PARTNERRE LTD
Form 10-Q
August 09, 2005
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UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 10-Q

QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE

SECURITIES EXCHANGE ACT OF 1934

For the quarterly period ended

June 30, 2005

Commission file number I-14536

PartnerRe Ltd.

(Exact name of Registrant as specified in its charter)

Bermuda	**Not Applicable**
(State or other Jurisdiction of	**(I.R.S. Employer**
Incorporation or Organization)	**Identification No.)**

96 Pitts Bay Road

Pembroke, Bermuda	**HM 08**
(Address of principal executive offices)	**(Zip Code)**

(441) 292-0888

Registrant s telephone number, including area code

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

Indicate by check mark whether the registrant is an accelerated filer (as defined in Exchange Act Rule 12b-2). Yes x No ¨

The number of the Registrant s common shares (par value $1.00 per share) outstanding as of August 2, 2005 was 54,557,514.

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Part I Financial Information

Item 1. Financial Statements

REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

To the Board of Directors and Shareholders of PartnerRe Ltd.

We have reviewed the accompanying condensed consolidated balance sheet of PartnerRe Ltd. and subsidiaries as of June 30, 2005, and the related condensed consolidated statements of operations and comprehensive income for the three-month and six-month periods ended June 30, 2005 and 2004 and of shareholders equity and cash flows for the six-month periods ended June 30, 2005 and 2004. These interim condensed consolidated financial statements are the responsibility of the Company s management.

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

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

We have previously audited, in accordance with standards of the Public Company Accounting Oversight Board (United States), the consolidated balance sheet of PartnerRe Ltd. and subsidiaries as of December 31, 2004 and the related consolidated statements of operations and comprehensive income, shareholders equity and cash flows for the year then ended (not presented herein); and in our report dated March 7, 2005, we expressed an unqualified opinion on those consolidated financial statements, which included an explanatory paragraph relating to the Company s changes in the methods of accounting for Mandatorily Redeemable Preferred Securities and Trust Preferred Securities. In our opinion, the information set forth in the accompanying condensed consolidated balance sheet as of December 31, 2004 is fairly stated, in all material respects, in relation to the consolidated balance sheet from which it has been derived.

Deloitte & Touche

Hamilton, Bermuda

July 21, 2005

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PartnerRe Ltd.

Unaudited Consolidated Balance Sheets

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

	June 30, 2005	December 31, 2004
Assets		
Investments and cash:		
Fixed maturities, available for sale, at fair value (amortized cost: 2005, $6,058,294; 2004, $6,611,683)	**$ 6,195,453**	$ 6,723,580
Short-term investments, available for sale, at fair value (amortized cost: 2005, $161,751; 2004, $28,691)	**161,707**	28,694
Equities, available for sale, at fair value (cost: 2005, $963,220; 2004, $887,006)	**1,053,667**	1,010,777
Trading securities, at fair value (cost: 2005, $155,326; 2004, $102,371)	**159,574**	108,402
Cash and cash equivalents, at fair value, which approximates amortized cost	**1,035,856**	436,003
Other invested assets	**89,941**	90,268
Total investments and cash	**8,696,198**	8,397,724
Accrued investment income	**139,679**	151,871
Reinsurance balances receivable	**1,576,907**	1,356,771
Reinsurance recoverable on paid and unpaid losses	**185,874**	180,710
Funds held by reinsured companies	**1,038,864**	1,100,107
Deferred acquisition costs	**466,457**	409,332
Deposit assets	**296,249**	299,408
Net tax assets	**32,280**	81,235
Goodwill	**429,519**	429,519
Other	**106,903**	104,564
Total assets	**$ 12,968,930**	$ 12,511,241
Liabilities		
Unpaid losses and loss expenses	**$ 5,768,570**	$ 5,766,629
Policy benefits for life and annuity contracts	**1,215,861**	1,277,101
Unearned premiums	**1,539,266**	1,194,778
Funds held under reinsurance treaties	**18,660**	21,875
Deposit liabilities	**349,697**	344,202
Long-term debt	**220,000**	220,000
Net payable for securities purchased	**50,063**	1,580
Accounts payable, accrued expenses and other	**118,938**	127,026
Debt related to trust preferred securities	**206,186**	206,186
Total liabilities	**9,487,241**	9,159,377
Shareholders Equity		
Common shares (par value $1.00, issued and outstanding: 2005, 54,643,295; 2004, 54,854,398)	**54,643**	54,854
Series C cumulative preferred shares (par value $1.00, issued and outstanding: 2005 and 2004, 11,600,000; aggregate liquidation preference: 2005 and 2004, $290,000,000)	**11,600**	11,600
Series D cumulative preferred shares (par value $1.00, issued and outstanding: 2005 and 2004, 9,200,000; aggregate liquidation preference: 2005 and 2004, $230,000,000)	**9,200**	9,200
Additional paid-in capital	**1,274,909**	1,288,292
Deferred compensation	**(153)**	(199)
Accumulated other comprehensive income:		

Net unrealized gains on investments (net of tax amounting to: 2005, $39,240; 2004, $40,429)	**186,258**	194,575
Currency translation adjustment	**11,768**	72,510
Retained earnings	**1,933,464**	1,721,032
Total shareholders equity	**3,481,689**	3,351,864
Total liabilities and shareholders equity	**$ 12,968,930**	$ 12,511,241

See accompanying Notes to Unaudited Condensed Consolidated Financial Statements.

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PartnerRe Ltd.

Unaudited Consolidated Statements of Operations and Comprehensive Income

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

	For the three months ended June 30, 2005	For the three months ended June 30, 2004	For the six months ended June 30, 2005	For the six months ended June 30, 2004
Revenues				
Gross premiums written	$ 767,457	$ 841,934	$ 2,213,393	$ 2,395,556
Net premiums written	$ 763,855	$ 840,721	$ 2,178,724	$ 2,364,422
Decrease (increase) in unearned premiums	116,404	114,114	(402,053)	(516,800)
Net premiums earned	880,259	954,835	1,776,671	1,847,622
Net investment income	90,224	74,926	177,077	148,388
Net realized investment gains	55,588	8,042	92,970	45,856
Other (loss) income	(1,064)	3,452	11,818	6,366
Total revenues	1,025,007	1,041,255	2,058,536	2,048,232
Expenses				
Losses and loss expenses and life policy benefits	546,171	619,669	1,160,036	1,189,527
Acquisition costs	203,426	226,817	413,351	431,148
Other operating expenses	74,500	67,884	147,190	135,446
Interest expense	7,363	10,168	14,691	20,336
Net foreign exchange losses (gains)	2,456	58	2,442	(1,139)
Total expenses	833,916	924,596	1,737,710	1,775,318
Income before taxes and interest in equity investment	191,091	116,659	320,826	272,914
Income tax expense (benefit)	33,497	(2,506)	54,289	8,105
Interest in earnings of equity investment	2,315	670	4,787	670
Net Income	159,909	119,835	271,324	265,479
Preferred dividends	8,631	4,894	17,263	9,788
Net income available to common shareholders	$ 151,278	$ 114,941	$ 254,061	$ 255,691
Comprehensive income (loss), net of tax				
Net income	$ 159,909	$ 119,835	$ 271,324	$ 265,479
Change in net unrealized gains on investments	82,481	(138,405)	(8,317)	(80,462)
Change in currency translation adjustment	(35,308)	(6,376)	(60,742)	(12,567)
Comprehensive income (loss)	$ 207,082	$ (24,946)	$ 202,265	$ 172,450
Per share data				
Net income per common share:				
Basic net income	$ 2.76	$ 2.14	$ 4.63	$ 4.76

Diluted net income	$	2.72	$	2.12	$	4.56	$	4.71
Weighted average number of common shares outstanding		54,791.5		53,791.5		54,873.6		53,737.5
Weighted average number of common and common share equivalents outstanding		55,698.7		54,339.3		55,764.5		54,305.9

See accompanying Notes to Unaudited Condensed Consolidated Financial Statements.

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PartnerRe Ltd.

Unaudited Consolidated Statements of Shareholders Equity

(Expressed in thousands of U.S. dollars)

	Common shares	Preferred shares	Additional paid-in capital	Deferred compensation	Net unrealized gains on investments, net of tax	Currency translation adjustment	Retained earnings	Total shareholders equity
Balance at December 31, 2004	$ 54,854	$ 20,800	$ 1,288,292	$ (199)	$ 194,575	$ 72,510	$ 1,721,032	$ 3,351,864
Issue of common shares	426		24,420					24,846
Repurchase of common shares	(637)		(37,803)					(38,440)
Amortization of deferred compensation				46				46
Net unrealized losses for period					(8,317)			(8,317)
Currency translation adjustment						(60,742)		(60,742)
Net income							271,324	271,324
Dividends on common shares							(41,629)	(41,629)
Dividends on preferred shares							(17,263)	(17,263)
Balance at June 30, 2005	$ 54,643	$ 20,800	$ 1,274,909	$ (153)	$ 186,258	$ 11,768	$ 1,933,464	$ 3,481,689

See accompanying Notes to Unaudited Condensed Consolidated Financial Statements.

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PartnerRe Ltd.

Unaudited Consolidated Statements of Shareholders Equity

(Expressed in thousands of U.S. dollars)

	Common shares	Preferred shares	Additional paid-in capital	Deferred compensation	Net unrealized gains on investments, net of tax	Currency translation adjustment	Retained earnings	Total shareholders equity
Balance at December 31, 2003	$ 53,742	$ 11,600	$ 1,023,167	$ (125)	$ 166,492	$ 16,657	$ 1,322,859	$ 2,594,392
Issue of common shares	109		4,753					4,862
Repurchase of common shares	(163)		(8,954)					(9,117)
Adjustment on purchase contracts for common shares			(2,390)					(2,390)
Issue of restricted common shares	5		271	(276)				
Amortization of deferred compensation				99				99
Net unrealized losses for period					(80,462)			(80,462)
Currency translation adjustment						(12,567)		(12,567)
Net income							265,479	265,479
Dividends on common shares							(36,578)	(36,578)
Dividends on preferred shares							(9,788)	(9,788)
Balance at June 30, 2004	$ 53,693	$ 11,600	$ 1,016,847	$ (302)	$ 86,030	$ 4,090	$ 1,541,972	$ 2,713,930

See accompanying Notes to Unaudited Condensed Consolidated Financial Statements.

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PartnerRe Ltd.

Unaudited Consolidated Statements of Cash Flows

(Expressed in thousands of U.S. dollars)

	For the six months ended June 30, 2005	For the six months ended June 30, 2004
Cash Flows from Operating Activities		
Net income	$ 271,324	$ 265,479
Adjustments to reconcile net income to net cash provided by operating activities:		
Accrual of net premium on investments	23,264	24,139
Net realized investment gains	(92,970)	(45,856)
Changes in:		
Unearned premiums	402,053	516,800
Reinsurance balances receivable	(315,460)	(451,883)
Unpaid losses and loss expenses and life policy benefits	331,061	372,148
Net tax assets	45,322	2,866
Other changes in assets and liabilities	(74,795)	(82,965)
Net sales of trading securities	10,055	23,762
Other items, net	2,324	(2,956)
Net cash provided by operating activities	602,178	621,534
Cash Flows from Investing Activities		
Sales of fixed maturities	2,519,685	4,487,018
Redemptions of fixed maturities	402,303	302,765
Purchases of fixed maturities	(2,672,218)	(4,331,564)
Net (purchases) sales of short-term investments	(143,075)	30,925
Sales of equities	1,800,634	156,530
Purchases of equities	(1,815,235)	(173,942)
Other, net	(7,169)	(71,612)
Net cash provided by investing activities	84,925	400,120
Cash Flows from Financing Activities		
Cash dividends paid to shareholders	(59,556)	(46,366)
Net repurchase of common shares	(20,458)	(3,979)
Adjustment on purchase contract for common shares		(2,390)
Net cash used in financing activities	(80,014)	(52,735)
Effect of foreign exchange rate changes on cash	(7,236)	(4,044)
Increase in cash and cash equivalents	599,853	964,875
Cash and cash equivalents beginning of period	436,003	558,692
Cash and cash equivalents end of period	$ 1,035,856	$ 1,523,567
Supplemental Cash Flow Information:		
Net taxes paid	$ (9,030)	$ (11,547)

Interest paid	$	(14,606)	$	(20,252)

See accompanying Notes to Unaudited Condensed Consolidated Financial Statements.

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PartnerRe Ltd.

Notes to Unaudited Condensed Consolidated Financial Statements

1. Organization

PartnerRe Ltd. (the Company) provides reinsurance on a worldwide basis through its wholly owned subsidiaries, Partner Reinsurance Company Ltd. (Partner Reinsurance Company), PartnerRe SA and Partner Reinsurance Company of the U.S. (PartnerRe U.S.). Risks reinsured include, but are not limited to property, casualty, motor, agriculture, aviation/space, catastrophe, credit/surety, engineering/energy, marine, special risk, other lines and life/annuity and health. The Company also offers alternative risk products that include weather and credit protection to financial, industrial and service companies on a worldwide basis.

2. Significant Accounting Policies

The accompanying condensed consolidated financial statements are unaudited and have been prepared by the Company pursuant to the rules and regulations of the United States Securities and Exchange Commission. Certain information and footnote disclosures normally included in financial statements prepared in accordance with accounting principles generally accepted in the United States (U.S. GAAP) have been condensed or omitted pursuant to such rules and regulations, although the Company believes that the disclosures are adequate to ensure the information presented is not misleading. The preparation of financial statements in conformity with U.S. GAAP requires Management to make estimates and assumptions that affect the reported amounts of assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. While Management believes that the amounts included in the condensed consolidated financial statements reflect the best estimates and assumptions, actual results could differ from those estimates. The Company s principal estimates include:

- Unpaid losses and loss expenses, including policy benefits for life and annuity contracts;
- Gross and net premiums written and net premiums earned;
- Recoverability of deferred acquisition costs;
- Determination of other-than-temporary impairment of investments;
- Recoverability of tax loss carry-forwards;
- Valuation of goodwill; and
- Valuation of certain derivative financial instruments.

In the opinion of Management, all adjustments (which include normal recurring adjustments) necessary for a fair presentation of results for the interim periods have been made. The results for the six-month period ended June 30, 2005 are not necessarily indicative of results to be expected for the full fiscal year. These condensed consolidated financial statements should be read in conjunction with the consolidated financial statements and notes thereto included in the Company s Annual Report on Form 10-K for the year ended December 31, 2004. To facilitate comparison of information across periods, certain reclassifications have been made to prior year amounts to conform to the current year s presentation.

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PartnerRe Ltd.

Notes to Unaudited Condensed Consolidated Financial Statements

3. Stock Options

The following table illustrates the net effect on net income available to common shareholders and net income per share as if the fair value provisions of Statement of Financial Accounting Standards (SFAS) 123 Accounting for Stock-Based Compensation (SFAS 123), as amended by SFAS 148 Accounting for Stock-Based Compensation-Transition and Disclosure , had been applied retroactively to all outstanding equity-based compensation for the three-month and six-month periods ended June 30, 2005 and 2004 (in thousands of U.S. dollars, except per share data):

	For the three months ended June 30, 2005	For the three months ended June 30, 2004	For the six months ended June 30, 2005	For the six months ended June 30, 2004
Net income available to common shareholders:				
As reported	$ 151,278	$ 114,941	$ 254,061	$ 255,691
Add: Stock-related compensation expense included in net income as reported	$ 2,337	$ 2,264	$ 4,491	$ 3,495
Less: Total stock-related compensation expense determined under fair-value method for all grants	$ 3,070	$ 3,632	$ 6,517	$ 6,660
Pro forma	$ 150,545	$ 113,573	$ 252,035	$ 252,526
Net income per common share:				
Basic				
As reported	$ 2.76	$ 2.14	$ 4.63	$ 4.76
Pro forma	$ 2.75	$ 2.11	$ 4.59	$ 4.70
Diluted				
As reported	$ 2.72	$ 2.12	$ 4.56	$ 4.71
Pro forma	$ 2.70	$ 2.09	$ 4.52	$ 4.65
Weighted average assumptions used:				
Risk-free interest rate	4.2%	4.5%	4.1%	3.7%
Expected life	7 years	7 years	7 years	7 years
Expected volatility	25%	25%	25%	25%
Dividend yield	2%	2%	2%	2%

4. Investments

Starting in the first quarter of 2005, net payable for securities purchased includes equity securities sold but not yet purchased, which represent sales of securities not owned at the time of sale. The obligations arising from such transactions are carried at fair value, based on quoted market prices, with the change in fair value included in net realized investment gains and losses in the statement of operations. Accrued dividends payable under these obligations are included in net investment income in the statement of operations. The Company had no securities sold but not yet purchased prior to the first quarter of 2005.

5. Recent Accounting Pronouncements

FSP FAS 115-1

At its June 29, 2005 meeting, the FASB directed the staff to issue proposed FSP EITF 03-1-a, Implementation Guidance for the Application of Paragraph 16 of EITF 03-1, as final. The final FSP will supersede EITF 03-1, The Meaning of Other-Than-Temporary Impairment and Its Application to Certain Investments, and EITF D-44, Recognition of Other-Than-Temporary Impairment upon the Planned Sale of a Security Whose Cost Exceeds Fair Value . The final FSP (retitled FSP FAS 115-1, The Meaning of Other-Than-Temporary Impairment and Its Application to Certain Investments) will replace the guidance set forth in paragraphs 10 18 of EITF 03-1 with references to existing other-than-temporary impairment guidance. FSP FAS 115-1 will codify the guidance set forth in EITF D-44 and clarify that an investor should recognize an impairment loss no later than when the impairment is deemed other-than-temporary, even if a decision to sell has not been made. The FASB decided that FSP FAS 115-1 would be effective for other-than-temporary impairment analysis conducted in periods beginning after September 15, 2005. The adoption of FSP FAS 115-1 is not expected to have a significant impact on the net income or equity of the Company.

PartnerRe Ltd.

Notes to Unaudited Condensed Consolidated Financial Statements

SFAS 123(R)

In December 2004, the FASB issued Statement No. 123(R) (Revised 2004) Share-Based Payment (SFAS 123(R). This statement will require compensation costs related to share-based payment transactions to be recognized in the financial statements. The amount of compensation cost will be measured based on the grant-date fair value of the awards issued and will be recognized over the period that an employee provides services in exchange for the award or the requisite service period. The grant-date fair value of employee share options and similar instruments will be estimated using option-pricing models adjusted for the unique characteristics of the instruments. SFAS 123(R) will apply to all awards granted after the required effective date and to awards modified, repurchased or cancelled after that date. SFAS 123(R) was originally to be effective for the first interim or annual reporting period beginning after June 15, 2005. The Securities and Exchange Commission announced in April 2005 a new rule that allows companies to implement SFAS 123(R) at the beginning of their next fiscal year, instead of the next interim period, that begins after June 15, 2005. The Company plans to adopt SFAS 123(R) as of January 1, 2006. The adoption of SFAS 123(R) is not expected to have a significant impact on the net income or equity of the Company.

6. Recent Development

The Company has received subpoenas from the office of the New York Attorney General (NYAG) and the SEC that seek information relating to the Company s investment in Channel Re and from the United States Attorney for the Southern District of New York requesting information relating to the Company s finite reinsurance products. In addition, the Company s wholly owned subsidiary, Partner Reinsurance Company of the U.S, has received a subpoena from the Florida Office of Insurance Regulation requesting information in connection with its investigation of insurance industry practices related to finite reinsurance activities. The Company is cooperating with these requests for information.

7. Segment Information

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

The U.S. P&C sub-segment includes property, casualty and motor risks generally originating in the United States and written by PartnerRe U.S. The Global (Non-U.S.) P&C sub-segment includes property, casualty and motor risks generally originating outside of the United States, written by Partner Reinsurance Company and PartnerRe SA. The Worldwide Specialty sub-segment is comprised of business that is generally considered to be specialized due to the sophisticated technical underwriting required to analyze risks, and is global in nature, inasmuch as appropriate risk management for these lines requires a globally diversified portfolio of risks. This sub-segment consists of several lines of business for which the Company believes it has developed specialized knowledge and underwriting capabilities. These lines of business include agriculture, aviation/space, catastrophe, credit/surety, engineering/energy, marine, special risk and other lines. The ART segment includes structured risks, structured finance and weather-related products, and since the second quarter of 2004, includes the Company s share of Channel Re s net income. The Life segment includes life, health and annuity lines of business.

PartnerRe Ltd.

Notes to Unaudited Condensed Consolidated Financial Statements

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

Management measures results for the Non-life segment on the basis of the loss ratio , acquisition ratio , technical ratio , other operating expense ratio and combined ratio. The loss ratio is obtained by dividing losses and loss expenses by net premiums earned, the acquisition ratio is obtained by dividing acquisition costs by net premiums earned and the other operating expense ratio is obtained by dividing other operating expenses by net premiums earned. The technical ratio is the sum of the loss and acquisition ratios. The combined ratio is the sum of the technical and other operating expense ratios. Management measures results for the Non-life sub-segments on the basis of the loss ratio, acquisition ratio and technical ratio. Management measures results for the Life segment on the basis of the allocated underwriting result , which includes revenues from net premiums earned and allocated net investment income for Life, and expenses from losses and loss expenses and life policy benefits, acquisition costs and other operating expenses. Management measures results for the ART segment on the basis of the underwriting result , which includes revenues from net premiums earned, other income, net investment income for ART, acquisition costs, other operating expenses and the interest in earnings of equity investment, which represents the Company s share of Channel Re s net income.

For each of the segments and sub-segments presented, premiums 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 the gross and net premiums written is attributable to the cost of retrocession protection, as the Company selectively purchases retrocession protection as part of its overall risk management process.

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PartnerRe Ltd.

Notes to Unaudited Condensed Consolidated Financial Statements

The following tables provide a summary of the segment revenues and results for the six-month and three-month periods ended June 30, 2005 and 2004 (in millions of U.S dollars except ratios):

Segment Information

For the six months ended June 30, 2005

	US P&C	Global (Non - US P&C)	Worldwide Specialty	Total Non-Life Segment	ART Segment (A)	Life Segment	Corporate	Total
Gross premiums written	$ 461	$ 589	$ 920	$ 1,970	$ 13	$ 230	$	$ 2,213
Net premiums written	$ 462	$ 587	$ 895	$ 1,944	$ 13	$ 222	$	$ 2,179
Increase in unearned premiums	(39)	(130)	(215)	(384)	(8)	(11)		(403)
Net premiums earned	$ 423	$ 457	$ 680	$ 1,560	$ 5	$ 211	$	$ 1,776
Losses and loss expenses and life policy benefits	(304)	(308)	(386)	(998)		(162)		(1,160)
Acquisition costs	(102)	(113)	(141)	(356)	(1)	(56)		(413)
Technical result	**$ 17**	**$ 36**	**$ 153**	**$ 206**	**$ 4**	**$ (7)**	**$**	**$ 203**
Other income	n/a	n/a	n/a		12			12
Other operating expenses	n/a	n/a	n/a	(102)	(6)	(11)	(28)	(147)
Underwriting result	**n/a**	**n/a**	**n/a**	**$ 104**	**$ 10**	**$ (18)**	**n/a**	**$ 68**
Net investment income	n/a	n/a	n/a	n/a		25	152	177
Allocated underwriting result (6)	**n/a**	**n/a**	**n/a**	**n/a**	**n/a**	**$ 7**	**n/a**	**n/a**
Net realized investment gains	n/a	n/a	n/a	n/a	n/a	n/a	93	93
Interest expense	n/a	n/a	n/a	n/a	n/a	n/a	(15)	(15)
Net foreign exchange losses	n/a	n/a	n/a	n/a	n/a	n/a	(3)	(3)
Income tax expense	n/a	n/a	n/a	n/a	n/a	n/a	(54)	(54)
Interest in earnings of equity investment	n/a	n/a	n/a	n/a	5	n/a	n/a	5
Net income	**n/a**	**n/a**	**n/a**	**n/a**	**n/a**	**n/a**	**n/a**	**$ 271**
Loss ratio (1)	71.9%	67.4%	56.7%	63.9%				
Acquisition ratio (2)	24.0	24.8	20.8	22.9				

Technical ratio (3)	95.9%	92.2%	77.5%	86.8%
Other operating expense ratio (4)				6.5
Combined ratio (5)				93.3%

(A) The Company reports its share of the results of Channel Re on a one-quarter lag. The 2005 period includes the Company s share of Channel Re s net income in the amount of $4.8 million for the period of October 2004 to March 2005 while the 2004 period includes the Company s share of Channel Re s net income in the amount of $0.7 million for the period of February (when Channel Re commenced business) to March 2004.

(1) Loss ratio is obtained by dividing losses and loss expenses by net premiums earned.

(2) Acquisition ratio is obtained by dividing acquisition costs by net premiums earned.

(3) Technical ratio is defined as the sum of the loss ratio and the acquisition ratio.

(4) Other operating expense ratio is obtained by dividing other operating expenses by net premiums earned.

(5) Combined ratio is the sum of the technical ratio and the other operating expense ratio.

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

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PartnerRe Ltd.

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Segment Information

For the six months ended June 30, 2004

	US P&C	Global (Non - US P&C)	Worldwide Specialty	Total Non-Life Segment	ART Segment (A)	Life Segment	Corporate	Total
Gross premiums written	$ 577	$ 666	$ 956	$ 2,199	$ 3	$ 194	$	$ 2,396
Net premiums written	$ 577	$ 666	$ 932	$ 2,175	$ 2	$ 187	$	$ 2,364
Increase in unearned premiums	(120)	(181)	(206)	(507)		(9)		(516)
Net premiums earned	$ 457	$ 485	$ 726	$ 1,668	$ 2	$ 178	$	$ 1,848
Losses and loss expenses and life policy benefits	(334)	(370)	(346)	(1,050)		(140)		(1,190)
Acquisition costs	(95)	(124)	(161)	(380)		(51)		(431)
Technical result	**$ 28**	**$ (9)**	**$ 219**	**$ 238**	**$ 2**	**$ (13)**	**$**	**$ 227**
Other income	n/a	n/a	n/a		6			6
Other operating expenses	n/a	n/a	n/a	(96)	(8)	(12)	(20)	(136)
Underwriting result	**n/a**	**n/a**	**n/a**	**$ 142**	**$**	**$ (25)**	**n/a**	**$ 97**
Net investment income	n/a	n/a	n/a	n/a		21	127	148
Allocated underwriting result (6)	**n/a**	**n/a**	**n/a**	**n/a**	**n/a**	**$ (4)**	**n/a**	**n/a**
Net realized investment gains	n/a	n/a	n/a	n/a	n/a	n/a	46	46
Interest expense	n/a	n/a	n/a	n/a	n/a	n/a	(20)	(20)
Net foreign exchange gains	n/a	n/a	n/a	n/a	n/a	n/a	1	1
Income tax expense	n/a	n/a	n/a	n/a	n/a	n/a	(8)	(8)
Interest in earnings of equity investment	n/a	n/a	n/a	n/a	1	n/a	n/a	1
Net income	**n/a**	**n/a**	**n/a**	**n/a**	**n/a**	**n/a**	**n/a**	**$ 265**
Loss ratio (1)	73.1%	76.2%	47.7%	63.0%				
Acquisition ratio (2)	20.9	25.6	22.1	22.7				
Technical ratio (3)	94.0%	101.8%	69.8%	85.7%				
Other operating expense ratio (4)				5.8				
Combined ratio (5)				91.5%				

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PartnerRe Ltd.

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Segment Information

For the three months ended June 30, 2005

	US P&C	Global (Non - US P&C)	Worldwide Specialty	Total Non-Life Segment	ART Segment [(A)]	Life Segment	Corporate	Total
Gross premiums written	$ 150	$ 156	$ 345	$ 651	$ 7	$ 109	$	$ 767
Net premiums written	$ 150	$ 157	$ 344	$ 651	$ 7	$ 106	$	$ 764
Decrease (increase) in unearned premiums	51	58	6	115	(4)	5		116
Net premiums earned	$ 201	$ 215	$ 350	$ 766	$ 3	$ 111	$	$ 880
Losses and loss expenses and life policy benefits	(142)	(157)	(166)	(465)		(81)		(546)
Acquisition costs	(48)	(51)	(71)	(170)		(33)		(203)
Technical result	**$ 11**	**$ 7**	**$ 113**	**$ 131**	**$ 3**	**$ (3)**	**$**	**$ 131**
Other loss	n/a	n/a	n/a		(1)			(1)
Other operating expenses	n/a	n/a	n/a	(49)	(4)	(6)	(16)	(75)
Underwriting result	**n/a**	**n/a**	**n/a**	**$ 82**	**$ (2)**	**$ (9)**	**n/a**	**$ 55**
Net investment income	n/a	n/a	n/a	n/a		13	77	90
Allocated underwriting result [(6)]	**n/a**	**n/a**	**n/a**	**n/a**	**n/a**	**$ 4**	**n/a**	**n/a**
Net realized investment gains	n/a	n/a	n/a	n/a	n/a	n/a	56	56
Interest expense	n/a	n/a	n/a	n/a	n/a	n/a	(7)	(7)
Net foreign exchange losses	n/a	n/a	n/a	n/a	n/a	n/a	(3)	(3)
Income tax expense	n/a	n/a	n/a	n/a	n/a	n/a	(33)	(33)
Interest in earnings of equity investment	n/a	n/a	n/a	n/a	2	n/a	n/a	2
Net income	**n/a**	**n/a**	**n/a**	**n/a**	**n/a**	**n/a**	**n/a**	**$ 160**
Loss ratio [(1)]	70.7%	73.0%	47.5%	60.7%				
Acquisition ratio [(2)]	23.7	23.9	20.4	22.3				
Technical ratio [(3)]	94.4%	96.9%	67.9%	83.0%				
Other operating expense ratio [(4)]				6.4				
Combined ratio [(5)]				89.4%				

(A) The Company reports its share of the results of Channel Re on a one-quarter lag. The 2005 period includes the Company s share of Channel Re s net income in the amount of $2.3 million for the period of January to March 2005 while the 2004 period includes the Company s share of Channel Re s net income in the amount of $0.7 million for the period of February (when Channel Re commenced business) to March 2004.

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PartnerRe Ltd.

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Segment Information

For the three months ended June 30, 2004

	US P&C	Global (Non - US P&C)	Worldwide Specialty	Total Non-Life Segment	ART Segment (A)	Life Segment	Corporate	Total
Gross premiums written	$ 201	$ 197	$ 337	$ 735	$ 2	$ 105	$	$ 842
Net premiums written	$ 201	$ 197	$ 337	$ 735	$ 2	$ 104	$	$ 841
Decrease (increase) in unearned premiums	33	33	45	111	(1)	4		114
Net premiums earned	$ 234	$ 230	$ 382	$ 846	$ 1	$ 108	$	$ 955
Losses and loss expenses and life policy benefits	(168)	(183)	(183)	(534)		(86)		(620)
Acquisition costs	(53)	(60)	(87)	(200)		(27)		(227)
Technical result	**$ 13**	**$ (13)**	**$ 112**	**$ 112**	**$ 1**	**$ (5)**	**$**	**$ 108**
Other income	n/a	n/a	n/a		3			3
Other operating expenses	n/a	n/a	n/a	(48)	(4)	(6)	(10)	(68)
Underwriting result	**n/a**	**n/a**	**n/a**	**$ 64**	**$**	**$ (11)**	**n/a**	**$ 43**
Net investment income	n/a	n/a	n/a	n/a		11	64	75
Allocated underwriting result (6)	**n/a**	**n/a**	**n/a**	**n/a**	**n/a**	**$**	**n/a**	**n/a**
Net realized investment gains	n/a	n/a	n/a	n/a	n/a	n/a	8	8
Interest expense	n/a	n/a	n/a	n/a	n/a	n/a	(10)	(10)
Net foreign exchange gains	n/a	n/a	n/a	n/a	n/a	n/a		
Income tax benefit	n/a	n/a	n/a	n/a	n/a	n/a	3	3
Interest in earnings of equity investment	n/a	n/a	n/a	n/a	1	n/a	n/a	1
Net income	**n/a**	**n/a**	**n/a**	**n/a**	**n/a**	**n/a**	**n/a**	**$ 120**
Loss ratio (1)	71.9%	79.2%	47.8%	63.0%				
Acquisition ratio (2)	22.6	26.0	22.8	23.6				
Technical ratio (3)	94.5%	105.2%	70.6%	86.6%				
Other operating expense ratio (4)				5.6				
Combined ratio (5)				92.2%				

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

Forward Looking Statements

Certain statements contained in this document, including Management s Discussion and Analysis, may be considered forward-looking statements as defined in section 27A of the United States Securities Act of 1933 and section 21E of the United States Securities Exchange Act of 1934. Forward-looking statements are made based upon Management s assumptions and expectations concerning the potential effect of future events on the Company s financial performance and are made pursuant to the safe harbor provisions of the Private Securities Litigation Reform Act of 1995. Such statements are subject to significant business, economic and competitive risks and uncertainties that could cause actual results to differ materially from those reflected in such forward-looking statements. PartnerRe s forward-looking statements could be affected by numerous foreseeable and unforeseeable events and developments. The following review of important factors should not be construed as exhaustive and should be read in conjunction with other cautionary statements that are included herein or elsewhere.

(1) the occurrence of catastrophic events or other reinsured events with a frequency or severity exceeding our expectations;

(2) a decrease in the level of demand for reinsurance and/or an increase in the supply of reinsurance capacity;

(3) increased competitive pressures, including the consolidation and increased globalization of reinsurance providers;

(4) actual losses and loss expenses exceeding our estimated loss reserves, which are necessarily based on actuarial and statistical projections of ultimate losses;

(5) man-made catastrophic events, acts of terrorism, acts of war or other unanticipated perils;

(6) concentration risk in dealing with a limited number of brokers;

(7) developments in and risks associated with global financial markets which could affect our investment portfolio;

(8) emerging claim and coverage issues;

(9) exposure to credit risk relating to our reinsurance brokers, cedants and other counterparties;

(10) exposure of our investment portfolios to interest rate, credit and market risks;

(11) current legal and regulatory activities relating to the insurance industry, including investigations into contingent commission arrangements and certain finite risk or non-traditional insurance products;

(12) availability of borrowings and letters of credit under the Company s credit facilities;

(13) lengthy and unpredictable litigation affecting assessment of losses and/or coverage issues;

(14) losses due to foreign currency exchange rate fluctuations;

(15) loss of the services of any one of our Executive Committee members;

(16) changes in the legal or regulatory environments in which we operate, including the passage of federal or state legislation subjecting our non-U.S. operations to supervision or regulation, including additional tax regulation, in the United States or other jurisdictions in which we operate;

(17) actions by rating agencies that might negatively impact the Company s ability to continue to write existing business or write new business;

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

(18) changes in accounting policies and future pronouncements, their application or interpretation; and

(19) any other factors set forth in the Company s filings with the SEC.

The words believe, anticipate, estimate, project, plan, expect, intend, hope, should, forecast, evaluate, will likely result of similar impact used in the Company s Item 2 disclosures generally involve forward-looking statements. We caution readers not to place undue reliance on these forward-looking statements, which speak only as of their dates. The Company undertakes no obligation to publicly update or revise any forward-looking statements, whether as a result of new information, future events or otherwise.

Executive Overview

The Company operates on a global basis providing multi-line reinsurance capacity to insurance companies. The Company writes multiple lines of business in virtually all markets worldwide, and differentiates itself through its approach to risk, its strategy to manage risk, and its financial strength.

Reinsurance is by its nature a risk assumption business. The Company s philosophy is to assume its clients risks, thereby removing the volatility associated with these risks, and then manage the risks and risk-related volatility. The Company s ability to succeed in the risk assumption business is dependent on its ability to accurately analyze and quantify risk, to understand volatility and how risks aggregate or correlate, and to establish the appropriate capital requirements and absolute limits for the risks assumed.

The reinsurance markets have historically been highly cyclical in nature. The cycle is driven by competition, the amount of capital and capacity in the industry, loss events, and investment returns. The Company s long-term strategy to generate shareholder value focuses on broad product and geographic diversification of risks, assuming a greater degree of risk than the market average, managing its capital across its risk portfolio and over the duration of the cycle, achieving transactional excellence, and utilizing internal financial capabilities to achieve superior returns on capital.

The Company was established in 1993 as a specialty catastrophe reinsurer. Recognizing the limitations and inherent volatility in writing a single line of business, the Company made a strategic shift to diversify its risk portfolio. The Company began pursuing acquisition opportunities, and in 1997 acquired French reinsurer SAFR, and then the following year acquired the reinsurance operations of the Winterthur Group. Through these acquisitions and organic growth, the Company has evolved into a leading multi-line reinsurer. The Company writes business from four principal locations: Bermuda, Greenwich (Connecticut), Zurich and Paris. Risks reinsured include property, casualty, motor, agriculture, aviation/space, catastrophe, credit/surety, engineering/energy, marine, life/annuity and health, and alternative risk transfer solutions. Through its broad product and geographic diversification, its excellent execution capabilities, and its local presence in most major markets, the Company is able to respond quickly to market needs, and capitalize on business opportunities virtually anywhere in the world. Today, the Company has more than 900 employees and does business in approximately 140 countries around the world.

The Company writes business through its wholly owned subsidiaries Partner Reinsurance Company Ltd., PartnerRe SA, and Partner Reinsurance Company of the U.S. The Company reports on three operating segments: Non-Life, which comprises its traditional property and casualty business in the U.S. (U.S P&C sub-segment) and the rest of the world (Global (Non-U.S.) P&C sub-segment) and its significant specialty lines business (Worldwide Specialty sub-segment), Life, and Alternative Risk Transfer (ART).

The Company generates its revenue primarily from premiums. Premium rates and terms and conditions vary by line of business depending on market conditions. Pricing cycles are driven by supply and demand, and the amount of capital in the industry. The reinsurance business is also influenced by several other factors including variations in interest rates and financial markets, changes in legal, regulatory and judicial environments, loss trends, inflation and general economic conditions. Throughout the late 1990s, the industry s operating profitability and cash flows declined as a result of declining prices, a deterioration in terms and conditions and increasing loss costs. These negative trends were, however, offset by high investment returns that led to continued growth in capital. Premium rates began to increase in 2001, when the large loss events of that year, including the September 11 tragedy and the Enron bankruptcy, in addition to steep declines in interest rates and equity values, added to the pressure for improvements in pricing and underwriting conditions. In January 2002 through the middle of 2003, the Company experienced the strongest renewal seasons in over five years.

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

In the second half of 2003, the Company began to see a flattening in the rate of improvements in the terms and conditions of the most profitable lines and a slower rate of improvement in those lines that had not yet reached their peak in terms of profitability. From the middle of 2003 to the end of 2004, this resulted in a slower growth rate in pricing, although there was good pricing discipline in the industry. During the January 1, April 1 and July 1, 2005 renewals, the Company saw increased competition in the industry, which led to a modest deterioration in prices. Although certain lines, primarily the Life business and the U.S. casualty business, saw modest rate increases or at least price stability, the majority of lines, including property and short-tail specialty lines of business, saw rate decreases. In addition, there were higher net retentions by primary insurance companies, which resulted in reinsurers competing for a shrinking pool of premiums. The Company s experience during the July 1, 2005 renewals showed that the deterioration in pricing for some short-tailed lines, such as property, specialty property and marine, has accelerated since April 1, 2005. The deterioration in market conditions that the Company has seen, however, has been generally orderly and gradual and has affected Europe to a greater extent than the U.S. where retentions were higher but profitability has held firmer. Management expects the Company s overall premium volume will be down 5 to 10% during 2005 compared to 2004, with a continuation of this trend into 2006, as the Non-life segment will continue to be under pressure.

A key challenge facing the Company in the coming years will be to manage through the less profitable portion of the reinsurance industry cycle. The Company believes that by closely monitoring the progression of each line of business, being selective in the business that it writes, and maintaining the diversification of its portfolio, it will optimize returns to shareholders. Individual lines of business and markets have their own unique characteristics and are at different stages of the reinsurance pricing cycle at any given point in time. Management strives for appropriate portfolio diversification by product, geography, line and type of business, length of tail, and distribution channel, and believes that this diversification, in addition to the financial strength of the Company and its strong global franchise, will help to mitigate the decline in underwriting profitability over the next few years.

The Company also generates revenue from its substantial and high quality investment portfolio. The Company follows conservative investment guidelines through a strategy that seeks to maximize returns while managing investment risk in line with the Company s overall objectives of earnings stability and long-term book value growth. Liability funds are used to support the Company s net reinsurance liabilities, defined as the Company s reinsurance liabilities net of the reinsurance assets, and are matched in size, currency and duration with existing liabilities in the Company s underwriting portfolio. The Company invests the liability funds in high-quality fixed income securities with the primary objective of preserving liquidity and protecting capital. Capital funds are used to generate shareholder returns and are invested in investment-grade and below-investment-grade fixed income securities and equity instruments.

In addition to revenues generated from its underwriting operations and investment activities, the Company s profitability is also based upon the level of its losses and loss expenses. The Company recognizes losses and loss expenses on the basis of actual and expected claims on business written. The Company s non-life net reserve position at June 30, 2005 was $5.6 billion. Management believes that it follows conservative investing and reserving policies in pursuit of a strong financial position.

Critical Accounting Policies

See the discussion of the Company s Critical Accounting Policies in Management s Discussion and Analysis of Financial Condition and Results of Operations included in the Company s 2004 Annual Report on Form 10-K. The following discussion updates specific information related to the Company s estimates for unpaid loss and loss expense reserves and life policy benefits since December 31, 2004.

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

Losses and Loss Expenses and Life Policy Benefits

Because a significant amount of time can lapse between the assumption of risk, occurrence of a loss event, the reporting of the event to an insurance company (the primary company or the cedant), the subsequent reporting to the reinsurance company (the reinsurer) and the ultimate payment of the claim on the loss event by the reinsurer, the Company s liability for unpaid losses and loss expenses (loss reserves) is based largely upon estimates. The Company categorizes loss reserves into three types of reserves: reported outstanding loss reserves (case reserves), additional case reserves (ACR) and incurred but not reported (IBNR) reserves. Case reserves represent unpaid losses reported by the Company s cedants and recorded by the Company. ACR are established for particular circumstances where, on the basis of individual loss reports, the Company estimates that the particular loss or collection of losses covered by a treaty may be greater than those advised by the cedant. IBNR reserves represent a provision for claims that have been incurred but not yet reported to the Company, as well as future loss development on losses already reported, in excess of the case reserves and ACR. Unlike case reserves and ACR, IBNR reserves are generally calculated in the aggregate for each line of business and they cannot usually be identified as reserves for a particular loss or treaty. The Company updates its estimates for each of the aforementioned categories on a quarterly basis using information received from its cedants. The Company also estimates the future unallocated loss adjustment expenses associated with the loss reserves (ULAE) and these form part of the Company s loss adjustment expense reserves. The Company s Non-life loss reserves for each category and sub-segment are reported in the table later in this section.

The amount of time that elapses before a claim is reported to the cedant and then subsequently reported to the reinsurer is commonly referred to in the industry as the reporting tail. Lines of business for which claims are reported quickly are commonly referred to as short-tailed lines; and lines of business for which a longer period of time elapses before claims are reported to the reinsurer are commonly referred to as long-tailed lines. In general, for reinsurance, the time lags are longer than for primary business due to the delay that occurs between the cedant becoming aware of a loss and reporting the information to its reinsurer(s). The delay varies by reinsurance market (country of cedant), type of treaty, whether losses are paid by the cedant and the size of the loss. The delay could vary from a few weeks to a year or sometimes longer. For both short and long-tailed lines, the Company s objective is to estimate ultimate losses and loss expenses. Total loss reserves are then calculated by subtracting losses paid. Similarly, IBNR reserves are calculated by subtraction of case reserves and ACR from total loss reserves.

The Company analyzes its ultimate losses and loss expenses after consideration of the loss experience of various reserving cells. The losses on each treaty for every underwriting year are assigned to a reserving cell. An underwriting year is the year during which the reinsurance treaty was entered into as opposed to the year in which the loss occurred (accident year), or the calendar year for which financial results are reported. The reserving cells are selected in order to ensure that the underlying treaties have homogeneous loss development characteristics (e.g. reporting tail) but are large enough to make estimation of trends credible. The selection of reserving cells is reviewed annually and changes over time as the business of the Company evolves. For each reserving cell, the Company s estimates of loss reserves are reached after a review of the results of several commonly accepted actuarial projection methodologies. In selecting its best estimate, the Company considers the appropriateness of each methodology to the individual circumstances of the cell and underwriting year for which the projection is made. The methodologies that the Company employs include, but may not be limited to, paid loss development methods, incurred loss development methods, paid Borhuetter Ferguson (B-F) methods, incurred B-F methods, loss ratio methods and Bektander methods. In addition, the Company uses other methodologies to estimate liabilities for specific types of claims. For example, internal and vendor catastrophe models are typically used in the estimation of loss and loss expenses at the early stages of catastrophe losses before loss information is reported to the reinsurer. In the case of asbestos and environmental claims, the Company has established reserves for future loss and allocated loss expenses based on the results of an actuarial study, which considered the underlying exposures of the Company s cedants.

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

The reserve methodologies employed by the Company are dependent on data that the Company collects. This data consists primarily of loss amounts reported by the Company s cedants, loss payments made by the Company s cedants, and premiums written and earned by the Company. The actuarial methods used by the Company to project its liabilities recorded today but that will be paid in the future (future liabilities) do not generally include methodologies that are dependent on claim counts reported, claim counts settled or claim counts open because, due to the nature of the Company s business, this information is not routinely provided by the cedants for every treaty. Consequently, actuarial methods relying on this information cannot be used by the Company to estimate loss reserves.

In general, the estimates of loss reserves recorded for short-tailed business are subject to less volatility than those for long-tailed lines. Carried loss reserves for the U.S. P&C sub-segment are considered to be predominantly long-tailed due to the significant volume of U.S. casualty business written in this sub-segment. The casualty line comprised 70% of the net premiums written for this sub-segment, or 15% of the Company s total net premiums written in the first half-year of 2005. The remaining business within this sub-segment, motor and property, is considered to be short-tailed. Within the Global (Non-U.S.) P&C sub-segment, the Company considers both its casualty business as well as its non-proportional motor business to be long-tailed. These two lines represented 28% of the net premiums written in the Global (Non-U.S.) P&C sub-segment, or 8% of the Company s total net premiums written in the first half-year of 2005. Management considers the short-tailed lines within the Global (Non-U.S.) P&C sub-segment to be property and proportional motor. The Worldwide Specialty sub-segment is primarily comprised of lines of business that are thought to be either short or medium-tailed. The short-tailed lines consist of agriculture, catastrophe, energy, credit/surety and specialty property and account for 62% of the net premiums written in this sub-segment, or 26% of the Company s total net premiums written in the first half-year of 2005. Aviation/space, engineering and marine are considered by the Company to have a medium-tail and represent 27% of this sub-segment s first half-year net premiums written, or 11% of the Company s total net premiums written. Specialty casualty business is considered to be long-tailed and represents 11% of net premiums written in this sub-segment, or 4% of the Company s total net premiums written in the first half-year of 2005.

In the second quarter of 2005 and 2004, the Company reviewed its estimates for prior year losses for each sub-segment of the Non-life segment and, in light of developing data, determined to adjust its ultimate loss ratios for prior accident years.

For the U.S. P&C sub-segment, this primarily affected the property and casualty lines in the second quarter of 2005 and the property and motor lines during the same quarter of 2004. For these three lines of business, the Company received loss information from cedants for prior accident years that included no significant individual losses but a series of attritional losses. Attritional losses or reductions are losses or reductions that may not be significant on an individual basis, but are monitored on an aggregated basis by the Company to identify trends that may be meaningful from a reserving standpoint. Upon consideration of this new information received during 2005 and 2004, the Company revised the loss development assumptions it uses in performing its actuarial analysis and i) decreased its loss ratios for prior accident years in the second quarter of 2005 and this had the effect of decreasing losses by $1 million in the quarter and ii) increased its loss ratios in the second quarter of 2004 and this had the effect of increasing losses by $6 million during that quarter. In particular, the Company revised the historical loss patterns and expected loss ratios that it uses in its actuarial analysis of loss reserves for the affected losses.

For the Global (Non-U.S.) P&C sub-segment, the Company determined, in light of developing data, to decrease in the second quarter of 2005 (increase in the second quarter of 2004) its ultimate loss ratios for prior accident years. This resulted in a decrease in the Company s losses of $19 million in the second quarter of 2005 for the property line and an increase of $13 million in the second quarter of 2004 for the casualty and motor line, partially offset by a decrease in the property line.

For the Worldwide Specialty sub-segment, the Company determined, in light of developing data, to decrease its expected ultimate loss ratio for prior year losses in each period, which resulted in a decrease in the Company s losses of $46 million and $49 million during the second quarter of

2005 and 2004, respectively. The decreases related to most lines of business within this sub-segment.

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The following table summarizes the favorable (adverse) development of loss reserves in the Non-life segment (in millions of U.S. dollars):

	For the three months ended June 30, 2005	For the three months ended June 30, 2004	For the six months ended June 30, 2005	For the six months ended June 30, 2004
Prior year favorable (adverse) loss development:				
Non-life segment				
U.S. P&C	**$ 1**	$ (6)	**$ (4)**	$ (9)
Global (Non-U.S) P&C	**19**	(13)	**47**	(17)
Worldwide Specialty	**46**	49	**88**	115
Total prior year loss development	**$ 66**	$ 30	**$ 131**	$ 89

The components of the net favorable (adverse) loss development for the three months and six months ended June 30, 2005 and 2004 are described in more detail in the discussion of the sub-segments that make up the Non-life segment.

Case reserves are reported to the Company by its cedants, while ACR and IBNR are estimated by the Company. The following table shows the gross reserves reported by cedants (case reserves) and those estimated by the Company (ACR and IBNR) for each Non-life sub-segment and the total net loss reserves recorded as of June 30, 2005 (in millions of U.S. dollars):

	Case reserves	ACR	IBNR	Total gross loss reserves recorded	Retrocession	Total net loss reserves recorded
U.S. P&C	$ 479	$ 74	$ 1,192	$ 1,745	$ (14)	$ 1,731
Global (Non-U.S.) P&C	1,006	29	1,006	2,041	(48)	1,993
Worldwide Specialty	974	101	908	1,983	(105)	1,878
Total Non-life	$ 2,459	$ 204	$ 3,106	$ 5,769	$ (167)	$ 5,602

The Company estimates its net loss reserves using single point estimates for each sub-segment. These loss reserves represent the Company s best estimate of future losses and loss expense amounts. Ranges around these point estimates are developed using stochastic simulations and techniques and provide an indication as to the degree of variability of the loss reserves. The Company interprets the ranges produced by these techniques as confidence intervals around the best estimates for each sub-segment. However, due to the inherent volatility in the business written by the Company, there can be no guarantee that the final settlement of the loss reserves will fall within these ranges. The point estimates recorded by the Company and the range of estimates around these point estimates at June 30, 2005, were as follows (in millions of U.S. dollars):

	Recorded Point	High	Low

	Estimate		
Net Non-life loss reserves:			
U.S. P&C	$ 1,731	$ 2,067	$ 1,294
Global (Non-U.S.) P&C	1,993	2,214	1,639
Worldwide Specialty	1,878	1,943	1,536

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

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Estimates of ultimate liabilities are contingent on many future events. The eventual outcome of these events may be different from the assumptions underlying the reserve estimates. In the event that the business environment and social trends diverge from historical trends, the Company may have to adjust its loss reserves to amounts falling significantly outside its current range of estimates. Management believes that the recorded loss reserves represent Management s best estimate of future liabilities based on information available as of June 30, 2005. 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 the need for an adjustment is determined.

Liabilities for policy benefits for ordinary life and accident and health policies have been established based upon information reported by cedants supplemented by actuarial estimates of mortality, morbidity, persistency and future investment income, with appropriate provision to reflect uncertainty. 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 are assumed to have been incurred but not yet reported. Interest rate assumptions used to estimate liabilities for policy benefits for life and annuity contracts ranged from 1.5% to 5.5%. Actual experience in a particular period may vary from assumed experience and, consequently, may affect the Company s results in future periods.

Included in the business that is considered to have a long reporting tail is the Company s exposure to asbestos and environmental claims. The Company s reserve for unpaid losses and loss expenses for asbestos and environmental exposures has not changed significantly since December 31, 2004. (See Note 4 to Consolidated Financial Statements in the Company s Annual Report on Form 10-K.)

Results of Operations for the Six Months Ended June 30, 2005 and 2004

Overview

The Company measures its performance in several ways. Among the performance measures accepted under U.S. GAAP are diluted net income per share and annualized return on beginning common shareholders equity (ROE), two measures that focus on the return provided to the Company s common shareholders. Diluted net income per share is obtained by dividing net income available to common shareholders by the weighted average number of common and common share equivalents outstanding. Net income available to common shareholders is defined as net income less preferred share dividends. Net income available to common shareholders is also used in the calculation of the Company s ROE, which is calculated by dividing net income available to common shareholders by the net book value of the common shareholders equity at the beginning of the year. Annualized ROE is obtained by multiplying the ROE calculated for the half-year by two. The net book value of the common shareholders equity (book value) is obtained by subtracting the aggregate liquidation value of the preferred shares from total shareholders equity.

Net income, preferred dividends, net income available to common shareholders, diluted net income per share and annualized ROE for the six months ended June 30, 2005 and 2004 were as follows (in millions of U.S. dollars, except per share data and ROE):

	For the six months ended	% Change 2005 over	For the six months ended

	June 30, 2005	2004	June 30, 2004
Net income	$ 271	2%	$ 265
Less: Preferred dividends	17	76	9
Net income available to common shareholders	$ 254	(1)	$ 256
Diluted net income per share	$ 4.56	(3)	$ 4.71
Annualized return on beginning common shareholders equity (ROE)	17.9%		22.2%

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The increase in net income in the first half-year of 2005 resulted from higher net realized investment gains and net investment income during the 2005 period, largely offset by lower underwriting profitability and a higher income tax expense.

Net income available to common shareholders for the first half-year is essentially flat compared to the same period of 2004; however, diluted net income per share is lower than last year s due to the higher number of common and common share equivalents outstanding at June 30, 2005. ROE decreased in the first half-year of 2005 compared to the same period of 2004 despite the fact that the Company generated a similar level of net income available to common shareholders in both periods. This results because ROE is a ratio of current year net income available to common shareholders to beginning (January 1) book value. The beginning book value grew by 23% during 2004 while net income to common shareholders was flat for the first half-year of 2005.

Preferred dividends increased in 2005 compared to 2004 as the Company issued Series D cumulative preferred shares (Series D preferred shares) in the fourth quarter of 2004. In the same quarter, the purchase contracts associated with the Company s PEPS units were settled in exchange for the Company s common shares and the Company purchased and cancelled the Series B cumulative preferred shares (Series B preferred shares) that were part of the PEPS units. The increase in preferred dividends in the first half-year of 2005 is largely offset by the decrease in interest expense related to the Series B preferred shares for the same period.

Review of Net Income

Management analyzes the Company s net income in three parts: underwriting result, investment income and other components of net income. Investment income includes interest and dividends, net of investment expenses, generated by the Company s investment portfolio, as well as interest income generated on funds held and certain ART transactions. Other components of net income include net realized investment gains and losses, interest expense, net foreign exchange gains and losses, income tax expense or benefit and interest in earnings of equity investment.

The components of net income for the six months ended June 30, 2005 and 2004 were as follows (in millions of U.S. dollars):

	For the six months ended June 30, 2005	% Change 2005 over 2004	For the six months ended June 30, 2004
Underwriting result			
Non-life	$ 104	(26)%	$ 142
ART	10	824	
Life	(18)	(24)	(25)
Corporate expenses	(28)	40	(20)
Net investment income	177	19	148
Net realized investment gains	93	103	46
Interest expense	(15)	(28)	(20)
Net foreign exchange (losses) gains	(3)	NM	1

Income tax expense	(54)	570	(8)
Interest in earnings of equity investment	5	614	1
Net income	$ 271	2	$ 265

NM: not meaningful

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

The underwriting result for the Non-life segment decreased 26%, from $142 million in 2004 to $104 million in 2005. The decrease in the Non-life underwriting result was principally attributable to a higher level of large or catastrophic losses in the 2005 period and less significantly by a modest decline in profitability for the 2005 underwriting year business (treaties written during the 2005 calendar year). Underwriting results for the Non-life segment include $63 million of losses related to Winterstorm Erwin and $20 million on a single loss in the energy line in Canada in 2005, while the same period in 2004 included a $30 million loss on the explosion of an Algerian gas plant. Both periods included favorable development on prior accident year losses as the Company reduced its estimate of losses for certain lines as the at risk period for older underwriting years expired and updated information was received from cedants. Favorable development on prior accident years amounted to $131 million in 2005 and $89 million in 2004. The components of the favorable loss development on prior accident year losses are described in more detail in the discussion of individual sub-segments in the next section. Underwriting results for the ART segment increased substantially from breakeven in 2004 to $10 million in 2005. This increase resulted from gains in all lines of business but more particularly on weather business. Underwriting result for the Life segment improved 24%, from a loss of $25 million in 2004 to a loss of $18 million in 2005. The 2004 period included a $5 million charge to reduce deferred acquisition costs on annuity treaties retained in the sale of PartnerRe Life Insurance Company of the U.S. Corporate expenses increased by $8 million compared to 2004 following the addition of staff in corporate departments, higher compliance expenses, as well as the adoption, on January 1, 2003, of the fair value method of accounting for equity-based awards on a prospective basis. The latter results in a phase-in period whereby equity-based compensation increases with each new grant until the first grants issued after adoption of the fair value method are vested.

The Company reported net investment income of $177 million in the first half-year of 2005 compared to $148 million in 2004. The increase in investment income is primarily attributable to investment of the Company s significant cash flows from operations, which totaled $1,244 million since June 30, 2004, as well as the effect of the decline of the U.S. dollar against the euro and other currencies, which contributed approximately 2% to the growth in 2005.

Net realized investment gains increased from $46 million in 2004 to $93 million in 2005. Realized investment gains and losses are generally a function of multiple factors with the most significant being the prevailing interest rates and equity market conditions, and the timing of disposition of available for sale fixed maturities and equity securities, and charges for the recognition of other-than-temporary impairments in the Company s investment portfolio. As the Company repositions its investment portfolio to take advantage of market conditions, it generates sales of securities that result in the realization of the unrealized market value appreciation or depreciation on the securities. The realization of the unrealized market value appreciation or depreciation does not change the Company s comprehensive income and shareholders equity, as it merely transfers the gain or loss from the accumulated other comprehensive income section of the balance sheet to net income on the statement of operations and retained earnings on the balance sheet.

Interest expense declined in 2005, as distributions on the Series B preferred shares, which amounted to $2.8 million per quarter and were presented as interest expense, ended in the fourth quarter of 2004. In the fourth quarter of 2004, the purchase contracts associated with the Company s PEPS units were settled in exchange for the Company s common shares and the Company purchased and cancelled the Series B preferred shares that were part of the PEPS units.

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The Company hedges a significant portion of its currency risk exposure as discussed in the Quantitative and Qualitative Disclosures about Market Risk in Item 3 of this report. The combined effect of movements in foreign exchange rates and the Company s hedging activities resulted in modest net foreign exchange gains in 2004 and losses in 2005.

The income tax expense increased from $8 million in 2004 to $54 million in 2005, primarily as a result of a change in the geography (or tax jurisdiction) of pre-tax income. A higher portion of the Company s pre-tax income was generated in taxable jurisdictions in 2005 compared to 2004.

The Company reports its share of the results of Channel Re on a one-quarter lag on the interest in earnings of equity investment line of its statement of operations. The 2005 period includes the Company s share of the results of Channel Re s net income in the amount of $4.8 million for the period of October 2004 to March 2005 while the 2004 period includes net income in the amount of $0.7 million for the period of February 2004 (when Channel Re commenced business) to March 2004.

Results by Segment

The Company monitors the performance of its underwriting operations in three segments, Non-life, ART and Life. The Non-life segment is further divided into three sub-segments, U.S. Property and Casualty (U.S. P&C), Global (Non-U.S.) Property and Casualty (Global (Non-U.S.) P&C) and Worldwide Specialty. Segments and sub-segments represent markets that are reasonably homogeneous in terms of geography, client types, buying patterns, underlying risk patterns and approach to risk management. See the description of the Company s segments and sub-segments as well as a discussion of how the Company measures its segment results in Note 7 to Unaudited Condensed Consolidated Financial Statements (included in Item 1 of Part I above).

Segment results are shown net of intercompany transactions. Business reported in the Global (Non-U.S.) P&C and Worldwide Specialty sub-segments and the Life segment is, to a significant extent, denominated in foreign currencies and is reported in U.S. dollars at the weighted average exchange rates for each period. The U.S. dollar has declined in value in the first half-year of 2005 compared to the first half -year of 2004 and this should be considered when making period over period comparisons.

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Non-life Segment

U.S. P&C

The U.S. P&C sub-segment includes the U.S. specialty casualty line, which represents approximately 48% of net premiums written in this sub-segment in the first half-year of 2005 and 39% in the same period of 2004. Treaties in this line typically tend to have a higher loss ratio and lower technical result, due to the long development tail of the risks involved. U.S. specialty casualty treaties also typically produce investment income on premiums invested over a longer period, as losses are typically paid later than for other lines. Investment income, however, is not considered in technical result.

The following table provides the components of the technical result and the corresponding ratios for this sub-segment (in millions of U.S. dollars):

	For the six months ended June 30, 2005	% Change 2005 over 2004	For the six months ended June 30, 2004
Gross premiums written	$ 461	(20)%	$ 577
Net premiums written	462	(20)	577
Net premiums earned	$ 423	(7)	$ 457
Losses and loss expenses	(304)	(9)	(334)
Acquisition costs	(102)	6	(95)
Technical result[1]	$ 17	(37)	$ 28
Loss ratio[2]	71.9%		73.1%
Acquisition ratio[3]	24.0		20.9
Technical ratio[4]	95.9%		94.0%

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

Premiums

The U.S. P&C sub-segment represented 21% of total net premiums written in the first half-year of 2005. The decline in gross and net premiums written over 2004 resulted from all lines in this sub-segment, but was most evident in the motor and casualty lines. The Company observed increased competition in the short-tailed motor and property lines, as primary companies retained more risk and reinsurers were competing for a declining amount of business. Although pricing and terms and conditions remained fairly stable for the long-tailed casualty line, the Company s net premiums written also decreased for this line. Net premiums written for all three lines decreased principally due to the increased risk retention by cedants, cancellation of programs (or non-renewals), timing of renewals, reduced premium estimates from cedants and increased competition among reinsurers. Notwithstanding the increased competition prevailing in this sub-segment, and higher risk retention by cedants, the terms and conditions remained fairly stable in 2005 and the Company was able to pursue business that met its profitability objectives.

Based on the July 1, 2005 pricing indications and renewal information received from cedants and brokers as well as reduced premium estimates by cedants, gross and net premiums written and net premiums earned are expected to continue to decline in 2005 and 2006 for this sub-segment.

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Losses and loss expenses

The losses and loss expenses and loss ratio reported in 2005 and 2004 reflected no significant catastrophic or individually significant loss. The loss ratio for the 2005 period did not change significantly compared to the loss ratio for the same period of 2004. The losses and loss expenses decrease in 2005 is primarily due to the decrease in the Company s book of business and exposure as evidenced by the decrease in net premiums earned. Net adverse loss development on prior accident years amounted to $4 million and $9 million for the first half-year of 2005 and 2004, respectively. The net adverse loss development of $4 million in the first half-year of 2005 included adverse loss development for prior accident years in the casualty line of $17 million, substantially offset by favorable loss development in the shorter-tailed property and motor lines of $13 million. Loss information provided by cedants for prior years during 2005 for all lines in this sub-segment included no individually significant losses or reductions of losses but a series of attritional losses or reductions. Based on the Company s assessment of this loss information, the Company has increased its expected ultimate loss ratios for the casualty line (decreased for the property and motor lines), which had the net effect of increasing losses for this sub-segment. The net adverse loss development of $9 million in the first half-year of 2004 included adverse loss development for prior accident years in the motor and casualty lines of $31 million, partially offset by favorable loss development in the shorter-tailed property line of $22 million. Included in the favorable development in the property line was a $12 million reduction in the Company s loss estimate related to the September 11 tragedy, as the Company received information from cedants indicating that certain outstanding loss reserves were no longer necessary.

Acquisition costs

Acquisition costs and the acquisition ratio increased from 2004 to 2005 as a result of increased competition in all lines in the first half-year of 2005, reductions of acquisition costs in the 2004 period on treaties with experience credits in the form of sliding scale and profit commission adjustments, and a shift from net premiums earned on non-proportional business to proportional business in the 2005 period. Proportional business typically carries a higher acquisition cost ratio.

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

The technical result for the Global (Non-U.S.) P&C sub-segment has fluctuated in the last few years, reflecting varying levels of large loss events and development on prior years reserves. The Global (Non-U.S.) P&C sub-segment is composed of long-tail business, in the form of casualty and non-proportional motor business, that represents approximately 28% of net premiums written for the first half-year of 2005 in this sub-segment, and short-tailed business, in the form of property and proportional motor business. The following table provides the components of the technical result and the corresponding ratios for this sub-segment (in millions of U.S. dollars):

	For the six months ended June 30, 2005	% Change 2005 over 2004	For the six months ended June 30, 2004
Gross premiums written	$ 589	(12)%	$ 666
Net premiums written	587	(12)	666
Net premiums earned	$ 457	(6)	$ 485
Losses and loss expenses	(308)	(17)	(370)
Acquisition costs	(113)	(9)	(124)
Technical result	$ 36	NM	$ (9)
Loss ratio	67.4%		76.2%
Acquisition ratio	24.8		25.6
Technical ratio	92.2%		101.8%

NM: not meaningful

Premiums

The Global (Non-U.S.) P&C sub-segment represented 27% of total net premiums written for 2005. Foreign exchange offset the decrease in net premiums written by approximately 6 points for this sub-segment as the U.S. dollar weakened since the first half-year of 2004 and premiums denominated in currencies that have appreciated against the U.S. dollar were converted into U.S. dollars at higher exchange rates. The decline in gross and net premiums written over 2004 resulted from all lines in this sub-segment, but was most evident in the casualty and motor lines. The decrease in net premiums written for this sub-segment was principally attributable to increased competition as well as increased risk retention from cedants. Notwithstanding the increased competition prevailing in this sub-segment, and higher risk retention from cedants, the terms and conditions remained acceptable in 2005.

Based on the July 1, 2005 pricing indications and renewal information received from cedants and brokers, and assuming constant foreign exchange rates, gross and net premiums written and net premiums earned are expected to continue to decline in 2005 and 2006 for this sub-segment.

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Losses and loss expenses

The losses and loss expenses and loss ratio reported in 2005 and 2004 included no catastrophic or individually significant loss for either period. The 2005 underwriting year business (treaties written during the 2005 calendar year) included in the 2005 period reflected a modest decrease in profitability due to increased competition in this sub-segment. The decrease in losses and loss expenses and loss ratio from 2004 to 2005 is principally explained by the net favorable loss development for prior accident years included in the 2005 period. The losses and loss expenses and loss ratio reported in 2005 and 2004 reflected net favorable loss development of $47 million, or 10.2 points on the loss ratio, and net adverse loss development of $17 million, or 3.4 points on the loss ratio, respectively. In the first half-year of 2005, the net favorable loss development of $47 million included favorable loss development of $51 million for prior accident years in the property and casualty lines and adverse loss development of $4 million in the motor line. The net favorable loss development is primarily due to a reassessment of the loss development assumptions used by the Company to estimate future liabilities due to what it believes are favorable experience trends in these lines of business, as losses reported by cedants during 2005 for prior accident years, and for treaties where the risk period expired, were lower (higher for motor) than the Company expected. In the first half-year of 2004, the net adverse loss development of $17 million included adverse loss development of $43 million for prior accident years in the casualty and motor lines, partially offset by favorable loss development of $26 million in the property line. Loss information provided by cedants in the first half-year of 2004 for all lines in this sub-segment for prior years included no individually significant losses or reductions but a series of attritional losses or reductions. Based on the Company s assessment of this loss information, the Company increased its expected ultimate loss ratios for the casualty and motor lines (decreased for the property line), which had the net effect of increasing the level of losses for this sub-segment.

Acquisition costs

The acquisition ratio for the 2005 period did not change significantly compared to the acquisition ratio for the same period of 2004. Acquisition costs decreased from 2004 to 2005 due to the decrease in the Company s book of business and exposure as evidenced by the decrease in net premiums earned.

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Worldwide Specialty

The Worldwide Specialty sub-segment continues to be the most profitable sub-segment within the Company; however, it is important to note that this sub-segment is exposed to potentially significant catastrophe and other large losses, and thus, profitability in any one year or quarter is not necessarily predictive of future profitability. The following table provides the components of the technical result and the corresponding ratios for this sub-segment (in millions of U.S. dollars):

	For the six months ended June 30, 2005	% Change 2005 over 2004	For the six months ended June 30, 2004
Gross premiums written	$ 920	(4)%	$ 956
Net premiums written	895	(4)	932
Net premiums earned	$ 680	(6)	$ 726
Losses and loss expenses	(386)	11	(346)
Acquisition costs	(141)	(12)	(161)
Technical result	$ 153	(30)	$ 219
Loss ratio	56.7%		47.7%
Acquisition ratio	20.8		22.1
Technical ratio	77.5%		69.8%

Premiums

The Worldwide Specialty sub-segment represented 41% of total net premiums written in the first half-year of 2005. Gross and net premiums written decreased by 4% in 2005 compared to the same period in 2004. The weakening of the U.S. dollar in 2005 compared to 2004 offset approximately 4 points of the decrease in net premiums written in this sub-segment. All lines in this sub-segment had a decrease in net premiums written, except for credit/surety and marine, which had an increase, and catastrophe and specialty casualty, which were relatively flat. Throughout 2004, the Company has seen a decline in the pricing for the most profitable lines of business in this sub-segment and a slow but orderly reduction in the rate of price increases for the other lines as a result of increasing competition. In the first half-year of 2005, the Company saw an increase in competition in all lines, increased retentions by cedants, and an acceleration in the rate of decline in pricing in all lines except for certain lines of aviation and agriculture, where price trends are stable, and in certain markets that were affected by the 2004 catastrophic events, such as the Florida hurricanes, where prices have increased. In response to the increased competition prevailing in this sub-segment, the Company has remained selective in pursuing business that met its profitability objectives and has declined treaties where terms and conditions did not meet the Company s standards.

Based on the July 1, 2005 pricing indications and renewal information received from cedants and brokers, and assuming constant foreign exchange rates, gross and net premiums written and earned are expected to continue to decline in 2005 and 2006 for this sub-segment.

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Losses and loss expenses

The losses and loss expenses and loss ratio reported in the first half-year of 2005 reflect a) losses related to Winterstorm Erwin in the amount of $61 million or 9.0 points on the loss ratio of this sub-segment; b) one large loss in the energy line in the amount of $20 million, or 2.9 points on the loss ratio of this sub-segment; and c) net favorable loss development on prior accident years in the amount of $88 million, or 13.0 points on the loss ratio of this sub-segment. The net favorable loss development of $88 million included favorable loss development of $97 million for prior accident years in all lines, except for the agriculture, catastrophe and specialty casualty lines that were affected by adverse loss development of $9 million. The net favorable loss development is primarily due to a reassessment of the loss development assumptions used by the Company to estimate future liabilities due to what it believes are favorable experience trends in these lines of business as losses reported by cedants during 2005 for prior accident years, and for treaties where the risk period expired, were lower (higher for agriculture, catastrophe and specialty casualty) than the Company expected.

The losses and loss expenses and loss ratio reported in 2004 reflected a) one large loss in the amount of $30 million, or 4.1 points on the loss ratio of this sub-segment, related to the explosion of an Algerian gas plant; and b) favorable loss development on prior accident years in the amount of $115 million, or 15.8 points on the loss ratio of this sub-segment. The net favorable loss development of $115 million included favorable loss development for prior accident years of $131 million on all lines, except for marine and specialty casualty, which were affected by adverse loss development of $16 million. Losses reported by cedants during the first half-year of 2004 for the prior accident years were lower than the Company expected (higher for marine and specialty casualty), which led the Company to decrease (increase for marine and specialty casualty) its expected ultimate loss ratio for this sub-segment for prior accident years. The main factors influencing the Company s lower than expected reported losses were a series of reductions (or increases for marine and specialty casualty) in attritional losses and a lower number of newly reported losses by cedants. Included in the favorable development in the specialty property line was a $21 million reduction in the Company s loss estimate related to the September 11 tragedy, as the Company received information from cedants indicating that certain outstanding loss reserves were no longer necessary.

The increase in losses and loss expenses and loss ratio from 2004 to 2005 in this sub-segment is primarily explained by the increase in large catastrophic losses and the lower amount of favorable prior year development in 2005 and is partially offset by the decrease in the Company s book of business and exposure as evidenced by the decrease in net premiums earned.

Acquisition costs

The acquisition ratio for the 2005 period did not change significantly compared to acquisition ratio for the same period of 2004. Acquisition costs decreased from 2004 to 2005 due to the decrease in the Company s book of business and exposure as evidenced by the decrease in net premiums earned.

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ART (Alternative Risk Transfer) Segment

The ART segment, the Company s newest segment, was reported for the first time as a separate segment in 2004. As reinsurance accounting does not apply for much of the business in this segment, premiums alone are not a representative measure of activity in ART. This segment is very transaction driven, and revenues and profit trends will be uneven, especially given the still small size of this segment. Accordingly, profitability or growth in any year or quarter is not necessarily predictive of future profitability or growth. The Company expects the ART segment and its results to grow during 2005 and 2006 compared to 2004 as this segment continues to expand. The following table provides the components of the underwriting result for this segment for the six months ended June 30, 2005 and 2004 (in millions of U.S. dollars):

	For the six months ended June 30, 2005	For the six months ended June 30, 2004
Gross premiums written	$ 13	$ 3
Net premiums written	13	2
Net premiums earned	$ 5	$ 2
Losses and loss expenses		
Acquisition costs	(1)	
Technical result	$ 4	$ 2
Other income	12	6
Other operating expenses	(6)	(8)
Underwriting result	$ 10	$
Interest in earnings of equity investment	$ 5	$ 1

The ART segment had good growth in business and good results during the first half-year of 2005 compared to 2004 despite low interest rates, which tend to reduce the attractiveness of structured risks business for clients, and low credit spreads, which tend to reduce the opportunities in the structured finance business. Although all lines of business were profitable in the first half-year of 2005, the Company s interest in the earnings of its equity investment in Channel Re and weather products generated the largest contribution to pre-tax profit, with $4.8 million and $4.1 million, respectively. In the first half-year of 2004, the ART segment included the commutation of one large treaty in the structured risk business, which accelerated the recognition of the margin on the treaty. Results in the structured finance line included losses arising due to the marking down of derivative positions related to certain securities whose market value had declined due to wider spreads on underlying securities, while results in the weather line included losses resulting from higher than normal temperatures in Japan.

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Life Segment

The following table summarizes the underwriting result for this segment (in millions of U.S. dollars):

	For the six months ended June 30, 2005	% Change 2005 over 2004	For the six months ended June 30, 2004
Gross premiums written	$ 230	19%	$ 194
Net premiums written	222	19	187
Net premiums earned	$ 211	19	$ 178
Life policy benefits	(162)	16	(140)
Acquisition costs	(56)	8	(51)
Technical result	$ (7)	(46)	$ (13)
Other operating expenses	(11)		(12)
Net investment income	25	17	21
Allocated underwriting result(1)	$ 7	NM	$ (4)

NM: not meaningful

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

Premiums

The Life segment represented 10% of total net premiums written in the first half-year of 2005. The increases in gross and net premiums written and net premiums earned during 2005 compared to 2004 resulted primarily from three factors. First, the Company signed a few large treaties in the fourth quarter of 2004, which resulted in higher net premiums earned in the first half-year of 2005. Second, the Company experienced further growth in this segment in the first half-year of 2005. Finally, the U.S. dollar has weakened since June 30, 2004 and premiums denominated in currencies that have appreciated against the U.S. dollar were converted into U.S. dollars at higher exchange rates. Foreign exchange accounted for approximately 5 points of growth in net premiums written during the first half-year of 2005. Based on the 2005 pricing indications and renewal information received from cedants and brokers, and assuming constant foreign exchange rates, gross and net premiums written and earned are expected to increase in 2005 and 2006 for this segment.

Life policy benefits and acquisition costs

The increase in life policy benefits and acquisition costs in 2005 compared to the same period in 2004 results primarily from the growth in the Company s book of business and exposure, as evidenced by the increase in net premiums earned for this segment. Acquisition costs have increased at a slower pace than net premiums earned as the 2004 period included a $5 million charge to reduce deferred acquisition costs on annuity treaties retained in the sale of PartnerRe Life Insurance Company of the U.S. The 2004 charge was due to a prolonged period of low interest rates, which had a negative effect on these treaties and resulted in a charge reflecting the actual experience to date as well as a revised projection of future results given updated assumptions.

Net investment income

The increase in net investment income for this segment for the first half-year of 2005 compared to 2004 is attributable to the growth in the book of business and related invested assets since the second quarter of 2004.

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Premium Distribution by Line of Business

The distribution of net premiums written by line of business for the six months ended June 30, 2005 and 2004, was as follows:

	For the six months ended June 30, 2005	For the six months ended June 30, 2004
Non-life		
Property and Casualty		
Property	20%	20%
Casualty	19	21
Motor	9	12
Worldwide Specialty		
Agriculture	3	3
Aviation/Space	5	5
Catastrophe	13	12
Credit/Surety	6	5
Engineering/Energy	4	5
Marine	3	2
Special Risk	7	7
ART	1	
Life	10	8
Total	100%	100%

As discussed elsewhere in this report, net premiums written declined by 8% in the first six months of 2005 as compared to the prior period. Changes in foreign exchange rates offset approximately 4 points in the decrease in net premiums written in the 2005 period and affected the half-year over half-year comparison for all lines. There were modest shifts in the distribution of net premiums written by line and segment. The shifts in distribution reflect the Company s response to existing market conditions. Distributions of net premiums written may also be affected by the timing of renewals or the shift in treaty structure from proportional to non-proportional basis, as well as other treaty terms. The following specific factors also contributed to the changes in the distribution of net premium written in the 2005 period compared to the same period in 2004:

- cedants increased retentions and reported lower premium estimates and the Company elected to non-renew certain treaties in the casualty, motor and engineering/energy lines and this resulted in decreases in those three lines;

- the Company signed a few large Life treaties in the fourth quarter of 2004, which resulted in higher net premiums written in the first half-year of 2005.

Based on July 1, 2005 pricing indications and renewal information from cedants and brokers, and assuming constant foreign exchange rates and minimal changes in premium estimates from cedants, the Company expects net premiums written for the Non-life segment, more particularly in the short and medium-tailed lines where competition is the most intense, will continue to decrease and net premiums written for the Life segment will increase in 2005 and 2006.

Premium Distribution by Treaty Type

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

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

The distribution of gross premiums written by type of treaty for the six months ended June 30, 2005 and 2004, was as follows (in millions of U.S. dollars):

	For the six months ended June 30, 2005	For the six months ended June 30, 2004
Non-life Segment		
Proportional	46%	47%
Non-Proportional	38	38
Facultative	5	7
Life Segment		
Proportional	9	7
Non-Proportional	1	1
ART Segment		
Proportional		
Non-Proportional	1	
Total	100%	100%

Based on July 1, 2005 pricing indications and renewal information from cedants and brokers, and assuming constant foreign exchange rates, the Company expects no significant changes in the distribution of gross premiums written by treaty type in 2005.

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

Premium Distribution by Geographic Region

The geographic distribution of gross premiums written for the six months ended June 30, 2005 and 2004, was as follows (in millions of U.S. dollars):

	For the six months ended June 30, 2005	% Change 2005 over 2004	For the six months ended June 30, 2004
Europe	$ 1,099	(4)%	$ 1,142
North America	840	(7)	901
Asia, Australia and New Zealand	180	(24)	237
Latin America, Caribbean and Africa	94	(20)	116
Total	$ 2,213	(8)	$ 2,396

The overall decrease in net premiums written resulted from the following factors: i) primary companies retained more risk as opposed to ceding it to a reinsurer, which resulted in higher competition amongst reinsurers for a shrinking amount of business; ii) as prices were declining in a number of short-tailed lines, the Company determined to not to renew certain treaties; and iii) cedants estimated premiums downward on the current and prior underwriting years. The weakening of the U.S. dollar against the euro and other currencies since June 30, 2004 distorted the period over period comparisons.

Premium Distribution by Production Source

The Company generates its business, or gross premiums written, both through brokers and through direct relationships with cedants. The distribution of gross premiums written by production source for the six months ended June 30, 2005 and 2004, was as follows:

	For the six months ended June 30, 2005	For the six months ended June 30, 2004
Broker	62%	65%
Direct	38%	35%

The modest shift in the distribution of gross premiums by production source since June 30, 2004 reflects a faster decrease in gross premiums written through brokers. The Company s U.S. P&C sub-segment, which generates business predominantly through brokers, has experienced a faster decrease in gross premiums written than the other Non-life sub-segments, which generate business predominantly through direct relationships with cedants. Based on July 1, 2005 renewal information from cedants and brokers, and assuming constant foreign exchange rates, the Company expects no significant changes in the production source of gross premiums written during the remainder of 2005.

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

Investment Income

Net investment income for the six months ended June 30, 2005 and 2004, was as follows (in millions of U.S. dollars):

	For the six months ended June 30, 2005	% Change 2005 over 2004	For the six months ended June 30, 2004
Net investment income	$ 177	19%	$ 148

Net investment income increased in 2005 compared to 2004 for two principal reasons:

- the invested asset base has grown significantly since June 30, 2004, as a result of the Company s positive cash flows from operations of $1,244 million since June 30, 2004;

- investment income denominated in currencies that have appreciated against the U.S. dollar since June 30, 2004, has been converted into U.S. dollars at a higher average exchange rate. The average rate for euro has increased by 7% against the U.S. dollar since the first half-year of 2004, while the Swiss franc increased by 8%, the British pound by 5%, the Canadian dollar by 8% and the Japanese yen by 3%. The impact of foreign exchange contributed approximately 2 points to the growth in net investment income for the first half-year of 2005 compared to the same period in 2004.

The table below provides net investment income by asset source for the six months ended June 30, 2005 and 2004 (in millions of U.S. dollars):

	For the six months ended June 30, 2005	% Change 2005 over 2004	For the six months ended June 30, 2004
Fixed maturities	$ 144	17%	$ 123
Equities	12	22	10
Short-term investments, trading securities, and cash and cash equivalents	8	127	4
Funds held and other	22	8	20
Investment expenses	(9)	6	(9)
Net investment income	$ 177	19	$ 148

Movements in foreign exchange rates since June 30, 2004 contributed 2 points to the growth in net investment income in the first half-year of 2005 and affected the period over period comparisons in the above table.

Net investment income from fixed maturities, equities, short-term investments, trading securities, and cash and cash equivalents has increased compared to 2004 primarily due to the increase in the asset base resulting from the reinvestment of significant cash flows from operations since June 30, 2004.

The investment income on funds held for the first half-year of 2005 and the funds held asset base as at June 30, 2005 did not change significantly compared to the first half-year of 2004 and June 30, 2004, respectively.

Investment expenses, which consist primarily of compensation costs for the Company s internal investment portfolio managers as well as fees from external custodians, grew at a slower pace than the asset base since June 30, 2004 and did not increase significantly in the first half-year of 2005 compared to the same period of 2004.

Current economic indicators continue to suggest moderate global economic growth led by the U.S. economy. Based on the prevailing economic indicators, and assuming constant foreign exchange rates, the Company expects market interest rates to rise at a measured pace in the United States during 2005. Management expects that an increase in interest rates combined with the larger asset base at June 30, 2005, as well as expected favorable cash flows from operations during 2005, should continue to contribute to higher net investment income for the Company during 2005.

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Net Realized Investment Gains

Net realized investment gains for the six months ended June 30, 2005 and 2004, were as follows (in millions of U.S. dollars):

	For the six months ended June 30, 2005	% Change 2005 over 2004	For the six months ended June 30, 2004
Net realized investment gains	$ 93	103%	$ 46

The components of net realized investment gains for the six months ended June 30, 2005 and 2004, were as follows (in millions of U.S. dollars):

	For the six months ended June 30, 2005	For the six months ended June 30, 2004
Net realized investment gains on available for sale securities, excluding other-than-temporary impairments	$ 95	$ 42
Other-than-temporary impairments	(4)	(1)
Net realized investment gains on trading securities		