. This year, levels were unprecedented. However, we closed 2001 with a strong balance sheet and a plan for sustainable growth. This is, I believe, exceedingly good news.

## 2002 and Beyond

The world has changed. September 11 changed the way we live our lives and conduct our business. The shakeout from this will be both positive and negative, and PartnerRe is ready.

Later in this report, you will find a complete discussion of our view of our market and operations and forecasts for the short- and long-term. Overall, we anticipate an attractive but challenging environment over the next several years. We think that we will have a tail wind, but we will continue to structure our activities according to the following principles:

1 We are in the business of assuming risk from our clients. We need to do it intelligently. That means we need to manage that risk effectively, but we do take risk. That is what our clients pay us for.
2 Our employees are among our most valuable assets. We are dependent on their highly technical skills for accurate analysis and intelligent management. We can only expect high performance from our people if we treat them fairly and with respect.
3 We must strike the proper balance in terms of capital adequacy. This is critical to our ability to provide consistent and substantial capacity to clients and deliver appropriate returns to our shareholders. Strong financial skills and strategies coupled with a high-quality investment portfolio will enable us to achieve this balance.
4 Trust and credibility are not relative concepts. We will never do anything to damage the credibility of this Company or Management team.




Distribution of Employees
Dec. 31, 2001
Total: 689

## Thank You

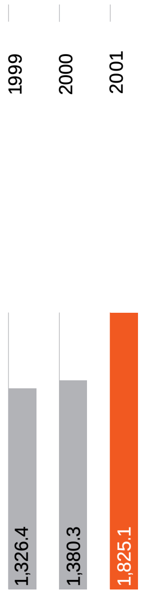
In 2001, PartnerRe faced and surmounted numerous challenges that might have threatened our organizational strength. I would like to thank all of our 689 employees for their tireless efforts to keep our Company moving forward, particularly in the face of unprecedented catastrophe.

At this time, I would also like to acknowledge the contribution of our Chairman, David McLaughlin, who will be stepping down from our Board. David has been an important part of PartnerRe's short, successful history. He has provided leadership, mentorship and guidance as Chairman of the Board since the Company's inception. I know the Board of Directors joins me in thanking him and in wishing him all the best in his forthcoming endeavors. I look forward to working with Chairman-designate John Rollwagen.

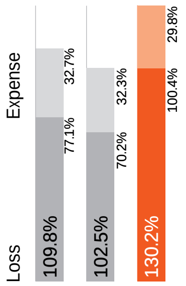
Finally, I would like to thank you, our shareholders, our clients and producers for your continued support of our Company. I am both excited and challenged by the prospects the future holds for this enterprise, and I look forward to continuing to work to ensure that PartnerRe reaches its goals and fullest potential.

Patrick Thiele
President and Chief Executive Officer

# Overview of Operations




Net Premiums Written
($ millions)




Non-life Combined Ratio

A discussion of PartnerRe's reinsurance and financial operations follows. The reinsurance operations report highlights the major initiatives in our U.S. and Global operations, including an outlook for 2002. The financial operations report examines our investment, capital and risk management results and strategy.

## Reinsurance Operations

PartnerRe remained customer focused in 2001. We grew substantially in most of our markets and lines of business, as a result of improved market conditions and responsiveness to our clients' needs. Our substantial growth in 2001 was particularly focused on those geographic areas and lines of business that we believed were potentially the most profitable.

In a year that had the largest insured losses in the history of the insurance and reinsurance industry, PartnerRe was there for our clients. We were one of the few reinsurers to remain open for quotations in the immediate aftermath of September 11 and were active in seeking solutions to client issues. We paid or recognized our obligations to our clients, and we maintained a strong platform for future growth.

With a strong balance sheet and a solid client focus, we are exceptionally well positioned to take advantage of improved market conditions in the reinsurance industry.

Our reinsurance operations are managed according to the buying patterns of our clients. In order to provide context to our 2001 results, the following section provides an overview of our two major operating units—operations in the U.S. and Global operations (non-U.S.)—as well as our specialized lines of business.

### U.S. Operations

In the largest reinsurance market in the world, PartnerRe is positioned as one of the top companies in the U.S. broker market, with gross premiums of $521 million. Year 2001 represents the third consecutive year of substantial growth, reflecting our strategic commitment to this important market.

We are organized according to five distinct client groups, allowing us to focus on client needs and to target appropriate business within those groups—national accounts, regional accounts, program business, specialty casualty and specialty lines. We provide our products and services to clients through reinsurance intermediaries.

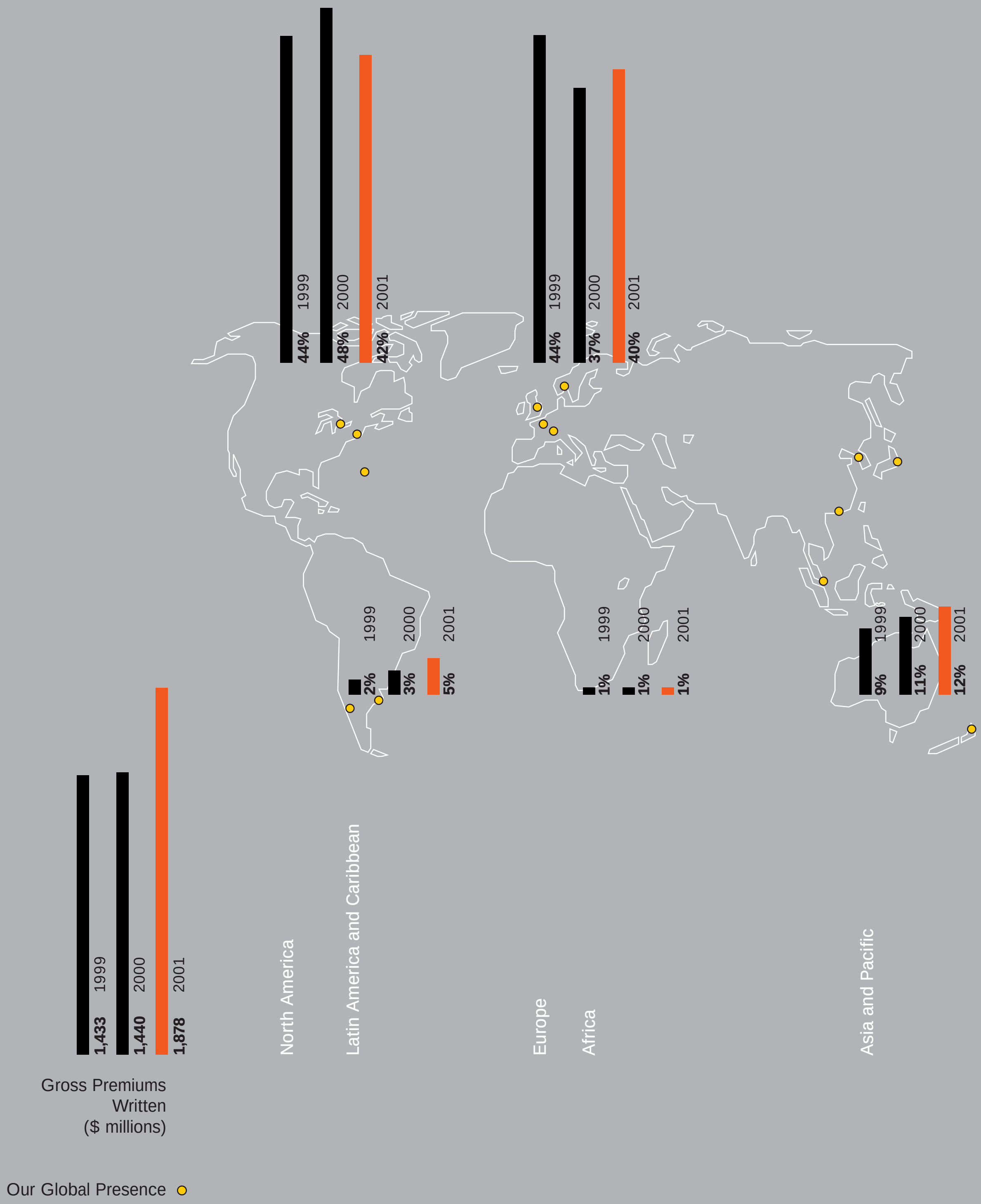
Our national account clients are generally large stock insurance companies with surplus greater than $500 million. These companies tend to be countrywide writers of property, multi-line and general casualty insurance. Regional account clients are typically those insurance companies with surplus below $500 million, and tend to have more limited catastrophe exposure compared to national accounts, as well as more limited geographic scope. Our program business targets groups of very similar exposures either produced through a managing general agency or handled as a unit.

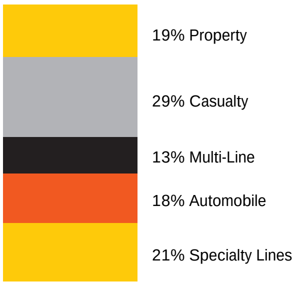
Executive Management
from left

Mark Pabst
Bruno Meyenhofer
Scott Moore
Albert Benchimol
Graham Dimmock

## Geographic Distribution of Premiums

For the years ended December 31






U.S. Operations
Premium Distribution
by Client Groups

Our specialty casualty clients provide professional liability (errors and omissions and directors and officers), umbrella, excess and surplus, environmental and workers' compensation insurance. Specialty lines clients write business in contract and commercial surety, agriculture, aviation and ocean marine.

The U.S. primary insurance industry observed price increases across all commercial lines in 2001. Property rates were in their second year of improvement, and casualty price increases were catching up to property price increases, after lagging throughout 2000. Surplus lines carriers reported the most significant strengthening in premium rates. A contraction of insurance capacity in the non-standard automobile line resulted in increased demand for reinsurance support for this business. The reinsurance industry also showed signs of improving market conditions in 2001.

In 2001, our operations in the U.S. were distinguished by strong growth. Our largest growth area was in specialty casualty, where we have seen steady improvement in pricing and underwriting disciplines after several years of soft market underwriting conditions. We are positioned to benefit from an improving market through disciplined and selective underwriting.

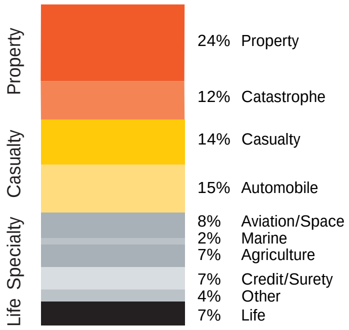
We report on our specialty lines business in the U.S. later in this report, in conjunction with our worldwide specialties.

## Global

Our operations outside the U.S. are designated as Global. In these operations, we had extraordinary growth. Our Global businesses grew (including specialty lines, catastrophe and life) 41% in gross written premiums to $1,357 million in 2001, with general property/casualty business growing at 30% and specialty business at 63%. This is the second year of significant growth in both areas. We continue to have strong geographic diversification as well as product diversification. We are well positioned to take advantage of market conditions around the world.

We manage our business along geographic lines for general property/casualty business and along business lines for specialized areas. We believe that we have exceptional client relationships and that those relationships are a distinguishing feature of PartnerRe. Our geographic and client focus allows us to be knowledgeable about and responsive to our client base.

During 2001, primary insurance companies continued to consolidate, although the rate of consolidation slowed somewhat. The consolidation process in Japan was remarkable for its breadth and speed, followed by markets in Latin America, Australasia and Scandinavia.




Business Composition
Business Lines
(based on net
premiums written)

Prices in most geographic markets and lines improved significantly, with the principal exceptions of Japan and Germany. Of particular note were price increases in industrial and commercial property risks requiring facultative reinsurance.

Likewise, reinsurance pricing and terms and conditions generally improved at an accelerated rate throughout 2001, with additional tightening following the events of September 11. Proportional treaty terms, for example, became more favorable in terms of reduced commissions, occurrence limits, loss participation clauses and cedent compensating balances.

PartnerRe was a leading and proactive force in these market conditions, which played to our strengths: client relationships, the availability and the quality of our advice and the continued strength of our balance sheet in uncertain times.

We were very successful in growing in these market conditions in most of our markets. Proportional treaty terms improved significantly along with prices. Our non-proportional book, which generally has better margins, increased significantly, and PartnerRe Global's non-proportional business grew from 25% to 30%.

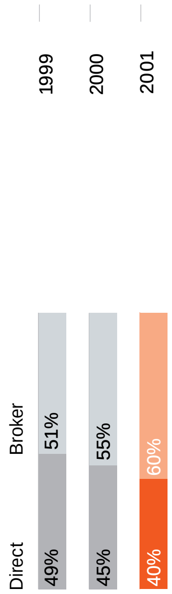
## Specialty Lines, Catastrophe and Life

Our aviation, agriculture, credit and surety, marine and new solutions units comprise the specialty lines business and are written by PartnerRe teams on a worldwide basis. Specialty lines business represents 21% of our U.S. business and 32% of our Global business.

**Aviation and Space** Net premiums written for aviation business were $146.0 million (2000: $59.0 million). Our client segments include airlines, general aviation operators, and space risks. The main classes of business are coverage of aircraft hull and liabilities such as passengers' liability, third party liability and product liability.

Excluding the terrorist attacks, 2001 would have been a good year in terms of both safety and monetary losses. Airlines suffered only 18 fatal accidents. Total losses for the year, excluding September 11, were approximately $1.2 billion. The September 11 attacks, however, resulted in the largest-ever losses in aviation history, with a single day costing the sector approximately $4 billion. The July attack on the Colombo airport in Sri Lanka, which damaged several aircraft, and three large events during the period also produced large losses.

PartnerRe's losses, though significant, were somewhat offset by post-event activities. In the coverage crisis that followed, the Company moved quickly to help provide solutions to airlines, which increased our position dramatically.




Distribution Mix
(based on gross premiums written)

**Agriculture** Net premiums written for agriculture business were $135.8 million (2000: $94.6 million). Our agricultural clients are insurers and brokers specialized in servicing the rural sector with risk management solutions in crop, forestry, livestock and aquaculture production around the world.

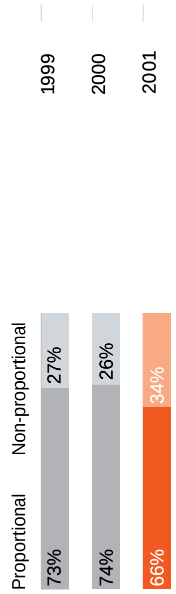
Apart from U.S. crop business, agriculture reinsurance capacity shrank, and reinsurance pricing increased. Various reinsurers, and some Lloyds syndicates writing agriculture business, ceased underwriting this class in 2001. The year was quiet in terms of losses, with the only large losses in Canadian crop insurance.

PartnerRe's strong position in the agriculture sector was further solidified in 2001, with significant growth and an increased profile in forestry and livestock insurance through the development of new products. Growth was particularly strong in Australia and the U.S., where we successfully increased our business through existing relationships.

**Credit and Surety** Net premiums written for credit and surety business were $119.0 million (2000: $110.1 million). Our client base is mainly specialist credit insurers and U.S. sureties. On the credit side, they vary from small operations to large stock exchange-quoted credit insurance groupings, where the merger and acquisition trend of previous years has continued in 2001. Although the main focus of our business relationships is concentrated in European credit, we have expanded and have been successful in diversifying and maintaining business associations and providing reinsurance support on a worldwide basis.

The gradual deterioration of the economies in most countries of the world during 2001 and the consequent increase in the number of insolvencies led to a difficult year for credit and surety. The events of September 11 and the Enron bankruptcy further affected performance, leading to poor results for reinsurers, including PartnerRe. However, the negative results and the difficult operating environment led to corrective measures in the primary insurance markets, including rate increases between 10% and 30%, coverage and underwriting actions—particularly in terms of risk management and selection, as well as appropriate exposure control. The Enron collapse had a major impact on the surety market, in terms of coverage and structure. Demand for credit and surety products will generally increase as the markets come to terms with all these events.

Our aim has not been to increase risk exposure at treaty renewal, but to represent ourselves as a solid market with good security, offering continuity to the majority of our clients.




Business Type
(based on gross premiums written)

**Marine** Net premiums written for marine business were $43.8 million (2000: $25.8 million). Our clients are both mono-line and multi-line insurers, ranging from small mutuals to globally operating companies, typically specializing in providing insurance products to the maritime industry.

In the first half of 2001 the marine market hardened significantly. However, results were poor because of large losses such as the $450 million Petrobras offshore rig loss in Brazil. The continuing poor results in marine led to the withdrawal of significant capacity. Following September 11, further capacity was withdrawn from the retrocession market, and terms and conditions improved substantially.

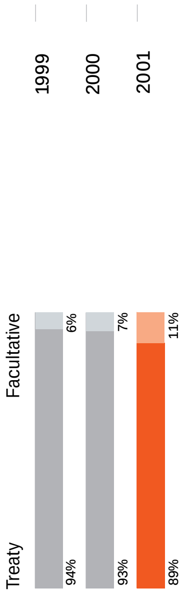
In the improving market environment during 2001, we continued to apply a selective underwriting approach. By focusing on profitable accounts and consistently applying our pricing requirements, we were able to further broaden our portfolio base, even while moving out of business where terms and conditions no longer met our expectations.

**New Solutions** PartnerRe's new solutions division was formed to meet the demand for risk financing and risk structuring expertise. In 2001 new initiatives were successfully established in finite reinsurance and capital markets, which complement our previously established effort in financial guaranty reinsurance.

Finite reinsurance offers customized solutions using a full range of non-traditional products, including aggregate excess covers, adverse development and loss portfolio transfer covers, finite quota share and multi-year programs. Several major finite transactions were successfully executed in 2001.

Capital markets solutions are aimed at deploying reinsurance capacity to cover risks that would otherwise trade in the capital markets. Non-standard asset backed risks, where PartnerRe's technical skills in underwriting, structuring and pricing can be most effectively leveraged, are the teams' focus. PartnerRe has the skills, experience and reputation to successfully execute on capital market opportunities.

The financial guaranty team focuses on providing reinsurance support to mono-line credit insurers as well as the specialist financial guaranty units of other reinsurers. Our book is primarily composed of highly rated transactions triggered by remote events. As a result, there was no direct impact from the events of September 11 and Enron.




Business Composition
(based on gross premiums written)

**Catastrophe** Net premiums written for catastrophe business were $217.4 million (2000: $149.9 million). PartnerRe is a market leader in catastrophe reinsurance. We have an extensive client base that includes virtually every leading insurer worldwide. As a result, we maintain a well spread book of business, ensuring optimal geographic diversification.

Early in 2001, the catastrophe reinsurance market saw the beginning of an upturn, with modest increases in pricing evident globally. September 11 accelerated this upswing, increasing catastrophe prices dramatically to rates last seen in 1993/1994. Tropical Storm Allison in the U.S., which cost $2.5 billion to the industry, and Typhoon Nari in Taiwan, which caused losses of $500 million, were within the normal loss burden, but helped to reinforce the trend.

PartnerRe finished 2001 in a strong position. We were the first reinsurer of our size in the market after September 11 and therefore were in a position to take advantage of prices at their peak.

**Life** Net premiums written for life business were $132.0 million (2000: $172.5 million). Our client base is concentrated on those life insurers where we can deliver capacity, expertise and a range of services, including product development and pricing tools. Our main focus is in western Europe.

The life reinsurance market is approximately one quarter the size of the non-life sector. It is a concentrated and increasingly competitive market. On September 11, reinsurers were reminded that life insurance brings with it catastrophe exposure. The industry took an estimated $3 billion loss from the collapse of the World Trade Center. As a result, the price of catastrophe excess-of-loss cover for both life and personal accident around the world has seen increases ranging from twofold to eightfold, and much of the life retrocession market has disappeared.

In general, mortality rates continue to improve in developed countries. Life expectancy is increasing by one year every four or five years in developed countries. The senior population is growing and will continue to grow. There is a higher demand for new insurance products for an aging population and a greater need to reinsure the longevity risk.

PartnerRe's activity in catastrophe life and personal accident protections has been modest, but we continue to take cautious advantage of the upturn in prices and to link our capacity to participation in other attractive contracts. In the longevity sector, PartnerRe is a market leader and continues to launch new products in this sector as we pursue our strategy to increase our portfolio of innovative retail products. We are on track with our plans, concentrating our activity in the design of retail life assurance products and in responding to the needs of our clients.

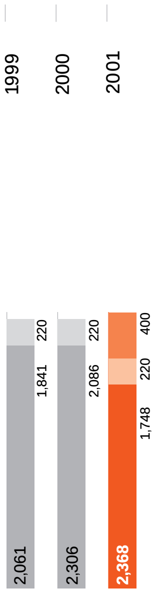
## Reinsurance Outlook for 2002

We believe we are well positioned for 2002. We expect market conditions to remain firm through the year, with acceptable pricing and terms and conditions. We believe that clients will increasingly want strong security, value longer-term relationships, and seek innovative solutions. We are well positioned to provide all three.

In light of the events in 2001, we also believe that our clients will seek less volatility in their books of business. This should increase demand for reinsurance products.

This demand will be offset somewhat by increased capacity. New capacity will have some impact, but we believe that current pricing levels are sustainable through 2002. The industry has appropriate price levels in many property lines. However, due to loss trends, the right price level in casualty remains uncertain.

In 2002, we will be particularly focused on business where price increases have been the strongest, such as aviation, global risks and facultative. Also, in response to the new catastrophe pricing environment, PartnerRe has increased its catastrophe limits in some zones. We have not, however, increased our overall per-zone limits. We will continue to seek to grow in this environment and expect to reach our largest level of profitability in PartnerRe's history.




Total Capital
($ millions)

Shareholders' Equity
Long-Term Debt
Other Capital

## Financial Operations

PartnerRe aims to be a most reliable partner to its clients. We promise and deliver substantial and consistent capacity to support our clients' business and an unquestioned ability to pay claims promptly. In 2001, one of the more challenging years in history, PartnerRe's response to devastating events was exemplary and further improved the Company's standing in the global reinsurance marketplace.

Our success as a leading global reinsurer requires us to meet our obligations to our clients and to create value for our shareholders. Globally, we offer superior technical underwriting and pricing skills, a growing product line, a strong balance sheet and outstanding customer service. Since our inception, we have maintained a disciplined and methodological approach to the analysis and control of financial risk, investment activities, asset-liability management and the maintenance of appropriate levels of risk-adjusted capital. This leaves PartnerRe well positioned to grow and to absorb the stresses of large and often unpredictable loss events.

As of December 31, 2001, PartnerRe reported total assets of $7.17 billion and total capital of $2.37 billion. This places the Company among the largest and strongest of the global professional reinsurers. PartnerRe met the strong January 2002 renewal season with an enhanced competitive position and sufficient capital to support substantial growth.

### Investment Operations

Positive investment results, strong cash flow and proceeds of new capital issues contributed to a 13.6% increase in invested assets. As of December 31, 2001, invested assets totalled $4,410.7 million, up from $3,882.1 million at year-end 2000. Net investment income was $239.6 million for the year, compared to $273.6 million in 2000. The reduction in investment income is primarily due to the sale of PartnerRe's U.S. life reinsurance operations in the third quarter of 2000. Non-life investment income was up only modestly in light of substantially lower interest rates available for invested assets. Currency exchange rates also had a negative impact.

The tumultuous events of 2001 also affected capital markets. Excess capacity and increased interest rates of prior years ultimately led to an economic slowdown. In response, companies cut production and reduced their labor forces. Central banks aggressively lowered interest rates. The U.S. Federal Reserve Bank was the most decisive, cutting rates 11 times for a total reduction of 475 basis points in the Fed's Fund Rate to 1.75%.

Other central banks followed suit. The European Central Bank, more concerned with inflation than economic growth, lowered its rates 150 basis points to 3.25%. Global monetary and fiscal policy, combined with generally resilient consumer demand, appeared to be leading the global economies into a relatively quick recovery.

## Investments

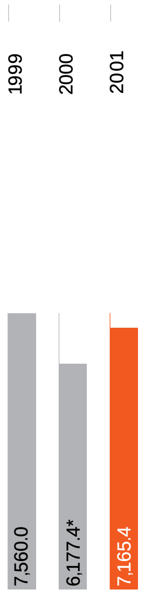
At December 31

### Asset Class
Total Invested Assets

| | 1999 | 2000 | 2001 |
|---|---|---|---|
| Investment Grade Fixed Income | 85% | 73% | 73% |
| High Yield and Convertible Bonds | 3% | 6% | 7% |
| Equities | 4 % | 10% | 10% |
| Cash and Cash Equivalents | 8% | 11% | 10% |
| Total (billions) | $5.5 | $3.9 | $4.4 |

### Composition
Fixed Maturities and
Short-term Investments

| | 1999 | 2000 | 2001 |
|---|---|---|---|
| U.S. Government | 16% | 18% | 17% |
| Asset/Mortgage-Backed | 40% | 24% | 19% |
| U.S. Corporate | 20% | 21% | 28% |
| Foreign Currency Denominated | 20% | 29% | 27% |
| High Yield and Convertibles | 4% | 8% | 9% |
| Total (billions) | $4.8 | $3.1 | $3.5 |




Total Assets
($ millions)

*Assets were reduced due to sale of the U.S. Life operations

Terrorists attacked the World Trade Center and the Pentagon on September 11, and the promise of a quick economic recovery faded. The immediate impact on business and consumer confidence, along with an ensuing reduction of business activity resulting from this day's events, plunged the shaky global economy into a recession. We expect the strength and duration of the subsequent recovery to continue to be hotly debated into 2002.

The declining economy and lower earnings expectations impacted stock markets across the globe. Global stock markets delivered negative returns for the second year in a row. The S&P 500 declined 13% for the year. In Europe, the Bloomberg Euro 500 fell 15%.

Our reporting currency, the U.S. dollar, continued its dominance of world markets. While the dollar started the year at historically lofty levels on a trade-weighted basis, good productivity statistics and its status as a safe haven currency further strengthened its position. In 2001, the dollar strengthened by 5.6% against the Euro, 2.6% against the British Pound, 6.5% against the Canadian dollar and 13.6% against the Japanese Yen.

These factors contributed to total return performance of 4.3% for PartnerRe's investment portfolio, as compared to a total return of 6.0% in 2000.

The Company's investment philosophy has remained consistent across markets and cycles. PartnerRe maintains a high-quality, well-balanced and liquid portfolio to optimize current income and achieve capital appreciation. Invested assets supporting our reinsurance liabilities (liability funds) are invested entirely in high-quality fixed income securities. Liability funds back our promise to pay even the largest claims promptly. The preservation of liquidity and protection of capital are the primary investment objectives for these assets. Liability funds are also matched to our reinsurance liabilities in terms of currency and duration. This practice minimizes balance sheet volatility and insulates the capital of the Company against fluctuations in currencies. It does, however, lead to lower reported investment returns in years when the dollar rises against global currencies, as it has over the last 2 to 3 years. Portfolio assets representing the capital of the Company (capital funds) are invested with a view to maximize total return, subject to strict risk assumption and portfolio diversification guidelines. Investment options for capital funds include investment grade fixed income securities, less-than-investment-grade bonds, convertible securities, preferred stocks and common stocks.

PartnerRe's prudent investment strategy is appropriate in the current economic environment. Asset quality and liquidity are paramount now. Investment-grade fixed income securities and cash make up 83% of consolidated invested assets. Less-than-investment-grade securities, convertible securities and preferred and common equities make up the remaining 17%. The average duration of our fixed income portfolio is 3.7 years. This approximates the duration of our liabilities, and the average credit rating is a strong "AA." Our equity portfolio has a value and income orientation. These portfolio characteristics are substantially unchanged from the prior year-end and are likely to continue into 2002. We continuously monitor economic conditions and market opportunities and will adjust our portfolio as required to achieve the proper balance of asset quality, liquidity, current income and total returns.

## Asset Management

PartnerRe has historically utilized external asset management firms to manage its investment portfolio. Given the growth of the invested assets and financial skills available within the Company, we intend to reduce our dependence on external managers and are establishing an asset management function within PartnerRe.

We will continue to use external managers for classes where specialized skills are required, or where the amount committed to an asset class is insufficient to make internal management an economic option. We will also leverage our investment skills to capitalize on opportunities resulting from the increasing convergence of reinsurance and capital markets. This new approach will allow us to more efficiently and productively manage our balance sheet.

## Risk Management

At PartnerRe, the analysis and control of financial and underwriting risk are key to managing our Company. The primary objective of our risk management activities is to control individual and aggregate exposures to all enterprise risks in order to better manage earnings volatility and capital adequacy.

The principal elements of PartnerRe's risk management process encompass:

- The establishment of guidelines for the level of risk assumed in each line of business;
- Accurate tracking of these exposures;
- The development and use of statistical techniques and models to quantify risks;
- The quantification of risk aggregation, correlation and diversification to determine the net contribution of each business unit to enterprise-wide risk;
- The determination of appropriate levels of capital needed to support reinsurance and investment operations;
- Credit analysis and, if appropriate, audits of business partners; and
- Regular review of risk management data and conclusions to ensure that assumptions and strategy remain valid, and capital position appropriate, for the various risks assumed by the Company.

PartnerRe assumes risk on the basis of its own balance sheet capacity and is not dependent on retrocession. Limited retrocession is purchased to reduce peak accumulation exposures or when it lowers overall cost of capital.

The value of this risk management approach was evident after the events of September 11. Within three days of the attacks, PartnerRe released its estimate of total claims incurred. At year end, we were able to reconfirm this initial report. Our numbers remained unchanged. The Company also provided the rating agencies with a detailed list of affected contracts, limits, treaty terms and applicable retrocession recoveries. In substantially all cases, PartnerRe's share of losses was in line with, or lower than, its market share for the relevant lines of business.

## Capital Management

Financial strength remains the most important factor in the selection of a reinsurance partner. PartnerRe's operating philosophy dictates consistent and substantial capacity to support our clients' underwriting operations. Our clients know that they can depend on PartnerRe to promptly pay even the largest claims and remain sufficiently capitalized to provide significant capacity at the next renewal. This was confirmed during the critical period leading up to the January 2002 renewal season. PartnerRe provides capacity on the basis of its own capital and does not depend on support from the retrocession markets. The Company was, therefore—despite the events of September 11—able to renew and even increase its participation in our clients' important programs during a tumultuous year. This responsiveness was rewarded with new leadership positions on attractive treaties and a substantial increase in business. Our strong balance sheet, conservative reserving practices, significant capital base and excellent ratings (A.M. Best: A+; S&P: AA; and Moody's: Aa3) clearly provide a competitive advantage.

PartnerRe management devotes considerable effort to balancing the dual objectives of (1) capital adequacy to support current operations and anticipated growth and (2) maintaining a capital structure that will provide superior returns to our shareholders over the course of a cycle. The Company's moderate financial leverage provides long-term security for our clients, but also includes non-dilutive securities that allow for improved returns to our shareholders.

PartnerRe's balance sheet withstood the stress of the largest loss in history. At the same time, sufficient capital was needed to support the substantial increase in business expected at the January 2002 renewal season. To meet this goal, PartnerRe added $400 million in new capital in November 2001. This was comprised of $200 million of Trust Preferred Securities, which are deeply subordinated securities with a 30-year term, and $200 million of Premium Equity Participating Securities or PEPS Units. PEPS Units are composed of redeemable preferred stock attached to a mandatory three-year forward purchase contract for common stock. The PEPS Units will be exchanged for common stock on December 31, 2004. Both securities provided equity credit from the rating agency perspective at minimal dilution to our shareholders.
At the end of 2001, debt represented less than 10% of total capital, while preferred stock represented 27%.

Growth in book value and increasing dividends are important components of shareholder value. In May 2001, our annual dividend to shareholders was increased to $1.12 per share. The dividend has increased annually, and the current level represents an average annual dividend growth rate of 15.6% since the initial dividend declared in 1994.

During 2001, the company repurchased 52,000 common shares of stock. While the Company retains a 4.3 million share repurchase authorization, no share repurchases are planned for 2002, as we believe our capital can be more profitably used to increase our business in an improving market.

# A New World of Risk

A Conversation With Patrick Thiele

The year 2001 will be remembered for the terrorist attacks of September 11. In addition, Enron collapsed, and losses increased in frequency and severity in many lines of business. PartnerRe, under the leadership of a new President and CEO, Patrick Thiele, rose to meet these challenges. Here, Patrick reflects on a year of unimaginable tragedy, the lessons learned and the plans for a profitable future for PartnerRe shareholders.

Q: September 11 proved that the unthinkable does happen. The attacks and their consequences have changed our world and clearly affected the reinsurance industry. What do you believe to be the most significant effects on the industry?

A: The events of September 11 took a terrible human and financial toll, and certainly the insurance and reinsurance industry was shaken to its core. Losses to the global reinsurance industry probably represented more than 15% of true capital—the largest shock to its stability in history. But the industry responded in an exemplary fashion. It took the hit, met its obligations and continued to provide coverage in the aftermath. Undoubtedly, the year 2001—largely because of the terrorist attacks, but also because of events surrounding Enron—will be looked upon as an important turning point for the industry. Conditions—such as appetite for risk, government involvement, volatility, pricing, competition, capitalization and demand—have clearly changed. But it would be inaccurate to say that these changes are solely because of September 11. In truth, the world of risk has been changing in meaningful ways for several years. It is important in any discussion of 2001 to keep this in perspective.

Q: How has the risk landscape changed over the last several years, and how are these changes currently affecting the industry?

A: Risk is now more complex and increasingly more difficult to assess. Without question, today, we are seeing more uncertainty in all areas of life. Consider the collapse of Enron. The company's unexpected demise illuminates that financial risk exists at all levels and for all sizes of insureds. Thousands of employees, investors and creditors lost money with incredible speed. What's more, we've seen a series of old and new risks such as asbestosis, "toxic mold," medical malpractice and, as previously mentioned, bankruptcies. Finally—and perhaps most importantly—we have seen a steady growth in liability losses in both the U.S. and in Europe as the socio-political climate has changed. In short, we live in an increasingly risky world.

Q: In the short term, what will be the effect of this increase in volatility on your customers—the insurance industry?

A: Going forward, businesses, including our insurance company clients, will likely look for new and more secure ways to protect themselves from the new level of risk. So demand for protection will grow.

As a result, the size and quality of their reinsurer's balance sheet will matter as never before. While there has been a "flight to quality" movement over the last few years, 2001 events will accelerate that movement.


## Our balance sheet remains strong

The loss we took this year was a substantial blow to the organization. However, it did not imperil our financial stability, nor our ability to meet our obligations to our ceding companies.

Insurers will also face another very important issue. Both September 11 and Enron will inevitably lead to greater regulatory involvement in their business. In the U.S., that will likely mean more involvement at the federal level. Outside the U.S., where the issue of government protection is less immediate and there is a greater history of national regulation of the insurance industry, I don't expect to see profound changes. We may, however, see the formation of new national pools that deal with the specific risks associated with terrorism.

Q: Can we expect a similar impact on the reinsurance industry?

A: Not quite. As risk increases, demand for our products will increase—certainly over the next few years. At the same time, availability in many areas will decrease. Due to the severe losses of 2001, less capital is available. This reduction in capital has sent prices up. Terms and conditions have become more favorable to reinsurers. Prices are more reflective of loss trends and reinsurers are getting paid appropriately for the risks they assume. In general, those reinsurers who have maintained their capacity and their credibility will do well in this environment.

Over the longer term, the effect will be on the demand side. I think we are entering a multi-year period of increased demand on the part of ceding companies for traditional and risk transfer products. As an industry, we will grow faster. But we can expect to see changes in the way reinsurers think about risk and the amount of capital needed to support that risk. We are, in fact, already seeing some of this.

First, reinsurers are being more careful about how they use their capital and are allocating it to those lines where returns are potentially higher, even if the risks are higher.

Second, there is a renewed emphasis on the technical aspects of evaluating and valuing risk, i.e., underwriting. There is also a tightening of terms and conditions, appropriate exclusions and appropriate pricing for the assumption of risk. The next few years will provide an opportunity for those organizations with deep and broad underwriting skills to thrive. They will be able to tap into their reservoirs of skills and talent and find ways to solve their clients' needs.

Finally, I think the "intangibles" will matter more to all our stakeholders. These intangibles include transparency, consistency, professionalism and trust. Companies that have built up those intangibles, along with the requisite strong financial capability, will have a sustainable competitive advantage over the next few years.

Q: You anticipate increased government involvement in the insurance industry. What about in the reinsurance business?

A: That is something we must consider. There are two areas in which I think the government can play a role in our industry. As we saw on September 11, there are certain risks akin to war that are impossible or almost impossible to address without the aid of national governments. There is a role—if properly structured—for government at the very top end for insuring against terrorism. PartnerRe has in the past, and will in the future, work in partnership with governments to mitigate such specific risks.

As well, a properly functioning risk transfer marketplace requires full and fair disclosure on the part of all partners. We have to believe that published financial statements accurately reflect the state of the company. The events surrounding Enron have shaken people's faith in those statements. I believe that there will be great regulation around disclosure and acceptable accounting practices for all publicly traded companies, reinsurers included. If capitalism is to be seen as a clean game—not one where the croupier has his thumb on the wheel—we must ensure that transparency and credibility exist.

Q: You're predicting growth for the reinsurance industry. It will, however, be driven in part by price increases. How do you expect clients to react to these increases?

A: We owe our clients rational and consistent pricing. That is key. Although prices are going up, I hope increases will reflect the loss trends and not gouging. Remember, we need to be paid for the risk we assume, and prices over the past five years did not adequately compensate us. These increases will move reinsurers back to a fair level of profitability. That is essential. Our clients know we have to earn an adequate return or the security they seek will turn out to be illusory. I do not see a huge push-back on prices, but cedants will attempt to optimize their risk and return trade-off within the prevailing price levels.

Q: We have talked about decreases in capital capacity. Post-September 11, however, there are a number of new entrants to the reinsurance business, and an influx of new capital. What will be the impact of this new capital?

A: We did see a significant amount of capital raised by existing and new insurers and reinsurers in the final months of the year. Much of that capital merely plugged the hole that September 11 left in industry balance sheets. Reinsurers and insurers needed to replenish their resources, and this capital will be easily absorbed without major dislocation. However, there was upwards of $10 billion of capital raised to fund new participants. Interestingly, virtually all that money came here to Bermuda, moving the center of gravity of the global insurance industry to the island.

In the short term, that new capital has had a relatively small impact on the market. It is focused on some specific niche areas that can be reached through reinsurance intermediaries, like aviation, facultative and catastrophe risks. Plus, most of the newcomers are in competition with Lloyds rather than competing in the more traditional markets that PartnerRe serves.

Q: Longer term, will this new capital have an impact on the cyclical nature of the business?

A: No. The basic nature of the reinsurance business will not change. It always will be cyclical for one specific reason: the industry has a remarkable ability for making a lot of money. We expect the industry to be very profitable over the next several years. Profits will flow into retained earnings. The impact of these retained earnings will swamp the impact of that few billion dollars of new capital. As a result, we will see an increase in capacity and, eventually, growth of capacity will once again outpace demand.

Q: The industry will be profitable, but some reinsurers are floundering. Will the strong acquire the weak? Do you see more consolidation in the reinsurance industry?

A: I think the pace of consolidation will remain about the same. In 2001, we saw a lot of insurance companies decreasing their appetite for volatility. Divestitures and spin-offs of reinsurance subsidiaries resulted from this aversion to risk. I would not be surprised if that trend continues until the separation of the two industries is virtually complete. Also, we now have a new set of players in the consolidation game—the startups. I believe they will have a difficult time building a balanced book of business, which means that they likely will be faced with the strategic decision to acquire or be acquired.


## We are in the business of accepting risk

Our level of risk acceptance has grown substantially and systematically over the past few years. In order to manage both risk and growth appropriately, we recruit and develop talented reinsurance professionals. Our people know their business, they have access to the best resources and they keep a close eye on the "what-ifs," as well as the fundamentals.

Distribution of Net Premiums by Line 2001
(Percent)

Property 24%
Automobile 15%
Casualty 14%
Catastrophe 12%
Marine, Aviation and Space 10%
Agriculture 7%
Credit and Surety 7%
Life 7%
Other 4%

## Diversity is a core strength

PartnerRe has a diversified book of business—by geography and by line. This is key to our ability to mitigate risk and manage volatility.

Q: If the industry is indeed cyclical, how long will the current market conditions last?

A: The current market is exceptionally good for reinsurers, especially those with strong balance sheets. Demand is up, we have pricing power, and I think the industry can maintain return on equity in excess of 13% for at least two years, barring unusual catastrophe activity. But this business is cyclical, and in the intermediate term, the industry's return on equity will again drop below that range.

It will be interesting to see which companies successfully negotiate this cycle. I believe those companies with strong reserving policies, underwriting disciplines, cycle management skills and iron-clad balance sheets are most likely to be in the winners' circle. PartnerRe will be there.

Q: We have talked about the reinsurance industry overall. Let's turn specifically to PartnerRe's business. Your company lost $400 million due to the tragic events of September 11. This was a substantial loss. Was the company prepared for this?

A: Absolutely. Since 1993, when PartnerRe was founded, we have built a balance sheet that could support a loss of this magnitude. We may not have predicted the precise event, but in our realistic disaster scenarios we contemplated loss scenarios to the tune of $400 million—and, in fact, more. This loss was a substantial blow to the organization. Make no mistake about that. It did not, however, imperil our financial stability, nor our ability to meet our obligations to our ceding companies. We will pay our fair share to rebuild New York City and still be able to respond to the new market that followed this disaster.

Q: Still, this loss clearly illustrates your exposure to risk and volatility. Will you be rethinking the company's level of exposure to large losses?

A: PartnerRe is in the business of accepting risk, and we are very clear about that. We evaluate that risk, we value the risk, we take on the risk and we manage the risk when it's on board. We think we know how to do that, and we think that in the next few years, we will be paid appropriately for doing it well. In addition, we are a net underwriter. We have to have confidence in our underwriting—or as I like to say a bit indelicately—we eat what we kill. We buy very little retrocessional cover.

That said, our appetite for risk does lead to some volatility in our results from quarter to quarter. But over a cycle, we believe strongly—and we have demonstrated—that we can create value. Increased volatility, we believe, increases our return over any cycle. So no, we have not—except regarding terrorism and related risks—changed our appetite.

Q: Accepting risk is PartnerRe's business, but you do have to mitigate your risk and volatility. How do you manage this?

A: We manage volatility in several ways:

First and foremost, we recruit and develop talented reinsurance professionals—that is across our organization at all levels. Our people know their business, they have access to the industry's best technologies and resources and they keep a close eye on the "what-ifs" as well as the fundamentals.

PartnerRe also has a diversified book of business—by geography and by line. This is key.

Our aggregate exposures are managed carefully and proactively. Our eye is always on the potential loss.

Our investments are appropriate to our business mix.

Finally, we manage our capital position so as to be able to absorb the random large-shock loss, and over time, our approach has worked. PartnerRe has a proven record of doing things right, and I am proud of that.

Q: "Value" is a hot buzzword. How do you define and then measure the value created for your shareholders?

A: There are two types of value in our business, and together they create real value. First, there is the economic value—the excess of assets over liabilities, our net asset value. GAAP book value is a good, although imprecise, measure of that value. We have demonstrated the capability to, over cycles, continue an upward trend in book value.

The second measure of value is franchise value. It is created through both sustained and superior returns on equity and the intangibles—transparency, credibility and professionalism. Franchise value creation is demonstrated by a share price that trades consistently at a premium to the book value. We believe PartnerRe has franchise value, and we will do everything we can to grow it at the same time we grow our book value.

Retention Ratio—Net as a Percentage
of Gross Premiums Written (Non-life)
(Percent)

1999 94.0% | 2000 96.4% | 2001 97.3%

**Transparency: PartnerRe is a net underwriter**

Companies that have built up a reputation for transparency, along with the requisite strong financial capability, will have a sustainable competitive advantage for the next few years.

Q: Earlier, you spoke of the environment in terms of consolidation. What is PartnerRe's appetite for acquisitions?

A: We are always willing to consider them, but acquisitions are not a key part of our current strategy. It is time to focus on the market. Acquisitions bring distractions, and we want to avoid that. Unless there is a clear strategic fit and outcome—improving diversification or gaining access to markets or people we do not currently have—we would likely pass on an acquisition at this time.

However, PartnerRe was built through acquisitions. Over the longer term, we expect that we would consider further acquisitions, but only at the right time, for the right reason and at the right price.

Q: What about the nuts and bolts? Do you have specific return targets?

A: Yes. They are aggressive, but achievable. My view is that we should provide a minimum of 13% return on equity for our shareholders over a market cycle. We will see volatility, but over five years or so we must be able to deliver an average return in that neighborhood. Note, I am talking about an absolute return goal, not a relative one. How we did relative to our competitors is no measure of success and is not an accurate indicator of the strength or weakness of our business. We need to set targets, achieve a proper return and let that be enough.

Q: How did you come up with a 13% return?

A: We take the risk free rate. That is likely to be in the 6% range over the long-term, although it's lower in today's market. Then, we add a "risk premium." We set this at 7%, which is an appropriate level of return for reinsurance companies. I am confident that we can make these numbers. Certainly, we will need some years of exceptional returns to offset the years in which we see more modest returns. That is a given in our business, but we can plan for it and succeed.

Q: Let's recap. Industry wide, 2001 was a tough year. You're facing increased competition from new entrants into the market, demand is up, so are prices, but capital capacity is down. What's the outlook for PartnerRe for 2002 and beyond?

A: Very good. We will benefit from current demand and supply features just like any other reinsurer with solid footing. PartnerRe's balance sheet is large enough to put us at the top of the list of participants in the recovery. Our underwriting talent is among the best in the business. And our intangibles—the transparency, credibility and professionalism that drive franchise value—are strong.

To be successful over the longer term, we need to continue to do a few specific things well: we must evaluate and value risk well, we must actively manage our capital to the best trade-off between risk and return, we must be aware of and manage to the pricing cycle in our industry, we must continue to have exceptional relationship skills, and, importantly, we must continue to treat our people with respect so that they will perform the aforementioned tasks well.

Q: 2001 was also your first year as President and CEO of PartnerRe. Within that context, how do you view the past year and what do you anticipate for the future?

A: I am proud to be associated with PartnerRe. Thanks to the professionalism of my colleagues, my integration into the leadership of PartnerRe has been seamless and, I hope, productive. I am extraordinarily proud of how the organization responded to the events of the year, and I am genuinely excited about our prospects. We are well positioned, we have a strong balance sheet, a clear market focus, excellent people and a strong customer base. This is a great business and an exciting time to be in this business. Together, those factors make me very optimistic about our future.

## PartnerRe Share Price to Book Value

Book Value (U.S. dollars)
**Price/Book Value** (percent)

| | | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|
| | 1993 | 1994 | 1995 | 1996 | 1997 | 1998 | 1999 | 2000 | 2001 |
| Book Value (U.S. dollars) | 17.99 | 19.60 | 23.57 | 26.33 | 29.57 | 33.53 | 31.82 | 35.54 | 29.05 |
| Price/Book Value (percent) | 1.2 | 1.1 | 1.0 | 1.3 | 1.6 | 1.4 | 1.0 | 1.7 | 1.9 |

**There are two types of value in our business: franchise value and book value**

Franchise value creation is demonstrated by a share price that trades consistently at a premium to book value. PartnerRe has franchise value and works to grow that value along with our book value.

# Financial Review

PartnerRe Ltd.

# Selected Consolidated Financial Data

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

*The following Selected Consolidated Financial Data is presented in accordance with generally accepted accounting principles. This data should be read in conjunction with the Consolidated Financial Statements and the accompanying Notes to Consolidated Financial Statements.*

| For the year ended December 31, 1997 | 1998 | 1999 | 2000 | 2001 | Operating Data |
|---|---|---|---|---|---|
| $ 472.5 | $ 735.8 | $ 1,433.0 | $ 1,439.5 | $ 1,878.3 | Gross premiums written |
| 427.8 | 687.0 | 1,326.4 | 1,380.3 | 1,825.1 | Net premiums written |
| 476.2 | 685.6 | 1,338.0 | 1,314.3 | 1,633.5 | Net premiums earned |
| 121.0 | 169.4 | 307.6 | 273.6 | 239.6 | Net investment income |
| 18.0 | 23.7 | (15.9) | (62.7) | 20.2 | Net realized investment gains (losses) |
| 0.5 | 0.9 | 0.7 | 0.4 | 1.7 | Other income |
| 615.7 | 879.6 | 1,630.4 | 1,525.6 | 1,895.0 | Total revenues |
| 207.3 | 396.9 | 1,130.1 | 975.7 | 1,631.8 | Losses and loss expenses including life policy benefits |
| 327.0 | 602.5 | 1,579.4 | 1,427.0 | 2,149.6 | Total expenses |
| 288.7 | 277.1 | 51.0 | 98.6 | (254.6) | Income (loss) before distributions related to Trust Preferred and Mandatorily Redeemable Preferred Securities and taxes |
| — | — | — | — | 3.0 | Distributions related to Trust Preferred and Mandatorily Redeemable Preferred Securities |
| 17.6 | 10.8 | (43.8) | (43.7) | (69.3) | Income tax expense (benefit) |
| 271.1 | 266.3 | 94.8 | 142.3 | (188.3) | Net income (loss) before cumulative effect of adopting new accounting standard, net of tax |
| — | — | — | — | 27.8 | Cumulative effect of adopting new accounting standard, net of tax |
| 271.1 | 266.3 | 94.8 | 142.3 | (160.5) | Net income (loss) |
| 4.48 | 4.05 | 1.73 | 3.79 | (4.44) | Diluted operating earnings (loss) per common share |
| 4.69 | 4.34 | 1.40 | 2.41 | (3.60) | Diluted net income (loss) per common share |
| | | | | | **Non-life Ratios** |
| 39.0% | 56.9% | 77.1% | 70.2% | 100.4% | Loss ratio |
| 24.4% | 28.6% | 32.7% | 32.3% | 29.8% | Expense ratio |
| 63.4% | 85.5% | 109.8% | 102.5% | 130.2% | Combined ratio |
| $ 0.72 | $ 0.86 | $ 1.00 | $ 1.04 | $ 1.10 | **Dividends per Common Share** |

| As at December 31, 1997 | 1998 | 1999 | 2000 | 2001 | Balance Sheet Data |
|---|---|---|---|---|---|
| $ 2,820.2 | $ 5,432.2 | $ 5,494.8 | $ 3,882.1 | $ 4,410.7 | Total investments, cash and cash equivalents |
| 3,591.8 | 7,554.0 | 7,560.0 | 6,177.4 | 7,165.4 | Total assets |
| 1,221.3 | 4,618.2 | 4,747.0 | 3,059.1 | 3,698.9 | Unpaid losses and loss expenses and policy benefits for life contracts |
| — | 220.0 | 220.0 | 220.0 | 220.0 | Long-term debt |
| — | — | — | — | 400.0 | Trust Preferred and Mandatorily Redeemable Preferred Securities |
| 1,978.3 | 2,113.4 | 1,840.7 | 2,086.0 | 1,748.1 | Total shareholders' equity |
| 29.57 | 33.53 | 31.82 | 35.54 | 29.05 | Diluted book value per common and common equivalent share |
| 55.8 | 56.8 | 53.2 | 50.7 | 50.1 | Weighted average number of common and common equivalent shares outstanding |
| 53.8 | 52.8 | 49.3 | 50.1 | 50.2 | Number of common shares outstanding |

*In 1997 and 1998, the Company acquired PartnerRe SA and Winterthur Re, respectively. (See Note 2 to the Consolidated Financial Statements.)*

*The following is a discussion and analysis of PartnerRe Ltd.'s (the "Company") financial condition at December 31, 2001 and 2000, and results of operations for the years ended December 31, 2001, 2000 and 1999. This discussion and analysis should be read in conjunction with the Consolidated Financial Statements and Notes thereto.*

## General

The Company provides multi-line reinsurance to insurance companies on a worldwide basis through its wholly owned subsidiaries, Partner Reinsurance Company Ltd. ("Partner Reinsurance Company"), PartnerRe SA (formerly known as SAFR or SAFR PartnerRe), and Partner Reinsurance Company of the U.S. ("PartnerRe U.S."). Risks reinsured include, but are not limited to, property, catastrophe, agriculture, automobile, casualty, marine, aviation and space, credit and surety, technical and miscellaneous lines and life/annuity and health.

Because of the inherent volatility of some of the business the Company underwrites, such as catastrophe reinsurance, the operating results and financial condition of the Company can be adversely affected by catastrophes and other large losses that may give rise to claims under reinsurance coverages provided by the Company. The Company endeavors to manage this exposure by (i) attempting to limit its exposure on a per risk basis and its aggregate exposure on catastrophe reinsurance in any particular geographic zone, (ii) selective underwriting practices, (iii) diversification by geographic area and by lines and classes of business, and (iv) to a certain extent, by purchasing retrocessional reinsurance.

## Business Environment

Reinsurance is a highly competitive and cyclical industry. The industry is influenced by several factors including variations in interest rates and financial markets, changes in legal, regulatory and judicial environments, inflation and general economic conditions. Throughout the late 1990's, the industry's operating profitability declined due to the deterioration of pricing, terms and conditions and increasing loss costs. Offsetting these trends were high investment returns, which led to continued growth in capital—a prime determinant of capacity and competition.

The cumulative impact of large European storm losses in December 1999, continued increases in loss costs, negative cash flow, declining market returns and adverse development of reserves ultimately led to tightening of terms and conditions, and improved pricing during the January 2001 renewals. Reinsurance prices generally increased during the year, fueled by continued loss cost inflation, declining equity markets, lower investment income and reduced capacity, as certain competitors left the market.

The cyclical trends were significantly accelerated by the large loss events of 2001. The terrorist attacks of September 11 and Enron bankruptcy represent the largest catastrophe loss and largest surety loss in the history of the industry. In addition a number of companies posted large increases to reserves for prior years. Several companies exited the industry, while others were financially weakened. The reduction in capacity caused by the large losses, reserve increases and exiting capital accelerated the improvement in pricing, terms and conditions. The January 1, 2002, renewals were the strongest in over five years.

While the cumulative impact of the foregoing factors have led to increased pricing and improved terms and conditions, there is no certainty as to how long these conditions will last. Since September 11 it is estimated that over $25 billion in capital has been raised by industry participants, helping to offset the estimated $35 billion to $50 billion in September 11 losses. Although management has seen improved pricing and terms and conditions since January 2001 and an acceleration in this trend following September 11, there are also no guarantees of improved industry profitability as the industry remains subject to further catastrophes and other large losses. Management continues to pursue those opportunities that it perceives will generate acceptable returns. Management believes that through dedication to client service and its disciplined approach to underwriting, the Company provides a stable and reliable source of underwriting capacity to its clients.

## Sale of PartnerRe Life Insurance Company of the U.S.

On August 4, 2000, the Company concluded the sale (the "Transaction") of PartnerRe Life Insurance Company of the U.S. and its subsidiaries Republic-Vanguard Life Insurance Company, Investors Insurance Corporation and Investors Marketing Group, Inc. (collectively, "PartnerRe Life U.S."), to SCOR Group. The total consideration for the Transaction was $155 million, including the repayment by SCOR Group of a $10 million surplus note held by the Company.

## Results of Operations

The Company concluded the sale of PartnerRe Life U.S. during the third quarter of 2000, effective July 1, 2000. Accordingly, the results for 2000 included six months of operating earnings and realized investment losses of PartnerRe Life U.S. while the results for 2001 included no such operations, and 1999 included a full year. However, the investment income earned on the proceeds of the sale has offset much of the operating earnings of the business sold, and, therefore, operating earnings for the periods are comparable.

As discussed more fully in Note 3 to the Financial Statements, Significant Accounting Policies, the Company, on January 1, 2001, adopted Statement of Financial Accounting Standards No. 133, "Accounting for Derivative Instruments and Hedging Activities" (SFAS 133). In accordance with the transition provisions of SFAS 133, the Company recorded a positive cumulative effect adjustment of $27.8 million, after tax, or $0.54 per diluted share, in the first quarter of 2001. The impact of this one-time item has been excluded from the following discussion.

While there were many events that impacted the Company throughout the year, two of these were by far the most significant: the terrorist attacks on September 11, and the collapse of Enron.

The Company, along with the entire insurance and reinsurance industry, was hit hard by the September 11 terrorist attacks on the United States. The Company reported a pre-tax loss of $400 million, or $7.41 per share after-tax, from these events, and as a result the Company reported the first loss year in its history.

The Company's exposure to the collapse of Enron resulted in a pre-tax charge of $47.3 million, or $0.60 per share. In addition to these events, the Company was impacted by a number of smaller, yet significant events, including tropical storms Allison and Nori, a chemical plant explosion in Toulouse, France, an oil refinery fire and other large surety losses. In the aggregate, these events contributed to large loss levels in excess of $50 million above the Company's customary large loss levels during the year.

Results of operations for the years ended December 31, 2001, 2000 and 1999, were as follows ($ millions, except per share data):

| | 2001 | 2000 | 1999 |
|---|---|---|---|
| Operating (loss) earnings available to common shareholders | $ (222.4) | $ 192.1 | $ 92.0 |
| Net realized investment gains (losses) net of tax | 14.1 | (69.8) | (17.2) |
| Net (loss) income available to common shareholders before cummulative effect of adopting new accounting standard | $ (208.3) | $ 122.3 | $ 74.8 |
| Diluted operating (loss) earnings per common share | $ (4.44) | $ 3.79 | $ 1.73 |
| Net realized investment gains (losses) per common share | 0.28 | (1.38) | (0.33) |
| Diluted net (loss) income per common share before cumulative effect of adopting new accounting standard | $ (4.16) | $ 2.41 | $ 1.40 |

The Company reported an operating loss, defined as net income or loss, excluding after-tax realized gains or losses, and the cumulative effect of adopting a new accounting standard, to its common shareholders of $ 222.4 million, or $4.44 per diluted share, for 2001, compared to operating earnings available to common shareholders of $192.1 million, or $3.79 per share, in the preceding year. Excluding the events of September 11, the Company would have reported operating earnings available to common shareholders of $3.10. A significant portion of the losses for the year occurred in taxable jurisdictions and resulted in the recognition of significant tax benefits for the year.

Operating earnings available to common shareholders for 2000 increased 108.8% compared to 1999, and net income available to common shareholders increased by 63.5%. The increase in both operating earnings and net income is primarily attributable to the lack of large catastrophe losses in 2000, as compared to 1999. In 1999 the Company incurred losses related to large catastrophe events of approximately $164 million, net of tax, including the Australian hailstorm, tornadoes and Hurricane Floyd in the U.S., earthquakes in Turkey and Taiwan, Typhoon Bart in Japan and the European storms Lothar and Martin. Although 2000 was free of any new major catastrophe losses, a high frequency of non-catastrophe losses in the $1 million to $5 million range and the generally poorer performance of the non-catastrophe lines of business affected the Company's operating earnings and net income. Most of the losses for 2000 were incurred in taxable jurisdictions and resulted in the recognition of significant tax benefits for the year. Net income for 2000 was further impacted by an increase in realized investment losses over 1999 arising from derivative financial instruments and from the timing of the disposition of available for sale securities, both of which are part of the ongoing management of the investment portfolio within the investment guidelines and objectives set out by management.

The operating return on beginning common shareholders' equity for 2001 was (12.1%), compared to 12.1% in 2000 and 4.9% in 1999. The variances in the return on equity are for the reasons discussed above.

### Reinsurance Operations—Underwriting Results

Non-life underwriting business comprises the majority of the Company's underwriting results. Additional information regarding segment results, including the life business, are shown separately in Note 18 to the Consolidated Financial Statements included in this report. The following analysis includes life business unless otherwise noted.

Gross and net premiums written and earned for the years ended December 31, 2001, 2000 and 1999, were as follows ($ millions):

| | 2001 | 2000 | 1999 |
|---|---|---|---|
| Gross premiums written | $ 1,878.3 | $ 1,439.5 | $ 1,433.0 |
| Net premiums written | 1,825.1 | 1,380.3 | 1,326.4 |
| Net premiums earned | $ 1,633.5 | $ 1,314.3 | $ 1,338.0 |

After adjusting for the sale of PartnerRe Life U.S., which was effective July 1, 2000, gross and net premiums written increased by 39% and 41% in 2001, respectively. While the increase in gross written premiums was influenced by the increase in both pricing and demand for certain products following the events of September 11, the Company was already showing signs of growth prior to the event. Through the third quarter of 2001, gross written premiums were up 27% over the comparable period in 2000. The increase in written premiums both pre and post September 11 was the result of improved pricing in many of the lines of business in which the Company does business as well as the Company's ability to capitalize on market opportunities. Because of continuing competitive market conditions in the reinsurance industry, the Company pursued premium growth where market conditions met the Company's selective standards and profitability objectives. Premiums written are earned on a basis that is consistent with the risks covered under the terms of the reinsurance contracts, which generally is one to two years.

The difference between gross and net premiums written was attributable to the cost of retrocession protection. The Company selectively purchases retrocession protection as part of its overall risk management process. The Company purchased retrocession protection on a group basis during the 2001 and 2000 period, rather than having each of the Company's subsidiaries purchase coverage independently. With the Company's implementation of a centralized policy for purchasing retrocession protection, the Company retained more of its premiums and still obtained comparable protection.

The increase in gross premiums written from 1999 to 2000 was primarily related to the Company's growth strategy in the U.S. and modestly improving conditions in certain other markets, somewhat offset by the effect of the relative value between the U.S. dollar and other currencies in which the Company writes premiums.

The distribution of net premiums written by line of business for the years ended December 31, 2001, 2000 and 1999, was as follows:

| | 2001 | 2000 | 1999 |
|---|---|---|---|
| Catastrophe | 12% | 11% | 12% |
| Property | 24 | 23 | 21 |
| Casualty | 14 | 13 | 10 |
| Automobile | 15 | 17 | 17 |
| Aviation / Space | 8 | 4 | 3 |
| Marine | 2 | 2 | 2 |
| Agriculture | 7 | 7 | 6 |
| Credit / Surety | 7 | 8 | 8 |
| Life | 7 | 13 | 17 |
| Other | 4 | 2 | 4 |

The mix of business written by the Company did not change significantly during the year, with the exception of an increase in the proportion of business written in the aviation and space line. The Company's ability to quickly respond to market needs following September 11 allowed the Company to grow this line of business, much of which renews in the fourth quarter of the year. This increase represents not only an increase in the number and size of the accounts written but also substantial increases in pricing; often, increases over 100% of expiring rates.

The percentage of business generated by the life line of business decreased in both 2001 and 2000 primarily as a result of the sale of PartnerRe Life U.S.

The Company produces its business both through brokers and through direct relationships with insurance company clients. The practice of writing business through brokers is more prominent in the U.S. market while our Global (non-U.S.) operations write the majority of their business through direct relationships.

The distribution of gross written premiums by production source for the years ended December 31, 2001, 2000 and 1999, was as follows:

| | 2001 | 2000 | 1999 |
|---|---|---|---|
| Broker | 60% | 55% | 51% |
| Direct | 40% | 45% | 49% |

The relative increase in the use of brokers in 2001 is reflective of the increase in our North American non-life business that is principally sourced from our U.S. operations.

The distribution of gross premiums written by type of business for the years ended December 31, 2001, 2000 and 1999, was as follows:

| | 2001 | 2000 | 1999 |
|---|---|---|---|
| Treaty proportional | 58% | 70% | 73% |
| Treaty non-proportional | 31 | 23 | 21 |
| Facultative | 11 | 7 | 6 |

The relative increase in business written on both a treaty non-proportional and a facultative basis is typical of a hardening reinsurance market. Generally, reinsurers have more influence over pricing, as well as terms and conditions, in non-proportional and facultative arrangements.

The geographic distribution of gross premiums written for the years ended December 31, 2001, 2000 and 1999, was as follows:

| | 2001 | 2000 | 1999 |
|---|---|---|---|
| Europe | 40% | 37% | 44% |
| North America | 42 | 48 | 44 |
| Asia, Australia, New Zealand | 12 | 11 | 9 |
| Latin America and the Caribbean | 5 | 3 | 2 |
| Africa | 1 | 1 | 1 |

The relative decline in the percentage of business written in North America and offsetting increase in Europe is directly related to the sale of PartnerRe Life U.S. Additionally, after September 11, the Company was able to capitalize on more opportunities in the non-North American markets given the typical renewal dates of business in those markets, particularly in the aviation line.

Losses and loss expenses incurred (and the corresponding ratios as a percentage of net premiums earned) for the years ended December 31, 2001, 2000 and 1999, were as follows ($ millions):

| | 2001 | 2000 | 1999 |
|---|---|---|---|
| Losses and loss expenses (non-life only) | $ 1,507.1 | $ 801.8 | $ 856.8 |
| Loss ratio (non-life only) | 100.4% | 70.2% | 77.1% |
| Life policy benefits | $ 124.7 | $ 173.9 | $ 273.3 |

As previously discussed, the two largest events impacting non-life losses in 2001 were the terrorist attacks of September 11 and the collapse of Enron. Losses from these events were $400.0 and $47.3 million, respectively. Excluding these events the loss ratio for 2001 would have been 70.4%. In addition to these events, the Company was impacted by a number of smaller, yet significant, events including tropical storms Allison and Nori, a chemical plant explosion in Toulouse, France, an oil refinery fire and other large surety losses. In the aggregate, these events contributed to large loss levels in excess of $50 million above the Company's customary large loss levels during the year.

The year 2000 was free of any new major catastrophe losses while 1999 included the effects of catastrophe losses related to the Australian hailstorm, tornadoes and Hurricane Floyd in the U.S., earthquakes in Turkey and Taiwan, Typhoon Bart in Japan and the European storms Lothar and Martin.

Underwriting expenses include acquisition costs (primarily brokerage, commissions, excise taxes and other costs directly related to underwriting reinsurance contracts) and other operating expenses. Underwriting expenses (and the corresponding expense ratios for the non-life business) for the years ended December 31, 2001, 2000 and 1999, were as follows ($ millions):

| | 2001 | 2000 | 1999 |
|---|---|---|---|
| Acquisition costs | $ 368.1 | $ 319.4 | $ 318.6 |
| Other operating expenses | 117.6 | 103.2 | 93.1 |
| Total underwriting expenses | $ 485.7 | $ 422.6 | $ 411.7 |
| Acquisition expense ratio | 22.7% | 24.3% | 25.8% |
| Other operating expense ratio | 7.1 | 8.0 | 6.9 |
| Expense ratio (non-life only) | 29.8% | 32.3% | 32.7% |

Acquisition costs increased by 15.2% on a dollar basis during 2001. However, on a ratio basis non-life acquisition costs were down from 24.3% of earned premiums to 22.7%. This reduction is primarily a result of the shift in business from treaty proportional to treaty non-proportional and facultative arrangements, which generally carry a lower acquisition cost. The increase in other operating expenses of 14.0% is driven by an increased investment in the infrastructure of the Company in an effort to fully support the growth plan of the Company. In addition, during 2001 the Company began rolling out its new information systems. As these systems are put in place, the Company amortizes their costs over their estimated useful lives.

The acquisition costs and non-life acquisition expense ratio in 2000 have fluctuated modestly compared to 1999, primarily as a result of reductions in sliding-scale profit commissions and a modest shift in the business mix from treaty proportional business to treaty non-proportional business. Other operating expenses increased modestly in 2000 from 1999, primarily as a result of expenses incurred for information systems as the Company was preparing to implement new global information systems over the next several years, and as a result of expenses related to the relocation of the Swiss operation to Zurich in April of 2000.

Net foreign exchange gains amounted to $7.1 million, $10.3 million and $0.9 million for the 2001, 2000 and 1999, periods, respectively. Foreign exchange gains are a function of the relative value between the U.S. dollar and other currencies in which the Company does business. The Company hedges the five primary currencies in which it conducts business. The year 2001 was impacted by the movement in the relative value of the non-hedged currencies in which the Company transacts business. The majority of these currencies decreased in value during the year resulting in a gain for the period. To the extent the Company employs derivatives designated as "fair value hedges" or as "no hedge designation," the Company records foreign exchange gains and losses on the underlying hedged assets or liabilities and the related derivative instruments in net realized investment gains (losses).

### Investment Results

Net investment income and net realized investment gains (losses) for the years ended December 31, 2001, 2000 and 1999, were as follows ($ millions):

| | 2001 | 2000 | 1999 |
|---|---|---|---|
| Net investment income | $ 239.6 | $ 273.6 | $ 307.6 |
| Net realized investment gains (losses) | 20.2 | (62.7) | (15.9) |

The decline in net investment income in 2001 is attributed to the sale of PartnerRe Life U.S. Excluding the investment income from this operation, investment income in 2001 is up 7.4% compared to 2000. This increase is primarily attributable to strong cash flows from operations in 2001, mitigated by the effects of lower interest rates earned on both new and reinvested money.

Net investment income for 2000 decreased by 11.1% compared to 1999 primarily due to the lower asset base resulting from the sale of PartnerRe Life U.S. during the third quarter of 2000, the negative cash flows from operating activities and the effect of the weaker international currencies against the U.S. dollar. This was partially mitigated by the reinvestment of investment income during the year at higher available rates due to generally increasing market interest rates.

Net realized investment gains and losses on sales of investments are a function of the timing of disposition of available for sale fixed maturities and equity securities, changes in the market value of trading securities and the net ineffectiveness of the Company's hedging activities discussed above.

## Financial Condition and Liquidity and Capital Resources

### Shareholders' Equity and Capital Management

Shareholders' equity at December 31, 2001, was $1,748.1 million, a 16.2% decline compared to $2,086.0 million at December 31, 2000. The major factors influencing the level of shareholders' equity in 2001 were:

— net loss of $160.5 million;
— dividend payments of $75.2 million;
— the $12.3 million negative effect of the currency translation adjustment resulting from the strengthening of the U.S. dollar against the Euro; and
— an $83.5 million decrease in the market value of investments, net of deferred taxes, recorded in equity.

Following the events of September 11, the Company raised $400.0 million in new capital. $200.0 million was raised in the form of Trust Preferred Securities which have a 30-year maturity with an option to extend to 49 years. These securities were issued out of a subsidiary of the Company's U.S. operations. The remaining $200.0 million was in the form of Premium Equity Participating Security Units ("PEPS Units"), which are comprised of a purchase contract to buy common shares of the Company in December 2004 and one of the Company's Series B Preferred Shares. The table below sets forth the capital structure of the Company at December 31, 2001 and 2000.

| | | As at December 31, 2001 | | As at December 31, 2000 |
|---|---|---|---|---|
| Capital Structure: | | | | |
| Debt | $ 220,000 | 10% | $ 220,000 | 10% |
| Trust Preferred Securities | 200,000 | 8 | — | — |
| Series B Cumulative Redeemable Preferred Shares | 200,000 | 8 | — | — |
| 8% Series A Cumulative Preferred Shares | 242,163 | 10 | 242,163 | 10 |
| Common Shareholders' Equity | 1,505,946 | 64 | 1,843,843 | 80 |
| Total Capital | $ 2,368,109 | 100% | $ 2,306,006 | 100% |

## Assets

At December 31, 2001, total assets were $7,165.4 million compared to $6,177.4 million at December 31, 2000. The increase in total assets is primarily due to the $400.0 million in new capital along with positive cash flow for the year.

Total invested assets, including cash and cash equivalents, were $4,410.7 million as at December 31, 2001, compared to $3,882.1 million at December 31, 2000. The major factors influencing the increase in cash and invested assets in 2001were:

— new capital raised of $386.9 million, net of issuance costs;
— cash inflows from operations of $363.8 million;
— decrease in unsettled security trades of $58.3;
— dividend payments totaling $75.2 million;
— the negative mark to market influence on the value of the investment portfolio of $15.2 million; and
— the negative influence of the stronger U.S. dollar relative to the Euro as it relates to conversion of PartnerRe SA's invested assets and cash balances into U.S. dollars.

At December 31, 2001 and 2000, fixed maturities, short-term investments and cash and cash equivalents had an average expected duration of 3.7 years. As of December 31, 2001, approximately 82% of the fixed maturities were rated A- or better by Standard & Poor's (or estimated equivalent), compared to 88% as of December 31, 2000.

The Company's investment strategy is unchanged from previous years, although the continuing evolution of the Company into a global multi-line reinsurer has affected the construction and composition of the investment portfolio. The Company's investment philosophy distinguishes between those assets that are matched against existing liabilities ("liability funds") and those that represent the investment of shareholders' equity ("capital funds"). Liability funds are invested in investment grade fixed income securities and are generally matched in currency and duration to the estimated liabilities in a way that generally seeks to immunize liabilities against changes in the general level of interest rates or the relative valuation of currencies. Capital funds are available for investment in a broadly diversified portfolio, which includes investments in investment grade bonds, common stock, preferred stock, convertible and high yield bonds and other asset classes that offer potentially higher returns.

At December 31, 2001, fixed maturities, short-term investments and cash and cash equivalents had an average yield to maturity at market of 5.1%, compared to 6.2%, as at December 31, 2000. The decrease in average yield to maturity in 2001 was primarily due to the decline in interest rates during 2001. The prime rate fell from 9.50% to 4.75%, while 12 month LIBOR declined from 6.000% to 2.445%.

## Liabilities

The Company has recorded non-life reserves for unpaid losses and loss expenses of $3,005.6 million and $2,386.0 million at December 31, 2001 and 2000, respectively. Policy benefits for life contracts were $693.3 million and $673.1 million at December 31, 2001 and 2000, respectively. The increase in the value of unpaid losses and loss expenses reflects the growth in earned premium and the loss reserves established for the Company's losses from the September 11 terrorist attacks. As of December 31, 2001, less than $25.0 million of this loss had been paid by the Company.

As discussed further in Note 5 to the Consolidated Financial Statements, the Company's reserves for unpaid losses and loss expenses include an estimate for its net ultimate liability for asbestos and environmental claims. Ultimate values for such claims cannot be estimated using traditional reserving techniques. There are significant uncertainties in estimating the amount of the Company's potential losses for these claims and these uncertainties are not likely to be resolved in the near future. The Company actively evaluates potential exposure to asbestos and environmental claims and establishes additional reserves as appropriate. The Company believes that it has made a reasonable provision for these exposures and is unaware of any specific issues that would materially affect its estimates.

## Liquidity

Cash flow from operations for 2001 increased to $363.8 million from a negative $45.3 million in 2000. This increase in cash flow is primarily attributable to the significant growth in business during the year. The Company paid out only $25 million of its $400 million in estimated September 11 losses.

As a holding company, the Company relies primarily on cash dividends from Partner Reinsurance Company and PartnerRe SA, including its subsidiary, PartnerRe U.S. (collectively the "reinsurance subsidiaries") for its cash flow. Although the payment of dividends by the reinsurance subsidiaries to the Company is limited under Bermuda and French law and certain insurance statutes of various U.S. states in which PartnerRe U.S. is licensed to transact business, there are presently no significant restrictions on the payment of dividends by the reinsurance subsidiaries. (See Note 12 to the Consolidated Financial Statements.)

The Company has cash outflows in the form of operating expenses, dividends to both common and preferred shareholders and distributions on preferred securities. Holding company operating expenses were $3.1 million in 2001. During 2001 the Company paid $55.2 million in dividends to its common shareholders in the form of quarterly dividends of $0.26 a share in the first quarter and $0.28 per share for the remaining three quarters of 2001. Additionally, the Company paid the holders of its Series A Preferred Stock $20.0 million in dividends during the year. The Company also paid $3.0 million in the fourth quarter of 2001 on the Trust Preferred and PEPS Units issued during that period.

The operating entities of the Company depend upon cash flow from the collection of premiums and investment income. Cash outflows are in the form of claims payments, operating expenses and dividend payments to the holding Company. In addition, the U.S. operation is responsible for payments under the Trust Preferred Stock issued in the fourth quarter of 2001. Historically the operating subsidiaries of the Company have generated sufficient cash flow to meet all of their obligations. Because of the inherent volatility of the business written by the Company, cash flows from operating activities may vary significantly between periods.

## Currency

The Company's functional currency is the U.S. dollar. The Company has exposure to foreign currency risk due to its ownership of PartnerRe SA, whose functional currency is the Euro (formerly the French franc), and due to PartnerRe SA, and Partner Reinsurance Company (including the Swiss branch) underwriting reinsurance exposures and collecting premiums in currencies other than the U.S. dollar and holding certain net assets in such currencies. As a result of the PartnerRe SA, acquisition in 1997, the Company's most significant foreign currency exposure is to the Euro. The Euro decreased in value by 5.6% in 2001 (from .943 to .890 U.S. dollar per Euro), thereby increasing the aggregate currency translation loss of $45.7 million as at December 31, 2000, to $58.0 million at December 31, 2001.

## Effects of Inflation

The effects of inflation are considered implicitly in pricing and estimating reserves for unpaid losses and loss adjustment expenses. The actual effects of inflation on the results of operations of the Company cannot be accurately known until claims are ultimately settled.

## New Accounting Pronouncements

The Company adopted Statement of Financial Accounting Standards No. 133 "Accounting for Derivative Instruments and Hedging Activities" (SFAS 133), as amended by SFAS No. 138, on January 1, 2001. In accordance with the transition provisions of SFAS 133, the Company recorded a positive cumulative-effect adjustment of $27.8 million, after tax, or $0.54 per diluted share, in earnings of the first quarter to recognize the net gains and losses associated with its fair value currency hedging activities that were previously recorded in "accumulated other comprehensive income." The transition provision did not affect the book value of the Company.

Additionally, in response to the accounting implications of SFAS 133, the Company reclassified approximately $89.2 million of available for sale convertible debt and equity securities to a "trading" portfolio at January 1, 2001. Such reclassifications were made to reduce the administrative burden associated with separately valuing the conversion features (embedded derivatives under SFAS 133). This reclassification resulted in a $4.6 million net loss, after tax, or $0.09 per diluted share, being recognized in earnings of the first quarter. Prior to this reclassification, this net unrealized loss was included as a component of "accumulated other comprehensive income" and, accordingly, the reclassification did not affect the book value of the Company. Under the provisions of SFAS 133, such a reclassification does not impact the Company's ability to classify other debt securities as available for sale.

On July 20, 2001, the Financial Accounting Standards Board issued SFAS No. 141, "Business Combinations," (SFAS 141) and SFAS No. 142, "Goodwill and Other Intangible Assets" (SFAS 142). The statements will change the accounting for business combinations and goodwill in two significant ways. SFAS 141 requires that the purchase method of accounting be used for all business combinations initiated after June 30, 2001. Use of the pooling-of-interests method will be prohibited. SFAS 142 changes the accounting for goodwill from an amortization method to an impairment-only approach. Thus, amortization of goodwill, including goodwill recorded in past business combinations, will cease upon adoption of that statement, which, for the Company, will be January 1, 2002. The Company will be required to complete a transitional goodwill impairment test six months from the date of adoption and impairment valuations annually or more frequently if certain indicators are encountered. In connection with the transitional adjustment, the Company will (i) identify its reporting units, (ii) determine the carrying value of each reporting unit by assigning the assets and liabilities, including the existing goodwill and intangible assets, to those reporting units and (iii) determine the fair value of each reporting unit. If the carrying value of any reporting unit exceeds its fair value, then detailed fair values for each of the assigned assets (excluding goodwill) and liabilities will be determined to calculate the amount of goodwill impairment, if any. Any transitional impairment loss resulting from the adoption will be recognized as the effect of a change in accounting principle in the Company's Statement of Operations.

The Company does not believe that the adoption of SFAS 141 will have a significant impact on its financial statements. The Company estimates that the adoption of SFAS 142 will result in the elimination of an annual amortization expense related to goodwill in the amount of $22.4 million, after tax. The Company is currently assessing but has not yet determined the impact of related impairment, if any, on its financial position and results of operations.

## Critical Accounting Policies

The Company's Consolidated Financial Statements have been prepared in accordance with accounting principles generally accepted in the United States ("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. The following presents those accounting policies that management believes are the most critical to its operations and those policies that require significant judgment on the part of management.

### Losses and Loss Expenses, Including Life Policy Benefits

Because a significant amount of time can lapse between the assumption of risk, the occurrence of a loss event, the reporting of the event to an insurance or reinsurance company and the ultimate payment of the claim on the loss event, the Company's liability for unpaid losses and loss expenses is based largely upon estimates. Management must use considerable judgment in the process of developing these estimates. The liability for unpaid losses and loss expenses for property and casualty business includes amounts determined from loss reports on individual cases and amounts for losses incurred but not reported. Such reserves are estimated by management based upon reports received from ceding companies, supplemented by the Company's own actuarial estimates of reserves for which ceding company reports have not been received, and also include the Company's own historical experience. To the extent that the Company's own historical experience is inadequate for estimating reserves, such estimates may be actuarially determined based upon industry experience and management's judgment. The estimates are continually 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 periods in which they become known.

The liabilities for policy benefits for ordinary life and accident and health policies have been established based upon information reported by ceding companies, supplemented by the Company's actuarial estimates of mortality, morbidity, persistency and investment income, with appropriate provision for adverse deviation. Future policy benefit reserves for annuity and universal life products are carried at their accumulated values. Reserves for policy claims and benefits include both mortality and morbidity claims in the process of settlement and claims that have been incurred but not yet reported. Actual experience in a particular period may vary from assumed experience and, consequently, may affect the Company's operating results in future periods.

### Premiums
Management must also make judgments about the ultimate premiums written by the Company. Due to the lag in reporting premium data by the Company's clients, it is necessary for the Company to make estimates to supplement the data received based upon the information received during submissions, historical client data and projections. Reported premiums written are based upon reports received from ceding companies, supplemented by the Company's own estimates of premiums written for which ceding company reports have not been received. Differences between such estimates and actual amounts are recorded in the period in which the actual amounts are determined. Premiums are earned on a basis that is consistent with the risks covered under the terms of the reinsurance contracts, which are generally one to two years. Unearned premiums represent the portion of premiums written which is applicable to the unexpired risks under contracts in force. Annuity and universal life insurance premiums received are accounted for in a manner consistent with accounting for interest-bearing financial instruments and are not reported as revenues, but rather as direct deposits to the contract. Amounts assessed against annuity and universal life policyholders are recognized as revenue in the period assessed.

### Acquisition Costs
Acquisition costs, primarily brokerage, commissions and excise taxes, which vary directly with, and are primarily related to, the acquisition of new and renewal reinsurance contracts, are capitalized and charged to expense as the related premium revenue is recognized. Anticipated losses and loss expenses, other costs and investment income related to these premiums are considered in determining the recoverability of deferred acquisition costs. Acquisition costs related to individual life and annuity business are deferred and amortized over the premium paying periods in proportion to anticipated premium income, allowing for lapses, terminations and anticipated investment income. Acquisition costs related to universal life and single premium annuity contracts are deferred and amortized over the lives of the policies as a percentage of the estimated gross profits expected to be realized on the policies.

### Income Taxes
The Company obtains benefits from its status as a Bermuda based company in that the income earned by its Bermuda based entities is not subject to taxation. Certain subsidiaries of the Company operate in jurisdictions where they are subject to taxation. Current income taxes are charged or credited to operations, or "accumulated other comprehensive income" in certain cases, based upon enacted tax laws and rates applicable in the relevant jurisdiction in the period in which the tax becomes payable. Deferred income taxes are provided for all temporary differences between the bases of assets and liabilities used in the financial statements and those used in the various jurisdictional tax returns. The Company has a deferred tax asset arising primarily from net operating loss carryforwards that it can use to offset future taxable income. In establishing the appropriate value of this asset, management must make judgements about the Company's ability to utilize the net operating loss carryforwards in the applicable jurisdiction.

## Translation of Foreign Currencies

The functional currency of the Company is the U.S. dollar. The national currencies of the Company's subsidiaries are generally their functional currencies, except for the Bermuda subsidiaries whose functional currency is the U.S. dollar. In translating the Consolidated Financial Statements of those subsidiaries whose functional currency is other than the U.S. dollar, assets and liabilities are converted into U.S. dollars using the rates of exchange in effect at the balance sheet dates and revenues and expenses are converted using the average exchange rates for the period. Related translation adjustments and exchange gains and losses on forward exchange contracts, which were used to hedge these investments prior to the Company's adoption of SFAS No. 133 "Accounting for Derivative Instruments and Hedging Activities" (SFAS 133) on January 1, 2001, are reported as a separate component of "accumulated other comprehensive income."

In recording foreign currency transactions, revenue and expense items are converted into the functional currency at the weighted average rates of exchange for the year. Assets and liabilities originating in currencies other than the functional currency are translated into the functional currency at the rates of exchange in effect at the balance sheet dates. The resulting exchange gains or losses are included in the results of operations. Prior to the Company's adoption of SFAS 133 on January 1, 2001, exchange gains and losses related to the translation of investments available for sale were included in net unrealized gains and losses on investments, a component of "accumulated other comprehensive income." Following the adoption of SFAS 133, the Company records unrealized foreign exchange gains and losses that are covered with designated hedges in the Consolidated Statement of Operations. (See Note 3(k).)

## Hedge Accounting

SFAS 133 requires the recognition of all derivative financial instruments, including embedded derivative instruments, as either assets or liabilities in the Balance Sheet and measurement of those instruments at fair value. The accounting for gains and losses associated with changes in the fair value of a derivative and the effect on the Consolidated Financial Statements will depend on its hedge designation and whether the hedge is highly effective in achieving offsetting changes in the fair value or cash flows of the asset or liability hedged. If the derivative is designated as a fair value hedge, the changes in the fair value of the derivative and the hedged item will be recognized in earnings. If the derivative is designated as a cash flow hedge, changes in the fair value of the derivative will be recorded in accumulated other comprehensive income and will be recognized in the Statement of Operations when the hedged item affects earnings. A derivative that is not designated or does not qualify as an effective hedge will be marked to fair value through earnings.

To the extent the Company has positions in non-U.S. dollar currencies, the Company may use derivatives to manage its risk arising from these currency exposures.

## Quantitative and Qualitative Disclosures About Market Risk

### Overview

Management believes the Company is principally exposed to four types of market risk: interest rate risk, foreign currency risk, credit risk and equity price risk. How these risks relate to the Company, and the process used to manage them, is discussed below.

The Company's investment philosophy distinguishes between assets that are matched against the estimated reinsurance liabilities ("liability funds") and those assets that represent shareholder capital ("capital funds"). Liability funds are invested in a way that match them to the corresponding liabilities in both duration and currency composition. This procedure seeks to immunize the liability funds against two powerful market forces—changes in interest rates and currency exchange rates. As the focus of this disclosure is to identify risk exposures that impact the market value of assets alone, it is important for the reader to recognize that the risks discussed herein are significantly mitigated to the extent that the Company's investment strategy allows market forces to influence the economic valuation of both assets and liabilities in the same way. At December 31, 2001, liability funds represented 55% (or $2.4 billion) of the Company's total investment assets.

At December 31, 2001, capital funds represented 45% (or $1.9 billion) of the Company's total investment assets. These assets represent shareholder capital and they are invested in a diversified portfolio that has the objective of maximizing investment return, subject to prudent risk constraints. Capital funds contain most of the asset classes typically viewed as offering a higher risk, higher return profile: primarily longer duration fixed-income securities, common stock, convertible and high yield bonds and real estate, in addition to high quality investment grade securities. The Company's investment philosophy is to reduce foreign currency risk on capital funds by investing primarily in U.S. dollar investments. In considering the market risk of capital funds, it is important to recognize the benefits of portfolio diversification. Although these asset classes in isolation may introduce more risk into the portfolio, market forces have a tendency to influence each class in different ways and at different times. Consequently, the aggregate risk introduced by a portfolio of these assets should be less than might be estimated by summing the individual risks.

The Company's investment strategy allows the use of derivative securities, subject to strict limitations. Derivative instruments may be used to hedge market risk or to replicate investment positions or market exposures that would be allowed under Company investment policy if implemented in other ways. The use of financial leverage, whether achieved through derivatives or margin borrowing, is prohibited without the express approval of the Board of Directors. The Company also imposes a high standard for the credit quality of counterparties in all derivative transactions. Counterparties rated "AA" or higher are used unless significant economic benefit is to be derived by accepting the additional credit risk of an "A" rated counterparty. See Note 3(k) to the Consolidated Financial Statements for additional disclosure concerning derivatives.

The following comments address those areas where the Company believes it has exposure to material market risk in its operations.

### Interest Rate Risk

The Company's fixed income portfolio is exposed to interest rate risk. Fluctuations in interest rates have a direct impact on the market valuation of these securities. As interest rates rise, market values of fixed income portfolios fall, and vice versa. 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 that on the related liabilities. This process involves matching the duration of the portfolio to the estimated duration of the liabilities. For loss reserves and policy benefits related to non-life and traditional life business, the estimated duration of the Company's liabilities is based on projected claims payout patterns. For policy benefits related to life annuity business, the Company estimates duration based on its commitment to annuitants. The Company believes that this matching process mitigates the overall interest rate risk on an economic basis.

The maturity distribution of the Company's available for sale fixed-income and short-term investments at December 31, 2001, was as follows (in $ millions):

| | Amortized Cost | Market Value |
|---|---|---|
| One year or less | $ 130.9 | $ 132.7 |
| More than one year through five years | 1,437.8 | 1,461.1 |
| More than five years through ten years | 842.7 | 844.0 |
| More than ten years | 324.9 | 325.7 |
| Subtotal | 2,736.3 | 2,763.5 |
| Mortgage / asset-backed securities | 686.0 | 696.8 |
| Total | $ 3,422.3 | $ 3,460.3 |

Interest rate movements also affect the economic values of the Company's outstanding fixed-rate debt obligations and preferred stock in the same way as they affect the Company's fixed-income investments, and this can result in a liability with economic value different from the value reported in the financial statements. At the present time, the Company believes the economic fair values of its outstanding fixed-rate debt and preferred stock obligations is approximately the same as that which is reported in the Consolidated Balance Sheet as at December 31, 2001.

A certain proportion of the fixed income portfolio is designated as capital funds. The Company manages the exposure to interest rate volatility by choosing a duration profile which it believes will optimize the risk-reward relationship.

The Company holds approximately $696.8 million (or 15.8%) of its total invested assets in mortgage-related securities. These assets are exposed to prepayment risk, the adverse impact of which is more evident in a declining interest rate environment. In such an environment, holders of individual mortgages increase the frequency with which they prepay the outstanding principal before the maturity date and refinance at lower interest cost. This can cause a diminution of future investment income (relative to an equivalent fixed-income security without prepayment risk).

The Company estimates that a 100 basis point increase in interest rates (across all currencies) would result in a $150 million decline in the market value of its fixed income portfolio (including mortgage-related securities). This does not take into account the corresponding reduction in the economic value of its reinsurance liabilities, which, as noted above, would substantially offset the negative effect on invested assets.

As noted above, the Company strives to match the currency exposure in its fixed-income portfolios to its multi-currency liabilities. The Company believes 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 currency mix of the Company's fixed income portfolio at the time of rate changes. (See "Foreign Currency Risk.")

## Foreign Currency Risk

Through its multi-national reinsurance operations, the Company conducts business in a variety of foreign (non-U.S.) currencies, the principal exposures being in the Euro, the British pound, the Swiss franc, the Canadian dollar and the Japanese yen. Assets and liabilities denominated in foreign currencies are exposed to changes in currency exchange rates. As the Company's functional currency is the U.S. dollar, exchange rate fluctuations may materially impact the Company's consolidated results of operations and financial position. However, the Company employs two strategies to manage its exposure to foreign currency exchange risk.

The first strategy involves hedging, related to the Company's "liability funds," where assets are matched against liabilities, both by currency and duration. However, the Company does not maintain invested assets in currencies where its liability exposures are immaterial or in countries where it is unable or impractical to maintain investments. In such cases, the Company is not hedged and is exposed to currency risk. However, the Company does not believe that its unhedged positions in these currencies and the corresponding currency risk are material.
For the main (non-U.S. dollar) currencies in which the Company transacts business, identified above, the Company employs a hedging strategy utilizing derivative financial instruments, as appropriate, to ensure its liability funds are matched by currency. See Note 3(k) to the Consolidated Financial Statements for additional information about the Company's currency hedging activities.

The second strategy employed is to maintain capital funds primarily in U.S. dollar investments. To the extent that the Company has net asset positions invested in non-U.S. dollar currencies, forward currency contracts may be used to hedge these non-U.S. dollar currency exposures.

An additional factor mitigating the Company's foreign currency risk is the ongoing nature of its reinsurance operations. Cash receipts in foreign currencies from premiums can be used to pay claims and expenses incurred in the same currency.

As of December 31, 2001, 69% of the Company's total investments were in U.S. dollar denominated instruments and 31% were non-U.S. dollar investments identified as liability funds (matched to corresponding liabilities or hedged to the U.S dollar as discussed above).

## Credit Risk

The Company has exposure to credit risk primarily as a holder of fixed income securities. The Company controls this exposure by emphasizing investment grade credit quality in the fixed income securities it purchases. At December 31, 2001, approximately 58% of the Company's fixed-income portfolio was rated "AAA" (or equivalent rating), and 66% was rated "AA" or better. At December 31, 2001, 8% of the Company's fixed income portfolio was rated below investment grade. The Company believes this high quality concentration reduces its exposure to credit risk on these fixed-income investments to an acceptable level. To a lesser extent, the Company also has credit risk exposure as a party to foreign currency forward contracts. To mitigate this risk, the Company ensures that counterparties to these contracts are high credit quality international banks.

## Equity Price Risk

The Company invests a small portion of its capital funds in marketable equity securities ($412.4 million). These assets are exposed to equity price risk, defined as the potential for loss in market value owing to a decline in equity prices. The Company reviews this class of assets on a regular basis to ensure that diversification strategies to manage this risk continue to be in place. The Company believes that effects of diversification and the relatively small size of the existing investment in equities mitigates its exposure to equity price risk.

## Forward-looking Statements

Certain statements contained in this document are based upon the Company's assumptions and expectations concerning future events and are inherently subject to significant business, economic and competitive risks and uncertainties, many of which, with respect to future business decisions, are subject to change. These uncertainties and contingencies can affect actual results and could cause actual results to differ materially from those expressed in any such forward-looking statements. These uncertainties and other factors include, but are not limited to: the occurrence of catastrophic or other loss events with a frequency or severity exceeding our expectations; a decrease in the level of demand for reinsurance and/or an increase in the supply of reinsurance capacity; increased competitive pressures, including the consolidation and increased globalization of reinsurance providers; actual losses and loss expenses exceeding our loss reserves, which are necessarily based on actuarial and statistical projections of ultimate losses; changes in the cost, availability and performance of retrocessional reinsurance, including the ability to collect reinsurance recoverables; concentration risk in dealing with a limited number of brokers; developments in and risks associated with global financial markets that could affect our investment portfolio; changing rates of inflation and other economic conditions; losses due to foreign currency exchange rate fluctuations; or changes in the legal or regulatory environments in which we operate, including the passage of federal or state legislation subjecting Partner Reinsurance Company Ltd. or PartnerRe SA to supervision or regulation, including additional tax regulation, in the U.S. or other jurisdictions in which we operate. The foregoing review of important factors should not be construed as exhaustive. The words "believe," "anticipate," "estimate," "project," "plan," "expect," "intend," "hope," "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. We undertake no obligation to publicly update or revise any forward-looking statements, whether as a result of new information, future events or otherwise.

PartnerRe Ltd.

# Consolidated Balance Sheets

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

| December 31, 2000 | December 31, 2001 | Assets |
|---|---|---|
| | | Investments and cash: |
| $ 3,053,790 | $ 3,420,759 | Fixed maturities, available for sale, at fair value (amortized cost: 2001, $3,382,768; 2000, $3,047,090) |
| 24,853 | 39,564 | Short-term investments, available for sale, at fair value (amortized cost: 2001, $39,547; 2000, $24,972) |
| 354,801 | 400,825 | Equities, available for sale, at fair value (cost: 2001, $408,879; 2000, $327,965) |
| – | 77,452 | Trading securities, at fair value (cost: 2001, $79,973; 2000, $nil) |
| 434,033 | 451,614 | Cash and cash equivalents, at fair value, which approximates amortized cost |
| 14,594 | 20,500 | Other invested assets |
| 3,882,071 | 4,410,714 | Total investments and cash |
| | | |
| 54,876 | 74,536 | Accrued investment income |
| 440,550 | 654,900 | Reinsurance balances receivable |
| 249,569 | 245,279 | Reinsurance recoverable on paid and unpaid losses |
| 653,260 | 641,203 | Funds held by reinsured companies |
| 245,981 | 274,152 | Deferred acquisition costs |
| 105,136 | 241,845 | Deposit assets |
| 29,589 | 95,336 | Current and deferred taxes recoverable |
| 455,554 | 429,519 | Goodwill |
| 60,793 | 97,942 | Other |
| $ 6,177,379 | $ 7,165,426 | Total Assets |
| | | **Liabilities** |
| $ 2,386,032 | $ 3,005,628 | Unpaid losses and loss expenses |
| 673,096 | 693,250 | Policy benefits for life and annuity contracts |
| 424,487 | 597,529 | Unearned premiums |
| 26,924 | 31,371 | Funds held under reinsurance treaties |
| 79,492 | 239,208 | Deposit liabilities |
| 220,000 | 220,000 | Long-term debt |
| 201,881 | 143,535 | Payable for securities purchased |
| 79,461 | 86,796 | Accounts payable, accrued expenses and other |
| 4,091,373 | 5,017,317 | Total Liabilities |
| – | 400,000 | Trust Preferred and Mandatorily Redeemable Preferred Securities |
| | | **Shareholders' Equity** |
| 50,113 | 50,164 | Common shares (issued and outstanding: 2001, 50,164,211; 2000, 50,113,311) |
| 10,000 | 10,000 | Preferred shares (issued and outstanding: 2001, 10,000,000; 2000, 10,000,000) |
| 892,310 | 885,678 | Additional paid-in capital |
| (534) | (397) | Deferred compensation |
| | | Accumulated other comprehensive income (loss): |
| 107,511 | 24,023 | Net unrealized gains on investments, net of tax |
| (45,710) | (58,043) | Currency translation adjustment |
| 1,072,316 | 836,684 | Retained earnings |
| 2,086,006 | 1,748,109 | Total Shareholders' Equity |
| $ 6,177,379 | $ 7,165,426 | Total Liabilities, Trust Preferred and Mandatorily Redeemable Preferred Securities and Shareholders' Equity |

*See accompanying Notes to Consolidated Financial Statements*

# Consolidated Statements of Operations and Comprehensive Income

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

| For the year ended December 31, 1999 | For the year ended December 31, 2000 | For the year ended December 31, 2001 | Revenues |
|---|---|---|---|
| $ 1,432,966 | $ 1,439,515 | $ 1,878,256 | Gross premiums written |
| $ 1,326,410 | $ 1,380,252 | $ 1,825,096 | Net premiums written |
| 11,599 | (65,880) | (191,588) | Decrease (increase) in unearned premiums |
| 1,338,009 | 1,314,372 | 1,633,508 | Net premiums earned |
| 307,638 | 273,588 | 239,608 | Net investment income |
| (15,880) | (62,740) | 20,192 | Net realized investment (losses) gains |
| 691 | 382 | 1,688 | Other income |
| 1,630,458 | 1,525,602 | 1,894,996 | Total Revenues |
| | | | **Expenses** |
| 1,130,102 | 975,699 | 1,631,830 | Losses and loss expenses including life policy benefits |
| 318,579 | 319,434 | 368,147 | Acquisition costs |
| 93,094 | 103,185 | 117,590 | Other operating expenses |
| 12,903 | 13,029 | 13,044 | Interest expense |
| 25,715 | 26,034 | 26,035 | Amortization of goodwill |
| (906) | (10,348) | (7,054) | Net foreign exchange gains |
| 1,579,487 | 1,427,033 | 2,149,592 | Total Expenses |
| 50,971 | 98,569 | (254,596) | Income (loss) before distributions related to Trust Preferred and Mandatorily Redeemable Preferred Securities and taxes |
| — | — | 3,002 | Distributions related to Trust Preferred and Mandatorily Redeemable Preferred Securities |
| (43,784) | (43,738) | (69,304) | Income tax benefit |
| 94,755 | 142,307 | (188,294) | **Net Income (Loss) Before Cumulative Effect of Adopting New Accounting Standard, Net of Tax** |
| — | — | 27,812 | Cumulative effect of adopting new accounting standard, net of tax |
| 94,755 | 142,307 | (160,482) | **Net Income (Loss)** |
| 20,000 | 20,000 | 20,000 | Preferred dividends |
| $ 74,755 | $ 122,307 | $ (180,482) | **Net Income (Loss) Available to Common Shareholders** |
| | | | **Comprehensive (Loss) Income, Net of Tax** |
| $ 94,755 | $ 142,307 | $ (160,482) | Net income (loss) |
| (83,849) | 183,636 | (83,488) | Change in net unrealized gains or losses on investments |
| (34,883) | (22,446) | (12,333) | Change in currency translation adjustment |
| $ (23,977) | $ 303,497 | $ (256,303) | Comprehensive (Loss) Income |
| | | | **Per Share Data** |
| | | | Earnings per common share: |
| $ 1.44 | $ 2.48 | $ (3.60) | Basic net income (loss) |
| $ 1.40 | $ 2.41 | $ (3.60) | Diluted net income (loss) |
| 53,231.1 | 50,677.5 | 50,136.8 | Weighted average number of common and common equivalent shares outstanding |

*See accompanying Notes to Consolidated Financial Statements*

PartnerRe Ltd.

# Consolidated Statements of Shareholders' Equity

(Expressed in thousands of U.S. dollars)

| For the year ended December 31, 1999 | For the year ended December 31, 2000 | For the year ended December 31, 2001 | |
|---|---|---|---|
| | | | **Common Shares** |
| $ 52,801 | $ 49,265 | $ 50,113 | Balance at beginning of year |
| (4,704) | (136) | (52) | Repurchase of common shares |
| 1,168 | 984 | 103 | Issue of common shares |
| 49,265 | 50,113 | 50,164 | Balance at end of year |
| | | | **Preferred Shares** |
| 10,000 | 10,000 | 10,000 | Balance at beginning and end of year |
| | | | **Additional Paid-in Capital** |
| 1,053,138 | 879,603 | 892,310 | Balance at beginning of year |
| (172,593) | (4,177) | (1,706) | Repurchase of common shares and warrants |
| (942) | 16,884 | 3,688 | Issue of common shares |
| – | – | (8,614) | Issue of purchase contract for common shares |
| 879,603 | 892,310 | 885,678 | Balance at end of year |
| | | | **Deferred Compensation** |
| (433) | – | (534) | Balance at beginning of year |
| – | (545) | – | Issue of restricted common shares |
| 433 | 11 | 137 | Amortization of deferred compensation |
| – | (534) | (397) | Balance at end of year |
| | | | **Accumulated Other Comprehensive (Loss) Income** |
| 19,343 | (99,389) | 61,801 | Balance at beginning of year |
| (83,849) | 183,636 | (83,488) | Unrealized (losses) gains on investments, net of reclassification adjustments |
| (34,883) | (22,446) | (12,333) | Currency translation adjustment |
| (99,389) | 61,801 | (34,020) | Balance at end of year |
| | | | **Retained Earnings** |
| 978,585 | 1,001,232 | 1,072,316 | Balance at beginning of year |
| 94,755 | 142,307 | (160,482) | Net income (loss) |
| (52,108) | (51,223) | (55,150) | Dividends on common shares |
| (20,000) | (20,000) | (20,000) | Dividends on preferred shares |
| 1,001,232 | 1,072,316 | 836,684 | Balance at end of year |
| $ 1,840,711 | $ 2,086,006 | $ 1,748,109 | Total Shareholders' Equity |

*See accompanying Notes to Consolidated Financial Statements*

# Consolidated Statements of Cash Flows

(Expressed in thousands of U.S. dollars)

| For the year ended December 31, 1999 | For the year ended December 31, 2000 | For the year ended December 31, 2001 | Cash Flows from Operating Activities |
|---|---|---|---|
| $ 94,755 | $ 142,307 | $ (160,482) | Net income (loss) |
| | | | Adjustments to reconcile net income (loss) to cash provided by (used in) operating activities: |
| 10,419 | (18,294) | (16,387) | Accrual of discount on investments, net of amortization of premium |
| 25,715 | 26,034 | 26,035 | Amortization of goodwill |
| – | – | (27,812) | Effect of adopting new accounting standard |
| 15,880 | 62,740 | (20,192) | Net realized investment losses (gains) |
| | | | Changes in: |
| (16,355) | 52,200 | 191,589 | Unearned premiums |
| 65,319 | (65,076) | (213,634) | Reinsurance balances receivable |
| 274,671 | (197,677) | 727,044 | Unpaid losses and loss expenses including life policy benefits |
| (38,601) | (35,528) | (74,872) | Net taxes recoverable |
| (2,363) | (4,989) | (66,876) | Other changes in assets and liabilities |
| (871) | (6,977) | (652) | Other items, net |
| 428,569 | (45,260) | 363,761 | Net cash provided by (used in) operating activities |
| | | | **Cash Flows from Investing Activities** |
| 5,997,415 | 5,614,130 | 2,885,725 | Sales of fixed maturities |
| 200,389 | 203,298 | 138,589 | Redemptions of fixed maturities |
| (6,763,370) | (5,598,978) | (3,545,763) | Purchases of fixed maturities |
| (24,337) | 9,943 | (22,694) | Net (purchases) sales of short-term investments |
| (48,398) | (167,105) | (104,480) | Net purchases of equities |
| – | 145,000 | – | Proceeds from disposition of subsidiary |
| – | (57,348) | – | Cash sold with subsidiary |
| 14,422 | (44,944) | (6,137) | Other |
| (623,879) | 103,996 | (654,760) | Net cash (used in) provided by investing activities |
| | | | **Cash Flows from Financing Activities** |
| (72,108) | (71,223) | (75,150) | Cash dividends paid to shareholders |
| (176,898) | (4,313) | (1,758) | Repurchase of common shares and warrants |
| 399 | – | – | Accounts payable related to repurchase of common shares and warrants |
| 156 | 17,323 | 3,345 | Issue of common shares |
| – | – | 193,543 | Issue of Trust Preferred Securities |
| – | – | 193,313 | Issue of Mandatorily Redeemable Preferred Securities |
| (248,451) | (58,213) | 313,293 | Net cash (used in) provided by financing activities |
| | | | |
| 145 | (4,673) | (4,713) | Effect of exchange rate changes on cash |
| | | | |
| (443,616) | (4,150) | 17,581 | (Decrease) increase in cash and cash equivalents |
| 881,799 | 438,183 | 434,033 | Cash and cash equivalents—beginning of year |
| $ 438,183 | $ 434,033 | $ 451,614 | Cash and cash equivalents—end of year |

*See accompanying Notes to Consolidated Financial Statements*

## 1. Organization

PartnerRe Ltd. (the "Company") provides multi-line reinsurance to insurance companies on a worldwide basis through its wholly owned subsidiaries, Partner Reinsurance Company Ltd. ("Partner Reinsurance Company"), PartnerRe SA (formerly known as SAFR or SAFR PartnerRe) and Partner Reinsurance Company of the U.S. ("PartnerRe U.S."). Risks reinsured include, but are not limited to, property, catastrophe, agriculture, automobile, casualty, marine, aviation and space, credit and surety, technical and miscellaneous lines and life/annuity and health.

The Company was incorporated in August 1993 under the laws of Bermuda. The Company commenced operations in November 1993 upon completion of the sale of common shares and warrants pursuant to subscription agreements and an initial public offering. On July 10, 1997, the Company completed the acquisition of PartnerRe SA, and on December 23, 1998, the Company completed the acquisition of Winterthur Re.

## 2. Acquisitions and Disposition

### Winterthur Re Acquisition

On December 23, 1998, the Company completed the acquisition (the "Acquisition") of the active reinsurance operations ("Winterthur Re") of the Winterthur Insurance Group ("Winterthur"). The purchase included Winterthur Reinsurance Corporation of America in New York and Winterthur Re Life Insurance Company in Dallas (collectively the "U.S. Operations") and the reinsurance operations of Winterthur in Switzerland (the "Swiss Operations").

On October 3, 1998, Partner Reinsurance Company entered into an Asset Purchase Agreement with Winterthur Swiss Insurance Company and certain affiliates (collectively "Winterthur Swiss"), to purchase the Swiss Operations. On the same date, Partner Reinsurance Company entered into a Reinsurance Agreement with Winterthur Swiss to transfer certain life and non-life reinsurance portfolios of Winterthur Swiss, including current business and reserves of approximately $1.5 billion, to Partner Reinsurance Company.

On October 23, 1998, PartnerRe U.S. Corporation, a wholly owned subsidiary of the Company, entered into a Share Purchase Agreement with two U.S. subsidiaries of Winterthur to acquire the U.S. Operations.

Although the Company entered into both agreements in October 1998, the Acquisition was not completed until all regulatory approvals were obtained on December 23, 1998. The Swiss Operations and U.S. Operations have functioned as part of Partner Reinsurance Company (through a branch in Switzerland) and PartnerRe U.S., respectively, since January 1, 1999.

The aggregate purchase price for the Swiss Operations and U.S. Operations was approximately $771 million. The Company financed the purchase with $551 million from sources internal to the Company and $220 million of external bank debt. The Company accounted for the Acquisition as a purchase.

### PartnerRe SA Acquisition and Preferred Share Offering

On July 10, 1997, the Company completed the acquisition of PartnerRe SA, a French reinsurance company, from Swiss Reinsurance Company ("Swiss Re"). The total purchase price was financed as follows: (i) 6,453,007 newly issued common shares of the Company, which have been recorded at $152.9 million in the consolidated statement of shareholders' equity, were transferred to Swiss Re (4,353,007 of which Swiss Re received by exercise of its existing Class A Warrants of the Company through delivery of shares of PartnerRe SA); and (ii) $773.9 million of cash consideration which included (a) $192.2 million in net proceeds from a public offering (the "Offering") of 8.0 million of 8% Series A Cumulative Preferred Shares (the "Preferred Shares"), (b) $50.0 million in net proceeds from the sale to Swiss Re of 2.0 million Preferred

Shares, directly and not as part of the Offering and (c) the balance from sources internal to the Company. The Company accounted for the PartnerRe SA acquisition as a purchase.

### PartnerRe Life U.S. Disposition

On August 4, 2000, the Company concluded the sale (the "Transaction") of its indirect wholly-owned subsidiary PartnerRe Life Insurance Company of the U.S. and its subsidiaries Republic-Vanguard Life Insurance Company, Investors Insurance Corporation and Investors Marketing Group, Inc. (collectively "PartnerRe Life U.S."), to SCOR Group. The Company purchased PartnerRe Life U.S. in December 1998 as part of the Winterthur Re acquisition. The total consideration for the Transaction was $155 million, including the repayment by SCOR Group of a $10 million surplus note held by the Company.

## 3. Significant Accounting Policies

The Company's Consolidated Financial Statements have been prepared in accordance with accounting principles generally accepted in the United States ("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. Actual results could differ from those estimates. Intercompany accounts and transactions have been eliminated. Certain reclassifications have been made to prior year amounts to conform with the current year's presentation. Because effective control of PartnerRe Life U.S. was transferred on July 1, 2000, the second half of 2000 does not include operating results from PartnerRe Life U.S., and the Consolidated Balance Sheet as at December 31, 2000, does not include PartnerRe Life U.S.

### (a) Premiums

Premiums written are based upon reports received from ceding companies, supplemented by the Company's own estimates of premiums written for which ceding company reports have not been received. Differences between such estimates and actual amounts are recorded in the period in which the actual amounts are determined. Premiums are earned on a basis that is consistent with the risks covered under the terms of the reinsurance contracts, which are generally one to two years. Unearned premiums represent the portion of premiums written which is applicable to the unexpired risks under contracts in force. Annuity and universal life insurance premiums received are accounted for in a manner consistent with accounting for interest-bearing financial instruments and are not reported as revenues, but rather as direct deposits to the contract. Amounts assessed against annuity and universal life policyholders are recognized as revenue in the period assessed.

### (b) Losses and Loss Expenses, Including Life Policy Benefits

The liability for unpaid losses and loss expenses for property and casualty business includes amounts determined from loss reports on individual cases and amounts for losses incurred but not reported. Such reserves are estimated by management based upon reports received from ceding companies, supplemented by the Company's own actuarial estimates of reserves for which ceding company reports have not been received, and based on the Company's own historical experience. To the extent that the Company's own historical experience is inadequate for estimating reserves, such estimates may be actuarially determined based upon industry experience and management's judgment. The estimates are continually 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 periods in which they become known.

The liabilities for policy benefits for ordinary life and accident and health policies have been established based upon information reported by ceding companies supplemented by the Company's best actuarial estimates of mortality, morbidity, persistency and investment income, with appropriate provision for adverse deviation. Future policy benefit reserves for annuity and universal life products are carried at their accumulated values. Reserves for policy claims and benefits include both mortality and morbidity claims in the process of settlement and claims that have been incurred but not yet reported. Interest rate assumptions used to estimate liabilities for policy benefits for life and annuity contracts ranged from 2.0% to 6.5%. Actual experience in a particular period may vary from assumed experience and, consequently, may affect the Company's operating results in future periods.

### (c) Deferred Acquisition Costs

Acquisition costs, primarily brokerage fees, commissions and excise taxes, which vary directly with, and are primarily related to, the acquisition of new and renewal reinsurance contracts, are capitalized and charged to expense as the related premium revenue is recognized. Anticipated losses and loss expenses, other costs and investment income related to these premiums are considered in determining the recoverability of deferred acquisition costs. Acquisition costs related to individual life and annuity business are deferred and amortized over the premium paying periods in proportion to anticipated premium income, allowing for lapses, terminations and anticipated investment income. Acquisition costs related to universal life and single premium annuity contracts are deferred and amortized over the lives of the policies as a percentage of the estimated gross profits expected to be realized on the policies.

### (d) Funds Held by Reinsured Companies

Funds held by reinsured companies represent premiums retained by ceding companies for a period in accordance with contractual terms. The Company generally earns investment income on these balances during the period funds are held.

### (e) Deposit Assets and Liabilities

In the normal course of its operations, the Company enters into certain contracts that do not meet the risk transfer provisions of SFAS No. 113 entitled "Accounting and Reporting for Reinsurance of Short Duration and Long Duration Contracts." These contracts are accounted for using the deposit accounting method. For those contracts, the Company originally records deposit liabilities for an amount equivalent to the assets received. Actuarial studies are used to estimate the final liabilities under these contracts and the appropriate accretion rates to increase the original liabilities over the term of the contracts. The accretion charge of the period is recorded in the Statement of Operations.

Under certain contracts that do not meet the risk transfer provisions, cedents retain the assets on a funds held basis. In those cases, the Company records those assets as deposit assets and records the related income in the Statement of Operations.

### (f) Investments

Fixed maturities, short-term and equity investments that are classified as "available for sale" are carried at fair value, based on quoted market prices, with the difference between cost or amortized cost and fair value, net of the effect of taxes, included as a separate component of "accumulated other comprehensive income." Short-term investments comprise securities with a maturity greater than three months but less than one year from the date of purchase. Investment purchases and sales are recorded on the trade date.

Fixed maturities, short-term and equity investments that contain convertible features are classified as "trading securities" and carried at fair value, based on quoted market prices, with the change in fair value included in the Statement of Operations.

The Company utilizes financial futures contracts for the purpose of managing certain investment portfolio exposures and duration. Futures contracts are not recognized as assets or liabilities in the accompanying Consolidated Financial Statements as they settle daily. Changes in the market value of futures contracts produce daily cash flows, which are included in net realized gains or losses on investments in the Statement of Operations. Collateral held by brokers equal to a percentage of the total value of open futures contracts is included in fixed maturities.

Investment income is recognized when earned and includes the accrual of discount or amortization of premium on fixed maturities and short-term investments. Realized gains and losses on the disposition of investments, which are determined based upon specific identification of the cost of investments sold, and provisions for other than temporary impairments in the value of investments retained, are reflected in the Statement of Operations.

### (g) Cash and Cash Equivalents

Cash equivalents are carried at fair value and include debt securities that, at purchase, have a maturity of three months or less.

### (h) Goodwill

Goodwill represents the excess of the purchase price over the fair value of the net assets received related to the acquisitions of PartnerRe SA and Winterthur Re. The Company amortizes goodwill on a straight-line basis over a period of 20 years. Accumulated amortization as of December 31, 2001 and 2000, was $92.0 million and $66.0 million, respectively.

### (i) Income Taxes

Certain subsidiaries of the Company operate in jurisdictions where they are subject to taxation. Current and deferred income taxes are charged or credited to operations, or "accumulated other comprehensive income" in certain cases, based upon enacted tax laws and rates applicable in the relevant jurisdiction in the period in which the tax becomes payable. Deferred income taxes are provided for all temporary differences between the bases of assets and liabilities used in the financial statements and those used in the various jurisdictional tax returns.

### (j) Translation of Foreign Currencies

The functional currency of the Company is the U.S. dollar. The national currencies of the Company's subsidiaries are generally their functional currencies, except for the Bermuda subsidiaries whose functional currency is the U.S. dollar. In translating the Consolidated Financial Statements of those subsidiaries whose functional currency is other than the U.S. dollar, assets and liabilities are converted into U.S. dollars using the rates of exchange in effect at the balance sheet dates, and revenues and expenses are converted using the average exchange rates for the period. Related translation adjustments and exchange gains and losses on forward exchange contracts, which may be used to hedge these investments, are reported as a separate component of "accumulated other comprehensive income."

In recording foreign currency transactions, revenue and expense items are converted into the functional currency at the weighted average rates of exchange for the year. Assets and liabilities originating in currencies other than the functional currency are translated into the functional currency at the rates of exchange in effect at the balance sheet dates. The resulting exchange gains or losses are included in the Statement of Operations. Prior to the Company's adoption of SFAS 133 on January 1, 2001, exchange gains and losses related to the translation of investments available for sale were included in net unrealized gains and losses on investments, a component of "accumulated other comprehensive income." Following the adoption of SFAS 133, the Company records unrealized foreign exchange gains and losses that are covered with designated hedges in the Statement of Operations. (See Note 3(k).)

### (k) Accounting for Derivatives and Hedging Activities

SFAS 133 requires the recognition of all derivative financial instruments, including embedded derivative instruments, as either assets or liabilities in the Balance Sheet and measurement of those instruments at fair value. The accounting for gains and losses associated with changes in the fair value of a derivative and the effect on the Consolidated Financial Statements will depend on its hedge designation and whether the hedge is highly effective in achieving offsetting changes in the fair value or cash flows of the asset or liability hedged. If the derivative is designated as a fair value hedge, the changes in the fair value of the derivative and the hedged item will be recognized in earnings. If the derivative is designated as a cash flow hedge, changes in the fair value of the derivative will be recorded in other comprehensive income and will be recognized in the Statement of Operations when the hedged item affects earnings. A derivative that is not designated or does not qualify as an effective hedge will be marked to fair value through earnings. The Company does not currently designate any derivative financial instruments as cash flow hedges.

The Company utilizes derivative financial instruments as part of an overall currency risk management strategy. As part of its overall strategy to manage the level of currency exposure, the Company uses currency derivatives to hedge the fair value of certain available for sale fixed income securities related to the Company's "liability funds" (funds corresponding to the Company's net reinsurance liabilities). These derivatives have been designated as "fair value hedges" under SFAS 133, and accordingly, the changes in fair value of the derivative and the hedged item related to foreign exchange rates will be recognized in earnings. Derivatives employed by the Company to hedge currency exposure related to other reinsurance assets and liabilities are not designated as hedges under SFAS 133. On the date the Company enters into a derivative contract, management designates the derivative as a hedge of the identified underlying exposure (a "designated hedge") or as a "no hedge designation" derivative. If a derivative does not qualify or is not designated in a hedging relationship, the derivative is recorded at fair value and changes in its fair value are reported currently in earnings.

The Company's investment strategy allows for the use of derivative securities, subject to strict limitations. Derivative instruments may be used to hedge a variety of market risks or to replicate investment positions or market exposures that would be allowed under Company investment policy if implemented in other ways. The Company does not designate these derivatives as hedges for accounting purposes. Accordingly, these derivatives are recorded at fair value and changes in the fair value of the derivatives are reported currently in earnings.

The Company formally documents all relationships between hedging instruments and hedged items, as well as its risk-management objective and strategy for undertaking various hedge transactions. In this documentation, the Company specifically identifies the asset, liability, firm commitment or forecasted transaction that has been designated as a hedged item and states how the hedging instrument is expected to hedge the risks related to the hedged item. The Company formally measures effectiveness of its hedging relationships, both at the hedge inception and on an ongoing basis, in accordance with its risk management policy.

The Company will discontinue hedge accounting prospectively if it is determined that the derivative is no longer effective in offsetting changes in the fair value or cash flows of a hedged item. To the extent that the Company in the future chooses to discontinue hedge accounting related to its fair-value hedge of currency risk related to its available for sale fixed income securities (liability funds) because, based on management's assessment, the derivative(s) no longer qualifies as an effective fair-value hedge, the derivative(s) will continue to be carried on the Balance Sheet at its fair value with changes in its fair value recognized in current period earnings and changes in the fair value of the underlying available for sale fixed income securities due to currency movements will be recorded as a component of "accumulated other comprehensive income."

### (l) Net Income per Common Share

Diluted net income per common share is based upon the weighted average number of common shares outstanding using the treasury stock method for all potentially dilutive securities, including common share warrants and options. When the effect of dilutive securities would be anti-dilutive, these securities are excluded from the calculation of diluted earnings per share. Basic earnings per share is determined as net income available to common shareholders divided by the weighted average number of common shares outstanding for the period, giving no effect for dilutive securities.

### (m) New Accounting Pronouncements

The Company adopted Statement of Financial Accounting Standards No. 133 "Accounting for Derivative Instruments and Hedging Activities" (SFAS 133), as amended by SFAS No. 138, on January 1, 2001. In accordance with the transition provisions of SFAS 133, the Company recorded a positive cumulative-effect adjustment of $27.8 million, after tax, or $0.54 per diluted share, in earnings of the first quarter to recognize the net gains and losses associated with its fair value currency hedging activities that were previously recorded in "accumulated other comprehensive income." The transition provision did not affect the book value of the Company.

Additionally, in response to the accounting implications of SFAS 133, the Company reclassified approximately $89.2 million of available for sale convertible debt and equity securities to a "trading" portfolio at January 1, 2001. Such reclassifications were made to reduce the administrative burden associated with separately valuing the conversion features (embedded derivatives under SFAS 133). This reclassification resulted in a $4.6 million net loss, after tax, or $0.09 per diluted share, being recognized in earnings of the first quarter. Prior to this reclassification, this net unrealized loss was included as a component of "accumulated other comprehensive income" and, accordingly, the reclassification did not affect the book value of the Company. Under the provisions of SFAS 133, such a reclassification does not impact the Company's ability to classify other debt securities as available for sale.

On July 20, 2001, the Financial Accounting Standards Board issued SFAS No. 141, "Business Combinations," (SFAS 141) and SFAS No. 142, "Goodwill and Other Intangible Assets" (SFAS 142). The statements will change the accounting for business combinations and goodwill in two significant ways. SFAS 141 requires that the purchase method of accounting be used for all business combinations initiated after June 30, 2001. Use of the pooling-of-interests method will be prohibited. SFAS 142 changes the accounting for goodwill from an amortization method to an impairment-only approach. Thus, amortization of goodwill, including goodwill recorded in past business combinations, will cease upon adoption of that statement, which for the Company, will be January 1, 2002. The Company will be required to complete a transitional goodwill impairment test six months from the date of adoption and impairment valuations annually or more frequently if certain indicators are encountered. In connection with the transitional adjustment, the Company will (i) identify its reporting units, (ii) determine the carrying value of each reporting unit by assigning the assets and liabilities, including the existing goodwill and intangible assets, to those reporting units and (iii) determine the fair value of each reporting unit. If the carrying value of any reporting unit exceeds its fair value, then detailed fair values for each of the assigned assets (excluding goodwill) and liabilities will be determined to calculate the amount of goodwill impairment, if any. Any transitional impairment loss resulting from the adoption will be recognized as the effect of a change in accounting principle in the Company's Statement of Operations.

The Company does not believe that the adoption of SFAS 141 will have a significant impact on its financial statements. The Company estimates that the adoption of SFAS 142 will result in the elimination of an annual amortization expense related to goodwill in the amount of $22.4 million, after tax. The Company is currently assessing but has not yet determined the impact of related impairment, if any, on its financial position and results of operations.

## 4. Investments

### (a) Fixed Maturities, Equities and Short-Term Investments

The cost, market value, gross unrealized gains and gross unrealized losses on investments classified as available for sale at December 31, 2001 and 2000, were as follows ($ 000's):

| | Cost[1] | Gross Unrealized Gains | Gross Unrealized Losses | Market Value |
|---|---|---|---|---|
| 2001 | | | | |
| Fixed maturities | | | | |
| - U.S. Government | $ 477,782 | $ 16,419 | $ (1,847) | $ 492,354 |
| - states or political subdivisions of states of the U.S. | 83,149 | 537 | (343) | 83,343 |
| - other foreign governments | 720,342 | 8,362 | (3,084) | 725,620 |
| - corporate | 1,415,508 | 34,428 | (27,303) | 1,422,633 |
| - mortgage / asset-backed securities | 685,987 | 13,287 | (2,465) | 696,809 |
| Total fixed maturities | 3,382,768 | 73,033 | (35,042) | 3,420,759 |
| Short-term investments | 39,547 | 22 | (5) | 39,564 |
| Equities | 408,879 | 32,707 | (40,761) | 400,825 |
| | $ 3,831,194 | $ 105,762 | $ (75,808) | $ 3,861,148 |

| | Cost[1] | Gross Unrealized Gains | Gross Unrealized Losses | Market Value |
|---|---|---|---|---|
| 2000 | | | | |
| Fixed maturities | | | | |
| - U.S. Government | $ 783,287 | $ 45,137 | $ (23,628) | $ 804,796 |
| - states or political subdivisions of states of the U.S. | 12,462 | – | (1,180) | 11,282 |
| - other foreign governments | 379,759 | 5,459 | (5,977) | 379,241 |
| - corporate | 1,063,467 | 28,956 | (52,273) | 1,040,150 |
| - mortgage / asset-backed securities | 808,115 | 15,319 | (5,113) | 818,321 |
| Total fixed maturities | 3,047,090 | 94,871 | (88,171) | 3,053,790 |
| Short-term investments | 24,972 | 158 | (277) | 24,853 |
| Equities | 327,965 | 57,479 | (30,643) | 354,801 |
| | $ 3,400,027 | $ 152,508 | $ (119,091) | $ 3,433,444 |

[1] *Cost is amortized cost for fixed maturities and short-term investments and original cost for equity securities*

### (b) Maturity Distribution

The distribution of available for sale fixed maturities and short-term investments at December 31, 2001, by contractual maturity is shown below ($ 000's):

| | Amortized Cost | Market Value |
|---|---|---|
| One year or less | $ 130,892 | $ 132,698 |
| More than one year through five years | 1,437,768 | 1,461,132 |
| More than five years through ten years | 842,712 | 844,005 |
| More than ten years | 324,956 | 325,679 |
| Subtotal | 2,736,328 | 2,763,514 |
| Mortgage / asset-backed securities | 685,987 | 696,809 |
| Total | $3,422,315 | $3,460,323 |

### (c) Change in Net Unrealized (Losses) Gains on Investments

The analysis of the change in net unrealized (losses) gains on investments reflected in "accumulated other comprehensive income" for the years ended December 31, 2001, 2000 and 1999, is as follows ($ 000's):

| | 2001 | 2000 | 1999 |
|---|---|---|---|
| Fixed maturities | $ 31,291 | $ 170,435 | $ (163,775) |
| Short-term investments | 136 | 54 | 100 |
| Other investments | (41) | (90) | (47) |
| Equity securities | (34,890) | 16,952 | 8,408 |
| | (3,504) | 187,351 | (155,220) |
| (Increase) decrease in tax liability and other foreign exchange gains or losses | (79,984) | (3,715) | 71,371 |
| Net change reflected in "accumulated other comprehensive income" | $ (83,488) | $ 183,636 | $ (83,849) |

(d) Realized Gains and Losses

Proceeds from the sales of investments classified as available for sale for the years ended December 31, 2001, 2000 and 1999, were $3,033.1 million, $5,848 million and $6,346.6 million, respectively. Realized investment gains and losses on securities classified as available for sale for the years ended December 31, 2001, 2000 and 1999, were as follows ($ 000's):

| | 2001 | 2000 | 1999 |
|---|---|---|---|
| Gross realized gains | $ 92,717 | $ 121,475 | $ 81,195 |
| Gross realized losses | (52,933) | (138,762) | (78,080) |
| Total net realized gains (losses) | $ 39,784 | $ (17,287) | $ 3,115 |

For the year ended December 31, 2001, the Company recorded a net loss of $1.1 million in "net realized investment gains (losses)" in the Statement of Operations, representing the ineffectiveness of its designated fair value hedging activities.

(e) Net Investment Income

The components of net investment income for the years ended December 31, 2001, 2000 and 1999, were as follows ($ 000's):

| | 2001 | 2000 | 1999 |
|---|---|---|---|
| Fixed maturities, short-term investments, cash and cash equivalents | $ 204,143 | $ 243,722 | $ 298,972 |
| Equities | 14,816 | 9,294 | 7,292 |
| Funds held and other | 29,605 | 30,764 | 20,007 |
| Investment expenses | (8,956) | (10,192) | (18,633) |
| Net investment income | $ 239,608 | $ 273,588 | $ 307,638 |

(f) Trading Securities

In response to accounting implications of SFAS 133, the Company reclassified approximately $89.2 million of available for sale convertible debt and equity securities to trading. This transfer resulted in gross realized gains and losses of $6.3 million and $10.9 million, respectively, being recognized in the Statement of Operations. There were no other transfers from available for sale to trading during the year.

For the year ended December 31, 2001, the change in net unrealized holding losses on trading securities resulted in a loss of $1.3 million being recognized in the Statement of Operations. There were no gains or losses recognized in prior years since the Company did not classify any of its investments as trading prior to January 1, 2001.

(g) Pledged Securities

At December 31, 2001 and 2000, cash and securities with a market value of approximately $1,453.4 million and $1,091.0 million, respectively, were deposited, pledged or held in an escrow account to support long-term debt or in favor of ceding companies or government authorities to comply with reinsurance contract provisions and insurance laws. Excluding debt securities issued by the U.S. and other AAA-rated sovereign governments, the Company is not exposed to any significant credit concentration risk.

## 5. Unpaid Losses and Loss Expenses

The table below is a reconciliation of the beginning and ending liability for unpaid losses and loss expenses, excluding policy benefits for life contracts, for the years ended December 31, 2001, 2000 and 1999 ($ 000's):

| | 2001 | 2000 | 1999 |
|---|---|---|---|
| Gross liability at beginning of year | $2,386,032 | $2,616,556 | $2,649,380 |
| Reinsurance recoverable at beginning of year | 203,180 | 205,982 | 257,398 |
| Net liability at beginning of year | 2,182,852 | 2,410,574 | 2,391,982 |
| Net incurred losses related to: | | | |
| Current year | 1,515,006 | 801,916 | 917,106 |
| Prior year | (7,871) | (112) | (60,351) |
| | 1,507,135 | 801,804 | 856,755 |
| Net paid losses related to: | | | |
| Current year | 209,473 | 146,433 | 144,720 |
| Prior year | 615,276 | 778,382 | 537,682 |
| | 824,749 | 924,815 | 682,402 |
| Effects of exchange rate changes | (74,501) | (104,711) | (155,761) |
| Net liability at end of year | 2,790,737 | 2,182,852 | 2,410,574 |
| Reinsurance recoverable at end of year | 214,891 | 203,180 | 205,982 |
| Gross liability at end of year | $3,005,628 | $2,386,032 | $2,616,556 |

The Company's reserve for unpaid losses and loss expenses as of December 31, 2001, 2000 and 1999, included $128.5 million, $146.4 million and $146.2 million, respectively, that represents an estimate of its net ultimate liability for asbestos and environmental claims. The gross liability for such claims as at December 31, 2001, 2000 and 1999, is $155.4 million, $171.3 million and $173.7 million, respectively, of which $130.9 million, $145.6 million and $150.6 million, respectively, relate to U.S. casualty exposures arising from business written by PartnerRe SA. (See Note 6.)

Ultimate values for such claims cannot be estimated using traditional reserving techniques and there are significant uncertainties in estimating the amount of the Company's potential losses for these claims. In view of the changes in the legal and tort environment that affect the development of such claims, the uncertainties inherent in valuing asbestos and environmental claims are not likely to be resolved in the near future. There can be no assurances that the reserves established by the Company will not be adversely affected by development of other latent exposures, and further, there can be no assurances that the reserves established by the Company will be adequate.

The Company does, however, actively evaluate potential exposure to asbestos and environmental claims and establishes additional reserves as appropriate. The Company believes that it has made a reasonable provision for these exposures and is unaware of any specific issues which would materially affect its loss and loss expense estimates.

## 6. Ceded Reinsurance

The Company uses retrocessional agreements to reduce its exposure to risk of loss on reinsurance assumed. These agreements provide for recovery of a portion of losses and loss adjustment expenses from retrocessionaires. The Company remains liable to the extent the retrocessionaires do not meet their obligations under these agreements, and therefore the Company evaluates the financial condition of its reinsurers and monitors concentration of credit risk. Provisions are made for amounts considered potentially uncollectible. The allowance for uncollectible reinsurance recoverable was $16.9 million and $13.0 million as at December 31, 2001 and 2000, respectively.

In September 2001, the Company commuted a guaranty from the AGF Group relating to loss development on U.S. casualty exposures arising from business written prior to January 1, 1992, by certain companies that were at the time part of the AGF Group and are currently part of PartnerRe SA. This guaranty was commuted with an effective date of December 31, 2000, and a settlement date of September 4, 2001. The commutation did not have a significant impact on the results of operations for the year. If losses and loss expenses relating to those reserves develop beyond their level as at the date of commutation, the Company will be required to increase loss reserves with a corresponding reduction in income in the period in which the deficiency is identified.

Premiums and losses and loss expenses for 2001, 2000 and 1999 are reported net of reinsurance in the Company's Statement of Operations. Assumed, ceded and net amounts for the years ended December 31, 2001, 2000 and 1999, were as follows ($ 000's):

| 2001 | Premiums Written | Premiums Earned | Losses and Loss Expenses |
|---|---|---|---|
| Assumed | $1,878,256 | $1,686,163 | $1,712,604 |
| Ceded | 53,160 | 52,655 | 80,774 |
| Net | $1,825,096 | $1,633,508 | $1,631,830 |
| **2000** | | | |
| Assumed | $ 1,439,515 | $1,378,140 | $1,078,667 |
| Ceded | 59,263 | 63,768 | 102,968 |
| Net | $1,380,252 | $ 1,314,372 | $ 975,699 |
| **1999** | | | |
| Assumed | $1,432,966 | $ 1,447,404 | $1,287,738 |
| Ceded | 106,556 | 109,395 | 157,636 |
| Net | $ 1,326,410 | $ 1,338,009 | $ 1,130,102 |

## 7. Long-term Debt

In connection with the Acquisition, the Company's subsidiary, PartnerRe U.S., obtained a $220.0 million, 5.81% fixed rate bank loan. The loan, which is fully collateralized, is repayable in 2008, with interest payments due semiannually. The company incurred interest expense of $13.0 million, $13.0 million and $12.9 million in 2001, 2000 and 1999, respectively, and paid interest of $13.0 million in each of 2001, 2000 and 1999 in relation to the loan.

## 8. Taxation

Under current Bermuda law, neither the Company nor any of its Bermuda-domiciled subsidiaries is required to pay taxes in Bermuda on either income or capital gains. The Company has received from the Minister of Finance of Bermuda an assurance under The Exempted Undertakings Tax Protection Act, 1966 of Bermuda that in the event of any such taxes being imposed, the Company will be exempted until 2016. Certain subsidiaries of the Company operate in, and are subject to taxation by, other jurisdictions.

Income tax expense for the years ended December 31, 2001, 2000 and 1999, and income taxes payable as at December 31, 2001, 2000 and 1999, were as follows ($ 000's):

| | 2001 | 2000 | 1999 |
|---|---|---|---|
| Current income tax benefit | $ (2,557) | $ (5,984) | $ (22,557) |
| Deferred income tax benefit | (66,747) | (37,754) | (21,227) |
| Income tax benefit | $ (69,304) | $ (43,738) | $ (43,784) |
| Current income tax recoverable, net | $ (9,924) | $ (10,525) | $ (14,958) |
| Deferred income tax (recoverable) payable, net | (83,961) | (12,471) | 6,810 |
| Income taxes recoverable, net | $ (93,885) | $ (22,996) | $ (8,148) |

Deferred income taxes reflect the tax impact of temporary differences between the carrying amounts of assets and liabilities for financial reporting and income tax purposes. Significant components of the net deferred tax asset as of December 31, 2001 and 2000, were as follows ($ 000's):

| | 2001 | 2000 |
|---|---|---|
| Discounting of loss reserves and adjustment to life policy reserves | $ 31,100 | $ 16,257 |
| Retirement and other compensation plans | 1,887 | 1,973 |
| Tax loss carryforwards | 105,566 | 47,959 |
| Unearned premium | 13,300 | 8,617 |
| Other deferred tax assets | 7,723 | 6,975 |
| | 159,576 | 81,781 |
| Valuation allowance | (14,319) | (9,409) |
| Deferred tax assets | 145,257 | 72,372 |
| Unrealized appreciation and timing differences on investments | 13,182 | 19,887 |
| Deferred acquisition costs | 20,813 | 16,097 |
| Tax equalization reserves | 11,382 | 11,698 |
| Other deferred tax liabilities | 15,919 | 12,219 |
| Deferred tax liabilities | 61,296 | 59,901 |
| Net deferred tax asset | $ 83,961 | $ 12,471 |

As at December 31, 2001, the Company had tax benefits associated with deferred tax loss carryforwards with the following expiration dates: $27.3 million in 2006, $17.5 million in 2007, $33.8 million in 2008, $4.5 million in 2018, $3.9 million in 2019, $7.7 million in 2020 and $10.9 million in 2021. The Company has recorded a valuation allowance related to certain deferred tax assets. The valuation allowance reflects management's assessment, based on available information, that it is more likely than not that certain deferred income tax assets will not be realized in the applicable jurisdiction. Realization of the deferred tax asset is dependent on generating sufficient taxable income in future periods. Although realization is not assured, management believes it is more likely than not that the remaining deferred tax asset will be realized.

The following table summarizes the changes in "accumulated other comprehensive income" and the related tax benefit for the years ended December 31, 2001, 2000 and 1999 ($ 000's):

| 2001 | Before Tax | Tax Effect | Net of Tax |
|---|---|---|---|
| Foreign currency translation adjustment | $ (12,333) | $ – | $ (12,333) |
| Unrealized (losses) gains on investments: | | | |
| Unrealized (losses) gains on investments arising during the period | (64,828) | 15,072 | (49,756) |
| Less reclassification adjustment for available for sale securities | (39,784) | 6,052 | (33,732) |
| | (104,612) | 21,124 | (83,488) |
| Change in accumulated other comprehensive income | $ (116,945) | $ 21,124 | $ (95,821) |
| **2000** | | | |
| Foreign currency translation adjustment | $ (22,446) | $ – | $ (22,446) |
| Unrealized gains (losses) on investments: | | | |
| Unrealized gains (losses) on investments and other foreign exchange gains and losses arising during the period | 197,279 | (37,993) | 159,286 |
| Less reclassification adjustment for available for sale securities | 17,287 | 7,063 | 24,350 |
| | 214,566 | (30,930) | 183,636 |
| Change in accumulated other comprehensive income | $ 192,120 | $ (30,930) | $ 161,190 |
| **1999** | | | |
| Foreign currency translation adjustment | $ (34,883) | $ – | $ (34,883) |
| Unrealized (losses) gains on investments: | | | |
| Unrealized (losses) gains on investments and other foreign exchange gains and losses arising during the period | (116,780) | 34,632 | (82,148) |
| Less reclassification adjustment for available for sale securities | (3,115) | 1,414 | (1,701) |
| | (119,895) | 36,046 | (83,849) |
| Change in accumulated other comprehensive income | $ (154,778) | $ 36,046 | $ (118,732) |

## 9. Agreements with Related Parties

The Company was party to agreements with Swiss Reinsurance Company ("Swiss Re," a shareholder), Head Company LLC ("Head Company," a company in which a former board member has a management role), Morgan Stanley (a company in which a former board member has a management role) and their respective affiliates as discussed below:

### Agreements with Swiss Reinsurance Company

The Company utilized, in the conduct of its business, certain underwriting services and licensed technology provided by Swiss Re pursuant to a service agreement. Fees incurred pursuant to the agreement included fixed fees for access to technology and database resources. Fees incurred for each of the years ended December 31, 2001, 2000 and 1999, were $0.1 million, $0.1 million and $0.3 million, respectively.

In the normal course of their underwriting activities, the Company and certain subsidiaries entered into reinsurance contracts (assumed and ceded) with Swiss Re and certain Swiss Re subsidiaries during 2001 and 2000. Included in the 2001 consolidated results were assumed and ceded premiums of $15.3 million and $1.7 million, respectively, losses and loss expenses, including policy benefits for life contracts, of $8.9 million, loss recoveries of $11.5 million and assumed and ceded acquisition costs of $5.7 million and $0.5 million, respectively. As at December 31, 2001, there were reinsurance balances receivable and recoverable aggregating $26.8 million, unpaid losses and loss expenses, including policy benefits for life contracts of $20.1 million and funds held under reinsurance treaties of $0.3 million. Included in the 2000 consolidated results were assumed and ceded premiums of $15.1 million and $1.6 million, respectively, losses and loss expenses, including policy benefits for life contracts of $10.6 million, loss recoveries of $7.7 million and assumed and ceded acquisition costs of $5.4 million and $0.7 million, respectively. As at December 31, 2000, there were reinsurance balances receivable and recoverable aggregating $22.8 million, unpaid losses and loss expenses, including policy benefits for life contracts, of $18.6 million, and funds held under reinsurance treaties of $1.6 million.

### Investment Advisory Agreements

The Company utilized the services of Swiss Re, Head Asset Management (Bermuda) L.P. ("HAMB"), an affiliate of Head Company, and Morgan Stanley Dean Witter Investment Management and affiliates ("MSDWIM"), a division of Morgan Stanley, to manage portions of its investment portfolio pursuant to investment advisory agreements. Pursuant to these agreements, which are subject to the Company's investment guidelines and other restrictions, the Company paid a fee to each of Swiss Re, HAMB, and MSDWIM. Investment fees expensed for the years ended December 31, 2001, 2000 and 1999, aggregated $2.4 million, $2.8 million and $2.7 million, respectively, under these agreements.

### Issuance of Securities

The Company utilized the services of Morgan Stanley as lead underwriter in the issuance of new securities during 2001, as described more fully in Note 13. The Company paid underwriting fees, in the aggregate, of $12.3 million to all underwriters involved in the transactions.

## 10. Retirement Benefit Arrangements

For employee retirement benefits, the Company actively maintains defined contribution plans, which are contributory or non-contributory depending upon competitive local market practices. In addition, the Company maintains a frozen non-contributory defined benefit plan.

Contributions are based on the participants' base salary and the accumulated benefit for the majority of the plans vests immediately or over a two-year period. Prior to the adoption of the defined contribution plans, the Company had a defined benefit plan covering substantially all of its employees. Effective June 30, 1999, benefit accruals under this plan were frozen, except for certain disabled participants. All employees previously enrolled in defined benefit retirement plans have been transferred to defined contribution plans. As required by law, certain retirement plans also provide for death and disability benefits and lump sum indemnities to employees upon retirement.

The Company incurred pension expense for these pension arrangements of $5.7 million, $5.4 million and $3.3 million for the years ended December 31, 2001, 2000 and 1999, respectively.

## 11. Stock and Stock Option Plans

### Stock Option Plan

The Company has adopted a Stock Option Plan (the "Option Plan") under which the Company may grant, subject to certain restrictions, incentive ("ISOs") and non-qualified ("NQSOs") stock options to directors and employees of the Company. The Option Plan is administered by the Compensation Committee of the Board of Directors (the "Committee"). Under the Option Plan, ISOs may only be granted to employees of the Company, while NQSOs may be granted to employees, directors and consultants to the Company and to any other person selected by the Committee.

Pursuant to the terms of the Option Plan, the dates on which each option can be exercised, the expiration date of each option and the purchase price of shares subject to each option shall be fixed by the Committee at the time such options are granted. The exercise price of the options will be subject to a minimum price, in the case of ISOs, equal to the fair market value, as defined in the plan, of the common shares on the date of grant and a minimum price, in the case of NQSOs, equal to the par value of the common shares. No options shall be exercisable after ten years from the date of grant. A total of two million Common Shares may be issued under the Option Plan.

### Employee Incentive Plan

The Company has adopted an Employee Incentive Plan (the "EIP") under which the Company may grant, subject to certain restrictions, stock options, restricted stock ("RS"), phantom stock units ("PSU"), performance units ("PU") and performance shares ("PS") to key employees of the Company. The EIP is administered by the Committee.

Pursuant to the terms of the EIP, awards may be granted to eligible employees at any time, in any amount, to be determined by the Committee. The RS and PSU awards will be subject to terms, conditions, restrictions and restricted periods fixed by the Committee that may be linked to prescribed performance goals. The PU and PS awards will be subject to performance goals that shall be fixed by the Committee. A total of 3,500,000 Common Shares may be issued under the EIP.

The Company issued 10,000 restricted shares in 2000 with a weighted-average grant date fair value of $54.50 per share. These shares will vest no earlier than four years from the grant date. The Company incurred compensation expense for restricted share grants in the years ended December 31, 2001, 2000 and 1999, of approximately $137,000, $11,000 and

$433,000, respectively. Related deferred compensation expense at December 31, 2001 and 2000, was $397,000 and $534,000, respectively.

### Non-employee Directors' Stock Plan

The Company has adopted a non-employee Directors' Stock Plan (the "Directors' Stock Plan"). Under the terms of the Directors' Stock Plan, non-employee Directors receive $35,000 in annual fees, paid at each annual shareholders' meeting, in common shares ("Directors' Shares") or cash, depending on their election. The Directors' Stock Plan also provides for automatic annual awards of stock options to purchase 8,000 common shares at an exercise price per share equal to the market value per share at the time of grant, to be made to non-employee Directors at each successive annual shareholders' meeting. No options shall be exercisable after ten years from the date of grant. A total of 800,000 Common Shares may be issued under the Directors' Stock Plan.

### Employee Share Purchase Plan

The Employee Share Purchase Plan (the "ESPP") was approved by the shareholders of the Company at the May 19, 2000, Annual General Meeting. The ESPP is administered by the Committee. The ESPP has two offering periods a year with the first period commencing June 1, 2000. All employees are eligible to participate in the ESPP and can contribute between 1% and 10% of base salary towards the purchase of PartnerRe Ltd. shares up to a limit of $25,000 per annum. Employees who enroll in the ESPP may purchase PartnerRe Ltd. shares at a 15% discount of the fair market value. Once purchased, there is a restriction upon transfer or sale of the shares for a period of two years following purchase. Participants in the ESPP are eligible to receive dividends on their PartnerRe Ltd. shares as of the purchase date. A total of 500,000 common shares may be issued under the ESPP.

A summary of the status of the Company's outstanding stock options as of December 31, 2001, 2000 and 1999, and changes during the years ending on those dates, is presented below:

| | 2001 Options | 2001 Weighted Average Exercise Price | 2000 Options | 2000 Weighted Average Exercise Price | 1999 Options | 1999 Weighted Average Exercise Price |
|---|---|---|---|---|---|---|
| Outstanding at beginning of year | 2,074,642 | $ 37.62 | 2,182,008 | $ 31.59 | 1,579,358 | $ 28.24 |
| Granted | 544,742 | 49.87 | 755,969 | 37.11 | 640,210 | 40.48 |
| Exercised | (93,306) | 35.75 | (806,987) | 20.69 | (7,100) | 27.12 |
| Forfeited | (79,998) | 41.59 | (56,348) | 38.37 | (30,460) | 44.52 |
| Outstanding at end of year | 2,446,080 | 40.29 | 2,074,642 | 37.62 | 2,182,008 | 31.59 |
| Options exercisable at year end | 1,054,060 | $ 37.50 | 980,352 | $ 36.24 | 1,418,078 | $ 26.23 |

The fair value of each option grant is estimated on the date of grant using the Black-Scholes option-pricing model with the following weighted average assumptions used for grants in 2001, 2000 and 1999, respectively: risk free interest rates of 5.1%, 6.4% and 5.7%, expected lives of seven years, expected volatility of 25% and a dividend yield of 2%. The weighted average fair value of options granted during 2001, 2000 and 1999, was $14.80, $10.61 and $12.47, respectively.

The following table summarizes information about stock options outstanding at December 31, 2001:

| | Options Outstanding | | | Options Exercisable | |
|---|---|---|---|---|---|
| Range of Exercise Prices | Number Outstanding | Weighted Average Remaining Contractual Life | Weighted Average Exercise Price | Number Exercisable | Weighted Average Exercise Price |
| $19.38 - $31.00 | 497,253 | 5.5 years | $ 26.50 | 321,453 | $ 24.14 |
| $31.84 - $37.16 | 698,735 | 7.6 | 36.58 | 230,065 | 35.83 |
| $37.17 - $46.84 | 511,380 | 6.9 | 44.30 | 289,900 | 44.31 |
| $46.85 - $51.38 | 504,720 | 8.5 | 49.12 | 140,840 | 49.20 |
| $51.39 - $55.57 | 233,992 | 9.2 | 52.88 | 71,802 | 52.16 |
| $19.38 - $55.57 | 2,446,080 | 7.4 | $ 40.29 | 1,054,060 | $ 37.50 |

Exercise prices for all options issued during 2001, 2000 and 1999, equaled the average market price of the stock on the grant date.

The Company applies APB Opinion No. 25 in accounting for stock options. Accordingly, no compensation cost has been recognized for grants of stock options under the Option Plan or the Directors' Stock Plan. Had compensation cost for the Company's stock option plans been determined based on the fair value at the grant dates for awards under those plans consistent with the method of SFAS No. 123, the Company's net income available to common shareholders and earnings per common share would have been reduced to the pro forma amounts indicated below ($ 000's except per share data):

| | 2001 | 2000 | 1999 |
|---|---|---|---|
| Net (loss) income available to common shareholders: | | | |
| As reported | $ (180,482) | $ 122,307 | $ 74,755 |
| Pro forma | $ (187,216) | $ 117,157 | $ 71,224 |
| (Loss) earnings per common share: | | | |
| Basic | | | |
| As reported | $ (3.60) | $ 2.48 | $ 1.44 |
| Pro forma | $ (3.73) | $ 2.38 | $ 1.37 |
| Diluted | | | |
| As reported | $ (3.60) | $ 2.41 | $ 1.39 |
| Pro forma | $ (3.73) | $ 2.31 | $ 1.34 |

## 12. Dividend Restrictions and Statutory Requirements

The Company's ability to pay common and preferred shareholders' dividends and its operating expenses is dependent on cash dividends from Partner Reinsurance Company and PartnerRe SA, including its subsidiary, PartnerRe U.S. (collectively the "reinsurance subsidiaries"). The payment of such dividends by the reinsurance subsidiaries to the Company is limited under Bermuda and French law and certain insurance statutes of various U.S. states in which PartnerRe U.S. is licensed. The restrictions are generally based on net income and/or certain levels of policyholders' earned surplus as determined in accordance with the relevant statutory accounting practices. At December 31, 2001, 2000 and 1999, there were no material statutory restrictions, except as noted below, on the reinsurance subsidiaries' abilities to pay dividends. PartnerRe U.S., a company licensed in the U.S., may not pay cash dividends without prior regulatory approval.

The reinsurance subsidiaries are required to file annual statements with insurance regulatory authorities prepared on an accounting basis prescribed or permitted by such authorities ("statutory basis"), maintain minimum levels of solvency and liquidity, and comply with risk-based capital requirements and licensing rules. As of December 31, 2001, the reinsurance subsidiaries' solvency, liquidity, surplus and risk-based capital amounts were well in excess of the minimum levels required. The typical adjustments to insurance statutory amounts to convert to U.S. GAAP include elimination of certain statutory reserves, deferral of certain acquisition costs, recognition of deferred income taxes, valuation of bonds at market and presenting ceded reinsurance balances gross of assumed balances.

## 13. Trust Preferred and Mandatorily Redeemable Preferred Securities

### Trust Preferred Securities

On November 21, 2001, PartnerRe Capital Trust I (the "Trust"), a Delaware statutory business trust, issued $200 million of 7.90% Preferred Securities ("Trust Preferred Securities"). The Trust is wholly owned by PartnerRe Finance I Inc. ("PartnerRe Finance"), a Delaware corporation formed solely for the purpose of issuing junior subordinated debt securities to the Trust. PartnerRe Finance is an indirect, wholly-owned subsidiary of the Company. Proceeds of the issue of junior subordinated debt securities will be used in the operations of PartnerRe U.S.

The Trust used the proceeds from the sale of the Trust Preferred Securities to buy an equal principal amount of 7.90% junior subordinated debt securities of PartnerRe Finance and will distribute any cash payments it receives thereon to the holders of its preferred and common securities. The Trust will redeem the Trust Preferred Securities on December 31, 2031, which date may be extended to a date no later than December 31, 2050, and may redeem them earlier, subject to the early redemption provisions of the subordinated Debentures (discussed below). Distributions on the Trust Preferred securities are payable quarterly at a rate of 7.90%. The Trust may defer these payments for up to 20 consecutive quarters ("the extension period"), but not beyond the maturity of Trust Preferred Securities. Any accumulated but unpaid distributions will continue to accrue interest at a rate of 7.90%, compounded quarterly, during the extension period.

The sole asset of the Trust consists of 7.90% Junior Subordinated Debt securities (the "Subordinated Debentures") with a principal amount of $206,185,600 issued by PartnerRe Finance. The Subordinated Debentures mature on December 31, 2031, which date may be extended to a date no later than December 31, 2050, and may be redeemed earlier, but no earlier than November 21, 2006. Interest on the Subordinated Debentures is payable quarterly at a rate of 7.90%. PartnerRe Finance may defer interest payments for up to 20 consecutive quarters, but not beyond the maturity of the Subordinated Debentures. Any accumulated but unpaid distributions will continue to accrue interest at a rate of 7.90%, compounded quarterly, during the extension period.

The Subordinated Debentures are unsecured obligations of PartnerRe Finance. The Company has fully and unconditionally guaranteed all obligations of PartnerRe Finance under the Subordinated Debentures. The Company's obligations under this guarantee are unsecured and will rank junior in priority or payment to the Company's current long-term debt (see Note 7). In the event of default under the Subordinated Debentures, the Trust Preferred securities will rank prior to the common securities of the Trust in priority of payments. The Company has guaranteed payments due on the Trust Preferred Securities only to the extent that the Trust has funds on hand available for such payment.

### Mandatorily Redeemable Preferred Securities

On November 21, 2001, the Company issued four million Premium Equity Participating Security Units ("PEPS Units"). Each PEPS Unit consists of (i) one of the Company's 5.61% Series B Cumulative Redeemable Preferred Shares, $1 par value, liquidation preference $50 per share ("Series B Preferred shares") and (ii) a purchase contract ("Purchase Contract") issued by the Company pursuant to which the holder will be obligated to purchase from the Company, no later than December 31, 2004, a number of common shares to be determined at that time for a price of $50. Each Series B preferred share is pledged to the Company's benefit to secure the holder's obligations under the Purchase Contract. Holders of Series B Preferred shares will be permitted to withdraw the pledged Series B Preferred share from the pledge arrangement only upon early settlement, settlement for cash or termination of the related Purchase Contract. Dividends on Series B Preferred shares are cumulative, accrue at a rate of 5.61% of the liquidation preference amount per year and are payable quarterly in arrears. In conjunction with the payment of dividends on the Series B Preferred Shares, Purchase Contract holders will receive quarterly contract adjustment payments at a rate of 2.39% of the stated amount of $50 per Purchase Contract per year. Purchase Contract adjustment payments may be deferred on similar terms to the Series B preferred share dividends described above.

Purchase Contract holders will be required to purchase between 0.8696 and 1.0638 of the Company's common shares, depending on the share price of the common shares at that time. The net proceeds from the sale of PEPS Unit will be used for general corporate purposes.

The Company must redeem the Series B Preferred shares on June 30, 2005, at a redemption price of $50 per Series B Preferred share, plus all accrued and unpaid dividends, if any, on that date. The Company may not redeem the Series B Preferred shares prior to that date. The Series B Preferred shares rank on parity with the Company's Series A preferred shares. (See Note 14.)

## 14. Shareholders' Equity

### Authorized Shares

At December 31, 2001 and 2000, the total authorized shares of the Company were 120 million shares, par value $1.00 per share. In 2001, 100 million shares were designated as common shares, 10 million shares were designated as 8% Series A Cumulative Preferred Shares, 4 million shares were designated as 5.61% Series B Cumulative Preferred Shares (see Note 13) and 6 million shares remained undesignated. In 2000, 100 million shares were designated as common shares, 10 million shares were designated as 8% Series A Cumulative Preferred Shares and 10 million shares remained undesignated.

### Class A and Class B Warrants

In 1993, in connection with the issuance of common shares, the Company issued Class A Warrants to purchase, in the aggregate, approximately 10.1 million common shares. No Class A Warrants remained unexercised as of December 31, 2000. In 1993, the Company also issued Class B Warrants to purchase, in the aggregate, up to approximately 6.8 million common shares provided certain performance criteria were met. The exercise price is also subject to adjustment upon the occurrence of certain events relating principally to changes in the number of common shares, options or warrants outstanding. Twenty percent of the Class B Warrants were available for vesting on each of the first five anniversary dates of the issue of the Warrants. The vesting conditions for the Class B Warrants available for vesting in November 1998, 1996, 1995 and 1994, which aggregated to 5.5 million warrants, were not met and those warrants have been forfeited. The vesting conditions for the 1.3 million Class B Warrants available for vesting in November 1997 were met and those warrants are available for exercise through November 2004 at an exercise price of $17 per share.

## Series A Cumulative Preferred Shares

In July 1997, the Company issued 10 million of the Company's 8% Series A Cumulative Preferred Shares, par value $1.00 per share, for net proceeds of $242.2 million, 2 million shares of which were issued to Swiss Re. Cumulative dividends of $0.50 per share are payable quarterly. The Company may under certain circumstances, described in the Company's Bye-Laws and the Certificate of Designation, redeem the stock, in whole or in part, after July 10, 2002, for $25.00 per share plus accrued dividends. In the event of liquidation of the Company, the holders of outstanding preferred shares would have preference over the common shareholders and would receive a distribution of $25.00 per share plus accrued dividends.

## Earnings Per Share

The reconciliation of basic and diluted earnings per share is as follows ($ 000's except per share amounts):

| | | | 2001 | | | 2000 | | | 1999 |
|---|---|---|---|---|---|---|---|---|---|
| | Income | Shares | Per Share | Income | Shares | Per Share | Income | Shares | Per Share |
| Net income (loss) | $(160,482) | | | $ 142,307 | | | $ 94,755 | | |
| Preferred stock dividends | (20,000) | | | (20,000) | | | (20,000) | | |
| Basic Earnings Per Share | | | | | | | | | |
| Net income (loss) available to common shareholders | $(180,482) | 50,136.8 | $ (3.60) | $ 122,307 | 49,274.8 | $ 2.48 | $ 74,755 | 51,941.0 | $ 1.44 |
| Effect of Dilutive Securities:[(1)] | | | | | | | | | |
| Class A and B Warrants | | | | | 873.8 | | | 63.7 | |
| Stock Options | | | | | 528.9 | | | 1.226.4 | |
| Diluted Earnings Per Share | | | | | | | | | |
| Net income available to common shareholders | | | | $ 122,307 | 50,677.5 | $ 2.41 | $ 74,755 | 53,231.1 | $ 1.40 |

*(1) Diluted net loss per share has not been shown for 2001 because the effect of dilutive securities would have been antidilutive. The weighted average number of common and common equivalent shares outstanding for the year amounted to 51,566.5 thousand shares after the dilutive effect of Class A and B warrants, and stock options of 899.6 thousand and 530.1 thousand, respectively.*

## 15. Commitments

### Lease Arrangements

The Company leases office space under operating leases expiring in various years through 2012. The leases are renewable at the option of the lessee under certain circumstances. The following is a schedule of future minimum rental payments, exclusive of escalation clauses, on non-cancelable leases as of December 31, 2001 ($ 000's):

| Period | Amount |
|---|---|
| 2002 | $ 12,532 |
| 2003 | 11,294 |
| 2004 | 8,903 |
| 2005 | 8,817 |
| 2006 through 2012 | $ 42,981 |

Rent expense for the years ended December 31, 2001, 2000 and 1999, was $11.2 million, $9.2 million and $8.4 million, respectively.

### Premium Equity Participating Security Units

Under the terms of the Company's 8% Premium Equity Participating Security Units (PEPS Units) the Company is obligated, under the Purchase Contract component, to make a contract adjustment payment of $1.195 per unit per year or 2.39% of the stated amount of $50. At December 31, 2001, the present value of these commitments was $13.1 million.

### Employment Agreements

The Company has entered into employment agreements with its executive officers. These agreements provide for annual compensation in the form of salary, benefits, bonus, options to purchase shares in the Company and the reimbursement of certain expenses, as well as certain severance provisions.

### Other Agreements

The Company has entered into service agreements and lease contracts that provide for information technology support and computer equipment, respectively. Future payments under these contracts will amount to $3.0 million.

## 16. Fair Value of Financial Instruments

Statement of Financial Accounting Standards ("SFAS") No. 107 "Disclosures about Fair Value of Financial Instruments" requires disclosure of fair value information of financial instruments. For certain financial instruments where quoted market prices are not available, management's best estimate of fair value may be based on quoted market prices of similar instruments or on other valuation techniques. Financial instruments may or may not be recognized on the Balance Sheet. SFAS 107 excludes insurance contracts, other than financial guarantees and investment contracts and certain other financial instruments.

The following methods and assumptions were used by the Company in estimating fair market value of each class of financial instruments recorded on the Consolidated Balance Sheet.

Fair value for fixed maturities, short-term investments, equities and trading securities are based on quoted market prices. Carrying value of other invested assets approximate fair value. Policy benefits for life and annuity contracts have a fair value equal to the cash value available to the policyholder should the policyholder surrender the policy. Fair value of long-term debt has been calculated as the present value of estimated future cash flows using a discount rate reflective of market interest rates. For Trust Preferred Securities and PEPS Units, fair value is based on quoted market prices, while carrying value is based on the liquidation value of the securities.

The carrying values and fair values of the financial instruments recorded in the Consolidated Balance Sheet as at December 31, 2001 and 2000, were as follows ($ 000's):

| | | 2001 | | 2000 |
|---|---|---|---|---|
| | Carrying Value | Fair Value | Carrying Value | Fair Value |
| Assets | | | | |
| Fixed maturities | $ 3,420,759 | $ 3,420,759 | $ 3,053,790 | $ 3,053,790 |
| Short-term investments | 39,564 | 39,564 | 24,853 | 24,853 |
| Equities | 400,825 | 400,825 | 354,801 | 354,801 |
| Trading securities | 77,452 | 77,452 | – | – |
| Other invested assets | 20,500 | 20,500 | 14,594 | 14,594 |
| Liabilities | | | | |
| Net policy benefits for life and annuity contracts | $ 693,250 | $ 693,250 | $ 656,492 | $ 656,492 |
| Long-term debt | 220,000 | 220,140 | 220,000 | 215,140 |
| Trust Preferred, Mandatorily Redeemable Preferred Securities and Purchase Contracts | | | | |
| Trust Preferred Securities | $ 200,000 | $ 200,000 | – | – |
| Mandatorily Redeemable Preferred Securities and Purchase Contracts (PEPS Units) | 200,000 | 225,200 | – | – |

## Foreign Exchange Forward Contracts

The Company utilizes foreign exchange contracts as part of its overall currency risk management and investment strategies. In accordance with SFAS 133, these derivative instruments are shown on the Balance Sheet at fair value, with changes in their fair value recognized in the Statement of Operations.

The Company is exposed to credit risk in the event of non-performance by the other parties to the contracts. However, because the counter parties to these agreements are high quality international banks, the Company does not anticipate nonperformance. The difference between the contract amounts and the related market value is the Company's maximum credit exposure.

Forward foreign exchange contracts outstanding at December 31, 2001 and 2000, were as follows ($ 000's):

| | | | 2001 | | | 2000 |
|---|---|---|---|---|---|---|
| | Contract Amount | Market Value | Net Unrealized Gains (Losses) | Contract Amount | Market Value | Net Unrealized Gains (Losses) |
| Receivable | $1,745,614 | $1,745,526 | $ (88) | $ 2,040,169 | $ 2,043,152 | $ 2,983 |
| Payable | (1,745,614) | (1,745,335) | 279 | (2,040,169) | (2,040,454) | (285) |
| Net | $ – | $ 191 | $ 191 | $ – | $ 2,698 | $ 2,698 |

## Futures Contracts

Exchange traded bond and note futures are used by the Company as substitutes for ownership of the physical bonds and notes for the purposes of managing portfolio duration. Bond and note futures net positions were $nil at December 31, 2001.

## 17. Credit Agreements

The Company has entered into agreements with financial institutions to provide unsecured committed credit facilities in the aggregate amount of $325 million. These facilities provide for the issuance of lines of credit and letters of credit. Under the terms of certain reinsurance agreements, irrevocable letters of credit were issued on an unsecured basis in the amount of $283.5 million, and $159.7 million at December 31, 2001, and 2000, respectively, in respect of reported loss reserves.

## 18. Segment Information

The determination of the Company's reportable segments is based on how the Company is managed. The Company employs a matrix organization whereby the core underwriting operations are managed by teams of "Client Partners," which generally are responsible for geographic zones, and "Technical Partners," which are responsible for specialty lines, or classes of business. Management believes measuring underwriting results by line of business is the most relevant representation of the segmentation of the Company's underwriting operations.

Because the Company does not manage its assets by segment, investment income is not allocated to the segments of the property and casualty 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 reinsurance operations. The following items are not considered in evaluating the results of each segment: other operating expenses, net realized investment gains/losses, other income, goodwill amortization, interest expense, distributions related to Trust Preferred and Mandatorily Redeemable Preferred Securities, net foreign exchange gains/losses, income tax and preferred share dividends. Segment revenues and profits (or losses) are shown net of intercompany transactions.

Management measures segment results for the property, casualty and specialty 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. Management measures segment results for the life segment on the basis of "technical result," which is defined as net premiums earned less loss and loss adjustment expenses and acquisition costs. The following table provides a summary of the segment revenues and results for the years ended December 31, 2001, 2000 and 1999 ($ millions):

| Property (including Catastrophe) | 2001 | 2000 | 1999 |
|---|---|---|---|
| Net premiums written | $ 645.8 | $ 472.9 | $ 436.0 |
| Net premiums earned | 600.8 | 452.6 | 446.6 |
| Technical ratio[1] | 124.6% | 83.1% | 106.6% |
| **Casualty (including Automobile)** | | | |
| Net premiums written | $ 527.8 | $ 408.4 | $ 358.5 |
| Net premiums earned | 469.0 | 386.1 | 338.2 |
| Technical ratio[1] | 111.8% | 113.4% | 116.0% |
| **Specialty (Agriculture, Marine, Aviation / Space, Credit / Surety, Miscellaneous)** | | | |
| Net premiums written | $ 519.5 | $ 326.4 | $ 308.9 |
| Net premiums earned | 431.9 | 302.8 | 325.8 |
| Technical ratio[1] | 133.3% | 87.8% | 84.2% |

18. Segment Information (Continuation)

| | 2001 | 2000 | 1999 |
|---|---|---|---|
| Total Non-life | | | |
| Net premiums written | $1,693.1 | $ 1,207.7 | $ 1,103.4 |
| Net premiums earned | 1,501.7 | 1,141.5 | 1,110.6 |
| Technical ratio[1] | 123.1% | 94.5% | 102.9% |
| Life, Annuity and Health | | | |
| Net premiums written | $ 132.0 | $ 172.6 | $ 223.0 |
| Net premiums earned | 131.8 | 172.8 | 227.4 |
| Technical result[2] | (20.0) | (42.9) | (78.5) |
| Investment income | 26.5 | 68.0 | 107.8 |
| Net technical result | $ 6.5 | $ 25.1 | $ 29.3 |

*(1) Technical ratio is obtained by dividing the sum of loss and loss adjustment expenses and acquisition costs by net premiums earned.*

*(2) Technical result is defined as net premiums earned, less loss and loss adjustment expenses and acquisition costs.*

| Reconciliation to Income (Loss) before distributions related to Trust Preferred and Mandatorily Redeemable Preferred Securities and taxes: | 2001 | 2000 | 1999 |
|---|---|---|---|
| Technical result | $ (366.6) | $ 19.2 | $ (110.6) |
| Other operating expenses | (117.6) | (103.2) | (93.1) |
| Net investment income | 239.6 | 273.6 | 307.6 |
| Net realized investment gains (losses) | 20.2 | (62.7) | (15.9) |
| Other income | 1.7 | 0.4 | 0.7 |
| Interest expense | (13.0) | (13.0) | (12.9) |
| Amortization of goodwill | (26.0) | (26.0) | (25.7) |
| Net foreign exchange gains | 7.1 | 10.3 | 0.9 |
| Income (loss) before distributions related to Trust Preferred and Mandatorily Redeemable Preferred Securities and taxes | $ (254.6) | $ 98.6 | $ 51.0 |

The following table provides the geographic distribution of gross premiums written for the years ended December 31, 2001, 2000 and 1999 ($ millions):

| | 2001 | 2000 | 1999 |
|---|---|---|---|
| Europe | $ 753.3 | $ 534.4 | $ 629.9 |
| North America | 789.9 | 685.1 | 631.9 |
| Asia, Australia and New Zealand | 218.8 | 158.9 | 135.5 |
| Latin America and the Caribbean | 102.1 | 47.6 | 27.0 |
| Africa | 14.2 | 13.5 | 8.7 |
| Total gross premiums written | $ 1,878.3 | $ 1,439.5 | $ 1,433.0 |

The Company produces its business both through brokers and through direct relationships with insurance company clients. None of the Company's clients accounted for more than 3% of total gross premiums written. In 2001 the Company had two brokers that accounted for 10% or more of its gross premiums written, one accounting for 17% of gross premiums written and the other accounting for 11%. One broker accounted for approximately 16% and 10% of total gross premiums written in 2000 and 1999, respectively. All segments include business written through this broker.

## 19. Unaudited Quarterly Financial Information

| ($ millions except per share amounts) | 2001 Fourth Quarter | 2001 Third Quarter | 2001 Second Quarter | 2001 First Quarter | 2000 Fourth Quarter | 2000 Third Quarter | 2000 Second Quarter | 2000 First Quarter |
|---|---|---|---|---|---|---|---|---|
| Net premiums written | $ 422.1 | $ 394.2 | $ 410.9 | $ 597.8 | $ 290.0 | $ 304.7 | $ 345.4 | $ 440.1 |
| Net premiums earned | 442.3 | 415.5 | 386.3 | 389.4 | 331.4 | 313.3 | 351.3 | 318.3 |
| Net investment income | 58.6 | 60.3 | 60.8 | 60.0 | 55.0 | 62.1 | 78.9 | 77.5 |
| Net realized investment gains (losses) | 6.0 | (0.4) | 5.5 | 9.1 | (10.8) | (6.5) | (7.7) | (37.7) |
| Other income | 1.6 | — | 0.1 | — | 0.2 | 0.2 | 0.1 | (0.1) |
| Losses and loss expenses including life policy benefits | 362.9 | 710.7 | 285.9 | 272.4 | 242.1 | 222.1 | 264.1 | 247.3 |
| Acquisition costs and other expenses | 131.2 | 126.2 | 114.5 | 113.9 | 122.1 | 97.1 | 110.9 | 92.5 |
| Amortization of goodwill, interest expense and net foreign exchange losses | 11.2 | 1.6 | 6.6 | 12.6 | 2.9 | 6.4 | 9.9 | 9.5 |
| Distribution related to Trust Preferred and Mandatorily Redeemable Preferred Securities | 3.0 | — | — | — | — | — | — | — |
| Income tax benefit | (28.7) | (24.6) | (7.5) | (8.5) | (7.9) | (7.4) | (13.8) | (14.6) |
| Cumulative effect of adopting new accounting standard, net of tax | — | — | — | (27.8) | — | — | — | — |
| Net income (loss) | 28.9 | (338.5) | 53.2 | 95.9 | 16.6 | 50.9 | 51.5 | 23.3 |
| Preferred dividends | 5.0 | 5.0 | 5.0 | 5.0 | 5.0 | 5.0 | 5.0 | 5.0 |
| Net income (loss) available to common shareholders | 23.9 | (343.5) | 48.2 | 90.9 | 11.6 | 45.9 | 46.5 | 18.3 |
| Earnings per common and common equivalent share: | | | | | | | | |
| Diluted operating income (loss) per common share | $ 0.33 | $ (6.65) | $ 0.92 | $ 1.08 | $ 0.54 | $ 1.06 | $ 1.07 | $ 1.14 |
| Diluted net income (loss) per common share | $ 0.46 | $ (6.67) | $ 0.93 | $ 1.76 | $ 0.23 | $ 0.90 | $ 0.92 | $ 0.36 |
| Dividends declared per common share | $ 0.28 | $ 0.28 | $ 0.28 | $ 0.26 | $ 0.26 | $ 0.26 | $ 0.26 | $ 0.26 |
| Common stock price range | | | | | | | | |
| High | $ 54.00 | $ 55.33 | $ 57.00 | $ 58.13 | $ 61.00 | $ 47.44 | $ 38.69 | $ 36.81 |
| Low | 46.00 | 34.10 | 47.75 | 45.85 | 49.06 | 34.94 | 35.25 | 28.75 |

# Independent Auditors' Report

To the Board of Directors and Shareholders of PartnerRe Ltd.

We have audited the accompanying consolidated balance sheets of PartnerRe Ltd. and subsidiaries (the "Company") as of December 31, 2001 and 2000, and the related consolidated statements of operations and comprehensive income, shareholders' equity and cash flows for each of the three years in the period ended December 31, 2001. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on the financial statements based on our audits.

We conducted our audits in accordance with auditing standards generally accepted in the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion such consolidated financial statements present fairly, in all material respects, the financial position of PartnerRe Ltd. and subsidiaries as of December 31, 2001 and 2000, and the results of their operations and their cash flows for each of the three years in the period ended December 31, 2001, in conformity with accounting principles generally accepted in the United States.

As discussed in Note 3(m) to the financial statements, the Company changed its method of accounting for derivative instruments and hedging activities on January 1, 2001 upon its adoption of newly issued Statement of Financial Accounting Standards No. 133, "Accounting for Derivative Instruments and Hedging Activities", as amended.

Deloitte & Touche

Hamilton, Bermuda
February 11, 2002

# Financial Reporting Responsibility

The management of PartnerRe Ltd. is responsible for the integrity of the financial information included in this annual report and for assuring that such information presents fairly the consolidated results of PartnerRe Ltd. The financial statements have been prepared in conformity with accounting principles that are generally accepted in the United States. The financial statements include amounts that are based on management's best estimates and judgments. The financial information presented elsewhere in this annual report is consistent with the financial statements.

The accounting systems and internal accounting controls of the Company are designed to provide reasonable assurance that transactions are executed in accordance with management's authorization, that the financial records are reliable for preparing financial statements and maintaining accountability for assets and that assets are safeguarded against losses from unauthorized use or disposition. Qualified staff throughout the Company maintain and monitor these internal accounting controls on an ongoing basis.

The Company strives to foster an ethical environment such that its affairs are conducted in accordance with the highest standards of business and personal conduct.

Deloitte & Touche, our independent auditors, have audited the financial statements of the Company, and their audit report is included on page 87. In this regard, in conducting their audits, the independent auditors have full access to all of the Company's records and to each member of management and the Audit Committee. Such audits are conducted in accordance with auditing standards generally accepted in the United States and include a review of internal controls, tests of transactions and other auditing procedures as they believe are necessary to express an opinion about the Company's financial statements.

The Audit Committee of the Board of Directors, which is composed solely of non-management directors, oversees management's fulfillment of its financial reporting responsibilities. Audit Committee activities are discussed on page 89 in the Audit Committee Chairman's Letter.

Patrick Thiele
President and Chief Executive Officer

Albert Benchimol
Chief Financial Officer

The Audit Committee of the Board of Directors is composed entirely of non-management directors. The Committee held four meetings during 2001.

The Audit Committee oversees management's fulfillment of its financial reporting responsibilities and also oversees the system of internal controls established by management. In fulfilling its responsibility, the Committee recommended to the Board of Directors, subject to shareholder approval, the selection of Deloitte & Touche as the Company's independent auditors. The Audit Committee discussed with representatives from Deloitte & Touche the overall scope and specific plans for their audit, as well as other matters required by the Securities and Exchange Commission. The Audit Committee has reviewed Deloitte & Touche's ability to act independently and has concluded that there are no auditor independence issues. The Committee has also discussed the Company's financial statements and adequacy of the Company's internal control structure.

The Committee met with management and representatives of Deloitte & Touche to discuss financial reporting and auditing matters. Representatives from Deloitte & Touche are given the opportunity to meet with the Audit Committee to discuss, without management present, the results of their audits, their evaluations of the Company's internal controls and the overall quality of the Company's financial reporting. Deloitte & Touche has access at all times to the Audit Committee.

Robert M. Baylis
Chairman, Audit Committee

Jan H. Holsboer
Member, Audit Committee

David T. McLaughlin
Member, Audit Committee

John A. Rollwagen
Member, Audit Committee

## PartnerRe Publications

All of PartnerRe's publications are available from our Bermuda office or through our website at www.partnerre.com

### PartnerResearch

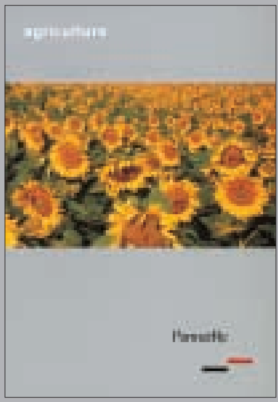
Conducting research in our areas of expertise and providing timely coverage on large loss events and their effects is an important part of our service. In 2001 we produced research reports on the use of satellites for flood loss estimation, the Nisqually Earthquake, and financial guarantee of construction projects. Please check our website for a full list of our research publications and ordering details.

### PartnerReviews

Our newsletter communicates our views on events in the world insurance and reinsurance markets, and news from within our group.

### Agriculture Brochure

A brochure about our enhanced agriculture services, addressing major issues and risk solutions.

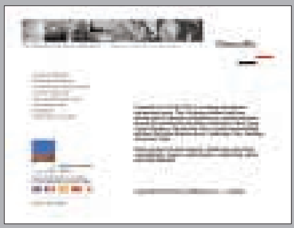


### PartnerRe CATalogue

PartnerRe provides a weekly summary of the natural catastrophes occurring around the world to our clients by E-mail.

### PartnerRe.com

PartnerRe information is accessible on the World Wide Web, located at www.partnerre.com.



## Executive Management

1 **Patrick Thiele**
President and CEO
PartnerRe Ltd.

2 **Scott Moore**
CEO, PartnerRe U.S.

3 **Albert Benchimol**
EVP and Chief Financial Officer,
PartnerRe Ltd.

4 **Mark Pabst**
EVP Corporate Affairs, PartnerRe Ltd.

5 **Graham Dimmock**
Deputy CEO, PartnerRe Global

6 **Bruno Meyenhofer**
CEO, PartnerRe Global

## Group Management

7 John Davidson
Investments

8 Werner Heiz
Information Technology

9 Celia Powell
Corporate Communications

10 Amanda Sodergren
Associate General Counsel

11 Harold Hoeg
Treasurer

12 Christine Patton
General Counsel

13 Edward Rand
Controller

14 Diana Wilson
Human Resources

## U.S. Management

15 John Adimari
Chief Financial Officer

16 Robin Williams
Chief Underwriting Officer

17 Cathy Hauck
Legal Counsel

18 John Murad
Chief Actuarial Officer

19 Marvin Pestcoe
Head of New Solutions

20 Carol-Ann O'Dea
Claims

21 Dennis Giannos
National and Regional Accounts

22 John Peppard
Program Business

23 Jean-Pierre Fillebeen
Specialty Lines

24 Michael Coca
Actuarial

25 Dave Moran
New Solutions

26 Karen Matrunich
New Solutions

Richard Sanford
Specialty Casualty
(not pictured)

## Global (Non-U.S.) Management

27 Marcel Kahn
Chief Financial Officer

28 Hugo Singer
Head of Reinsurance Operations

29 Kurt Angst
Chief Underwriting Officer

30 Christophe Kägi
Northern Europe

31 Patrick Delalleau
Central Europe

32 Salvatore Orlando
Latin America

33 Marus Iseli
Marine

34 Benjamin Weber
Aviation

35 Erich Kasten
Agriculture

36 Franz Wettach
Property

37 Eugen Balogh
Casualty

38 Jürg Buff
Engineering

39 Michael Gertsch
Specialty Property

40 Beatrix Münger
New Solutions

41 Joachim Schaller
Life and Health

42 Willi Schürch
Head of Catastrophe

43 Peter Filliger
Security

44 Franck Pinette
Head of Life and Health

45 François-Bernard Savelli
France-Belgium

46 Olivier Guiffart
Southern Europe

47 Jean-Noël Schoutteten
Japan and Korea

48 Pierre Laurent
Overseas

49 Laurent Hoquet
Energy

50 Emmanuel Clarke
Credit and Surety

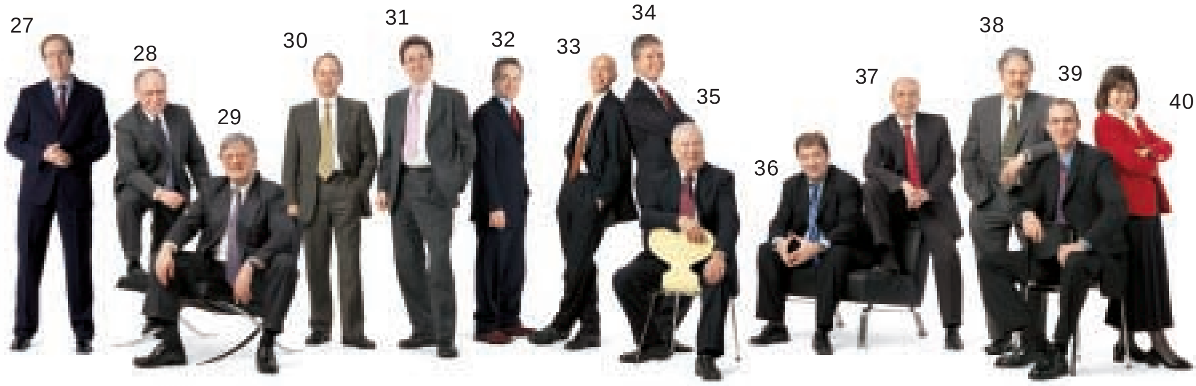
51 Pierre Michel
Life and Health

52 François Vilnet
Strategy, Planning and
Risk Management

53 Brian Secrett
Catastrophe

54 Patrick Lacourte
Canada

55 Emil Bergundthal
Asia (excl. Japan and Korea)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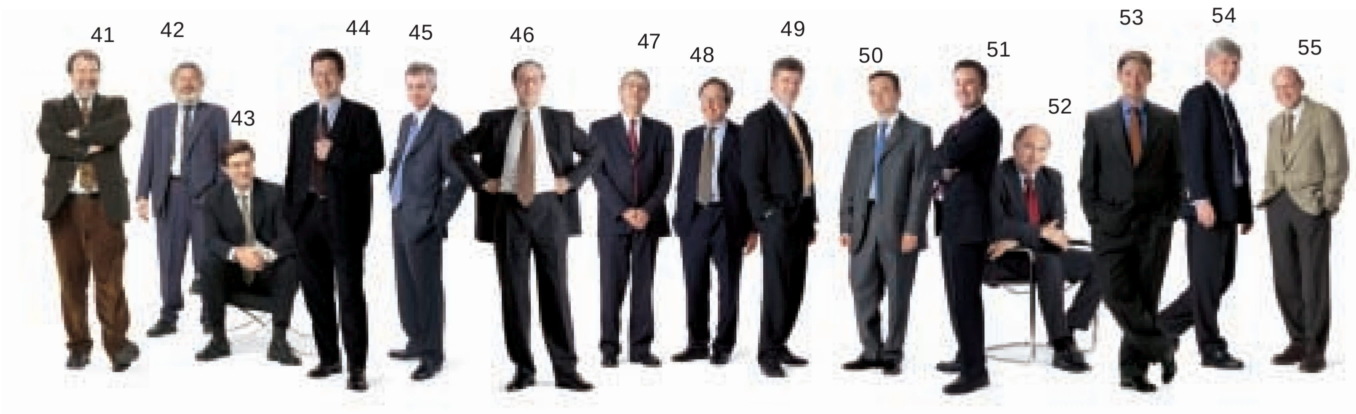
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22 23 24 25 26

## PartnerRe Employees

Vera Abati • Craig D. Addison • John N. Adimari • Gilles Agostini • Cathy Aicardi • Markus Aichinger • Anthony F. Albano • Chantal Albert • Claudia Albrecht • Helena Aldrich • Charles A. Allen • Jayne Allen • Scott Altstadt • Paula Alves • Magdalena Amat Garcia • Maria V. Amelio • Nathalie Andre • Georg Andrea • Caroline Angehrn • Kurt Angst • Michel Ansermet • Shiori Anzai • Felix Arbenz • Stella J. Assante • Isidra Aumont • Hélène Avedikian • Zahia-Zina Baccouche • Pia Bachmann • Bin Bai • Andreas Balg • Eugen Balogh • Francoise Barbier • Joseph Barbosa • Marie-Christine Barjon • David A. Barnett • Alain Barraud • Sophie Barre • Pascale Barriere • Philippe Bartolo • Dawn Barwood-Parent • Jennifer L. Basanese • Ghyslaine Batisse • Jean Pierre Bedoussac • Anna Barbara Bek • Rinat Bektleuov • Amin Belabou • Arlette Belard • Albert Benchimol • Sue Benson • Evelyne Berger • Denise L. Berger-Abouaf • Emil Bergundthal • Claude Bernard • Fabrice Berny (De) • Francis Berthoix • Gustavo Bethancourt • François Bianchi • Simone-Olivia Bigler • Markus Biner • Martine Binois • Peter Bitterlin • Beat Bitterlin • Roman Blank • Theodore R. Blank • Hervé Blumenthal • Mark E. Bohrer • Domenick M. Bonarrigo • Thierry Bony • Sophie Borrens • Christian Bosshard • Mary Bostic • Elisabete Bougis • Akim Boukdour • Valerie Boulley • Dorothea Boumezbar • Alain Bourdet • Pascal Bourquin • Estelle Boussendorffer • Didier Bouvet • Marco Bozzolo • Philip Bracco • Peter Brechbühler • Michel Breton • Richard Brewer • Herve Brice • James J. Brown • Jürg Buff • Kirk K. Bui • Fabienne Bui Dinh • Sonia Burchall • Marguerite Burger • Yvonne Bürgi-Zollinger • Peter Buser • Jean Pierre Buteau • Patricia Buteau • Diana Caba • Jean Pierre Caillard • Laurinda Calvario • Annina Martina Camenisch • Morgann Canny • Roman Cantieni • John A. 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DeCouto • Francine Degueret • Ana Del Mazo • Patrick Delalleau • Josette Delamare • Francoise Delattre • Thierry Delcourt • Chantal Delor • Katia Depuydt • Lucy DeSilva • John B. Dibuduo • François Dick • William Dick • Mariline Didierlaurent • Patricia Dietrich • Graham Dimmock • Christof Dobiess • Cheryl L. D'Onofrio • Damien Dorall • Myriam Dossche • Huong Douangphrachandr • Kevin Dougan • Robert R. Dragonetti • Marlène Dreano • David W. Drozd • Annick Drubin • Hervé Duke • Yvonne Dulong • Emmanuel Dumont • Claudie Dupuis • Monique Duquenne • Evelyne Duquesne • Lorna P. Duran • J. Wesley Durrett • Stefan Eichl • Natalie Eisenring • Atilla Erarslan • Katherine M. Ervin • Delphine Espeyte • Magda S. Ezzeldin • Denise Fahrni • Jieqiu Fan • Dana E. Farrington • Isabelle Fauche • Jean-Francois Faye • Larry J. Feringa • Elia Ferreira • Nancy A. Fico • Lisa A. 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Spinelli • Beatrice Staub • Anne Stefani • Daniela Steiner • Kim Stenild-Johansen • Renée Strasser • Renate Stucki • Charles Stutley • Wai Sung • Catherine Sutcliffe • Fabrice Suter • Lucinda Swain • Corrinn Swee • Rainer Syring • Corinne Tahri • Magdalena Temesi-Cano • Ursula Thalmann • Guillaume Theulieras • Patrick Thiele • Richard Thomas • Sara Thomas • Gerald Thomas • Jean-Luc Thomas • Gerard Tieb • Manfred Tischhauser • Dom Tobey • Edith Toel-Fessler • Pierre Tognetti • Florence Tourneaux • Astrid Trachsel • Christoph Trachsel • Christian Trachsler • Violet M. Trinidad • Esra Tug • Michele Turner • Eija Tuulensuu • Soledad Valarezo Haller • Terence van Niekerk • Danny Vega • Elizabeth Veloso • Renato Verderame • Sylvie Veyrent • Reto Villiger • François Vilnet • Francoise Visiedo • Laurence Vitte • Despina Vladu • Christian Vogel • Christoph Vogt • Christiane Vulliez • Michel Vulliez • David Stanley Waddell • Mark Waddington • Paula-Mae Wade • Hans Walder • David W. Warren • Didier Warzee • Chantal Wasterlain • Jean Claude Wasterlain • Benjamin Weber • Caroline Wee • Franz Wettach • Anthony M. Wheeler • Denise Whitter • Robin M. Williams • Diana Wilson • William M. Winnis • Lukas Wissler • Paul Wodak • John B. Wong • Bella Wong • Samantha J. Wood • Urs Wüst • Linda Yang • Susan Yap • Chin Yap • Robert Zahner • Martin Zeller • Michael A. Zielin • Arkadiusz Ziomek • Doris Zizi • Åsa Zuill • Irena Zumbrunn • Pius Zuppiger

## Board of Directors

**David T. McLaughlin**
Chairman
Orion Safety Products
New Hampshire, USA

**Patrick Thiele**
President & Chief Executive Officer
PartnerRe Ltd.
Pembroke, Bermuda

**Robert Baylis**
Vice Chairman (Retired)
CS First Boston
Connecticut, USA

**Jan H. Holsboer**
Executive Board Member (Retired)
ING Group
Huizen, Netherlands

**Sir Robert B. Horton**
Chairman (Retired)
Railtrack
London, England
and Former Chariman and CEO
British Petroleum

**Walter B. Kielholz**
Chief Executive Officer
Swiss Reinsurance Company
Zurich, Switzerland

**Lucio Stanca**
Chairman (Retired)
IBM Europe Middle East Africa
Paris, France

**Rémy Sautter**
Chairman & Chief Executive Officer
RTL Radio
Paris, France

**John A. Rollwagen**
Principal
Quatris Fund
Minnesota, USA
and Former Chairman and CEO
Cray Research Inc.

## Corporate Secretary

**Christine Patton**
General Counsel
PartnerRe Ltd.

## Shareholders' Meeting

The 2001 Annual General Meeting will be held on May 21, 2002, in Pembroke, Bermuda.

## Independent Accountants

Deloitte & Touche
Church & Parliament Streets
Hamilton, Bermuda

## Outside Counsel

Davis Polk & Wardwell
450 Lexington Avenue
New York, New York 10017

Appleby, Spurling & Kempe
41 Cedar Avenue
Hamilton, Bermuda

## Market Information

The following PartnerRe shares (with their related symbols) are traded on the New York Stock Exchange:

| | |
|---|---|
| Common shares | "PRE" |
| 8% Series A cumulative preferred shares | "PRE-PrA" |
| 8% PEPS Units | "PRE-PrP" |
| PartnerRe Capital Trust I– 7.9% cumulative preferred shares | "PRE-PrT" |

As of March 15, 2002, the approximate number of common shareholders was 6,500.

## Stock Transfer & Dividend Agent

Equiserve Trust Company, N.A.
150 Royall Street
Canton, Massachusetts 02021

## Additional Information

PartnerRe's Annual Report on Form 10-K, as filed with The Securities and Exchange Commission, is available at the Corporate Headquarters in Bermuda.

## Corporate Headquarters

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## Principal Offices

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Telefax (1 203) 485 4300

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Telefax (33 1) 44 01 17 80

### Zurich

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Switzerland
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## Branch Offices

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## Representative Offices

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Telefax (82) 2 733 1028

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### Auckland

### Buenos Aires

### Cambridge

### Santiago

www.partnerre.com