
**UNITED STATES
SECURITIES AND EXCHANGE COMMISSION**
Washington, DC 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, 2001

OR

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

Commission File Number 0-23625

ANNUITY AND LIFE RE (HOLDINGS), LTD.

(Exact name of registrant as specified in its charter)

Bermuda
(State or other jurisdiction of
incorporation or organization)

Not applicable
(IRS Employer
Identification Number)

Cumberland House, 1 Victoria Street, Hamilton HM 11, Bermuda
(Address of principal executive offices)

441-296-7667

(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 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days.

Yes No

The number of the Registrant's Common Shares (par value \$1.00 per share) outstanding as of August 3, 2001 was 25,680,828.

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ANNUITY AND LIFE RE (HOLDINGS), LTD.
CONSOLIDATED BALANCE SHEETS
Unaudited

(Expressed in United States Dollars)

	<u>June 30, 2001</u>	<u>December 31, 2000</u>
Assets		
Cash and cash equivalents	\$ 36,560,587	\$ 52,691,974
Fixed maturity investments, available for sale, at fair value (amortized cost of \$297,871,915 at June 30, 2001; December 31, 2000 \$266,967,810)	301,502,666	269,127,422
Funds withheld at interest	1,508,013,594	1,530,109,853
Accrued investment income	4,713,814	3,760,138
Other reinsurance receivables	17,300,234	29,552,630
Receivable for reinsurance ceded	109,306,285	104,495,543
Receivable for investments sold	4,929,379	—
Deferred policy acquisition costs	246,380,910	228,728,083
Insurance Licenses, net of amortization	2,185,562	2,243,330
Other assets	5,236,497	3,977,918
Total Assets	<u>\$2,236,129,528</u>	<u>\$2,224,686,891</u>
Liabilities		
Reserves for future policy benefits	\$ 191,001,428	\$ 174,953,018
Interest-sensitive contracts liabilities	1,550,815,988	1,595,128,506
Other reinsurance liabilities	15,726,473	7,623,822
Payable for investments purchased	4,792,058	25,863
Accounts payable and accrued expenses	5,950,813	5,739,906
Total Liabilities	<u>\$1,768,286,760</u>	<u>\$1,783,471,115</u>
Stockholders' Equity		
Preferred Shares (par value \$1.00; 50,000,000 shares authorized; no shares outstanding)	\$ —	\$ —
Common Shares (par value \$1.00; 100,000,000 shares authorized; 25,680,828 shares outstanding at June 30, 2001; December 31, 2000: 25,499,999 shares	25,680,828	25,499,999
Additional paid-in capital	332,049,592	329,496,091
Notes receivable from stock sales	(1,407,491)	(1,367,241)
Accumulated other comprehensive income	3,630,751	2,064,971
Retained earnings	107,889,088	85,521,956
Total Stockholders' Equity	<u>\$ 467,842,768</u>	<u>\$ 441,215,776</u>
Total Liabilities and Stockholders' Equity	<u>\$2,236,129,528</u>	<u>\$2,224,686,891</u>

See accompanying notes to unaudited consolidated financial statements

ANNUITY AND LIFE RE (HOLDINGS), LTD.
CONSOLIDATED STATEMENTS OF OPERATIONS
Unaudited

(Expressed in United States Dollars)

	<u>3 Months Ended June 30, 2001</u>	<u>3 Months Ended June 30, 2000</u>	<u>6 Months Ended June 30, 2001</u>	<u>6 Months Ended June 30, 2000</u>
Revenues				
Net premiums	\$61,628,943	\$37,684,372	\$115,142,096	\$ 73,914,378
Investment income, net of related expenses	19,605,194	25,819,232	42,695,004	52,616,929
Net realized investment gains (losses)	320,629	(2,417,880)	346,250	(2,980,705)
Other	4,644,690	1,589,357	7,778,161	3,396,958
Total Revenues	<u>\$86,199,456</u>	<u>\$62,675,081</u>	<u>\$165,961,511</u>	<u>\$126,947,560</u>
Benefits and Expenses				
Claims and policy benefits	\$45,201,447	\$29,898,304	\$ 86,826,115	\$ 62,856,415
Net cost of interest sensitive contract liabilities	4,497,407	7,475,510	11,188,877	15,903,068
Policy acquisition costs and other insurance expenses	20,609,472	15,313,661	37,675,005	28,395,489
Operating expenses	<u>2,689,045</u>	<u>2,165,313</u>	<u>5,354,115</u>	<u>4,156,527</u>
Total Benefits and Expenses	<u>\$72,997,371</u>	<u>\$54,852,788</u>	<u>\$141,044,112</u>	<u>\$111,311,499</u>
Net Income	<u>\$13,202,085</u>	<u>\$ 7,822,293</u>	<u>\$ 24,917,399</u>	<u>\$ 15,636,061</u>
Net income per common share (Note 3):				
Basic	\$ 0.52	\$ 0.31	\$ 0.97	\$ 0.61
Diluted	\$ 0.47	\$ 0.29	\$ 0.89	\$ 0.57

See accompanying notes to unaudited consolidated financial statements

ANNUITY AND LIFE RE (HOLDINGS), LTD.
CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME
Unaudited

(Expressed in United States Dollars)

	<u>3 Months Ended June 30, 2001</u>	<u>3 Months Ended June 30, 2000</u>	<u>6 Months Ended June 30, 2001</u>	<u>6 Months Ended June 30, 2000</u>
Net income for period	\$13,202,085	\$ 7,822,293	\$24,917,399	\$15,636,061
Other comprehensive income (loss):				
Unrealized holding gains (losses) on securities arising during period	<u>(2,839,789)</u>	<u>3,146,152</u>	<u>1,565,780</u>	<u>3,271,262</u>
Total comprehensive income	<u>\$10,362,296</u>	<u>\$10,968,445</u>	<u>\$26,483,179</u>	<u>\$18,907,323</u>

See accompanying notes to unaudited consolidated financial statements

ANNUITY AND LIFE RE (HOLDINGS), LTD.
CONSOLIDATED STATEMENTS OF CASH FLOWS
Unaudited

(Expressed in United States Dollars)

	6 Months Ended June 30, 2001	6 Months Ended June 30, 2000
Cash flows from operating activities		
Net income	\$ 24,917,399	\$ 15,636,061
Adjustments to reconcile net income to cash provided (used) by operating activities		
Net realized investment losses (gains)	(346,250)	2,980,705
Changes in:		
Accrued investment income	(953,676)	994,666
Deferred policy acquisition costs	(17,652,827)	21,409,256
Other reinsurance receivables	7,441,654	(110,539,559)
Other assets	(1,226,194)	(1,016,741)
Reserves for future policy benefits	16,048,410	109,908,330
Interest sensitive contracts, net of funds withheld	(22,216,259)	(33,100,476)
Other reinsurance liabilities	8,102,651	(4,683,435)
Accounts payable	210,907	(912,681)
Net cash provided by operating activities	\$ 14,325,815	\$ 676,126
Cash flows from investing activities		
Proceeds from sales of fixed maturity securities	\$ 102,410,728	\$ 192,402,916
Purchase of fixed maturity securities	(133,011,744)	(165,214,278)
Acquisition of business	—	(13,181,790)
Net cash provided (used) by investing activities	(30,601,016)	14,006,848
Cash flows from financing activities		
Issuance of shares	2,734,330	—
Interest accrued on notes receivable	(40,250)	(40,250)
Dividends paid to stockholders	(2,550,266)	(2,040,000)
Net cash provided (used) by financing activities	143,814	(2,080,250)
Increase (decrease) in cash and cash equivalents	(16,131,387)	12,602,724
Cash and cash equivalents, beginning of period	52,691,974	31,187,242
Cash and cash equivalents, end of period	\$ 36,560,587	\$ 43,789,966

See accompanying notes to unaudited consolidated financial statements.

ANNUITY AND LIFE RE (HOLDINGS), LTD.
CONSOLIDATED STATEMENTS OF CHANGES IN STOCKHOLDERS' EQUITY
Unaudited

(Expressed in United States Dollars)

	6 Months Ended June 30, 2001	6 Months Ended June 30, 2000
Preferred shares par value \$1.00		
Balance at beginning and end of period	\$ —	\$ —
Common shares par value \$1.00		
Balance at beginning of period	\$ 25,499,999	\$ 25,499,999
Issuance of shares	<u>180,829</u>	<u>—</u>
Balance at end of period	<u>\$ 25,680,828</u>	<u>\$ 25,499,999</u>
Additional paid-in capital		
Balance at beginning of period	\$329,496,091	\$329,496,091
Issuance of shares	<u>2,553,501</u>	<u>—</u>
Balance at end of period	<u>\$332,049,592</u>	<u>\$329,496,091</u>
Notes receivable from stock sales		
Balance at beginning of period	\$ (1,367,241)	\$ (1,286,741)
Accrued interest during period	<u>(40,250)</u>	<u>(40,250)</u>
Balance at end of period	<u>\$ (1,407,491)</u>	<u>\$ (1,326,991)</u>
Accumulated other comprehensive income		
Balance at beginning of period	\$ 2,064,971	\$(11,269,216)
Net unrealized holding gains on securities	<u>1,565,780</u>	<u>3,271,262</u>
Balance at end of period	<u>\$ 3,630,751</u>	<u>\$ (7,997,954)</u>
Retained earnings		
Balance at beginning of period	\$ 85,521,956	\$ 49,614,761
Net income	24,917,399	15,636,061
Stockholder dividends	<u>(2,550,266)</u>	<u>(2,040,000)</u>
Balance at end of period	<u>\$107,889,089</u>	<u>\$ 63,210,822</u>
Total Stockholders' Equity	<u>\$467,842,768</u>	<u>\$408,881,967</u>

See accompanying notes to unaudited consolidated financial statements.

ANNUITY AND LIFE RE (HOLDINGS), LTD.

NOTES TO THE UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS

1. Organization

Annuity and Life Re (Holdings), Ltd. (“Holdings”) was incorporated on December 2, 1997 under the laws of Bermuda. Holdings provides annuity and life reinsurance to insurers and reinsurers through its wholly-owned subsidiaries: Annuity and Life Reassurance, Ltd. (“Annuity and Life Reassurance”), licensed under the laws of Bermuda as a long term insurer; Annuity and Life Re America, Inc. (“Annuity and Life Re America”), an insurance holding company based in the United States, and Annuity and Life Reassurance America, Inc. (“Annuity and Life Reassurance America”), a life insurance company domiciled in the United States. Holdings, Annuity and Life Reassurance, Annuity and Life Re America and Annuity and Life Reassurance America are collectively referred to herein as the “Company”.

2. Basis of Presentation

The accompanying unaudited consolidated financial statements of the Company have been prepared in accordance with accounting principles generally accepted in the United States of America (“U.S. GAAP”) for interim financial information and in accordance with Regulation S-X. Accordingly, they do not include all of the information and footnotes required by U.S. GAAP for complete financial statements. These consolidated financial statements should be read in conjunction with the audited consolidated financial statements and notes thereto contained in the Company’s Form 10K for the fiscal year ended December 31, 2000 and Form 10-Q for the fiscal quarter ended March 31, 2001. In the opinion of management, all adjustments considered necessary for a fair presentation have been included in these financial statements.

3. Earnings Per Share

The following table sets forth the computation of basic and diluted earnings per share:

	<u>3 months ended June 30,</u>		<u>6 months ended June 30,</u>	
	<u>2001</u>	<u>2000</u>	<u>2001</u>	<u>2000</u>
Net Income	\$13,202,085	\$ 7,822,293	\$24,917,399	\$15,636,061
Weighted average number of common shareholders outstanding	25,591,746	25,499,999	25,590,414	25,499,999
Weighted average number of common shares outstanding including shares issuable from exercise of options and warrants	28,211,313	27,311,063	28,097,367	27,366,408
Earnings per share	\$ 0.52	\$ 0.31	\$ 0.97	\$ 0.61
Earnings per share assuming dilution	\$ 0.47	\$ 0.29	\$ 0.89	\$ 0.57

4. Accounting Standards

In September 2000, the Financial Accounting Standards Board (FASB) issued Statement No. 140 “Accounting for Transfers and Servicing of Financial Assets and Extinguishments of Liabilities — a Replacement of SFAS Statement No. 125”. It revises the standards for accounting for securitizations and other transfers of financial assets and collateral and requires certain disclosures. However, most of the provisions of SFAS No. 125 have been carried over without change. The Statement is effective for transactions occurring after March 31, 2001 and is effective for recognition, reclassification and disclosures of transactions and collateral for fiscal years ending after December 15, 2000. This Statement is to be applied prospectively, with certain exceptions. Management has reviewed this Statement and has concluded that it does not significantly affect its current financial reporting.

ANNUITY AND LIFE RE (HOLDINGS), LTD.

NOTES TO THE UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS — (Continued)

5. Contingency

In accordance with standard industry practices the Company conducts audits of its reinsurance clients in the normal course of business. Such audits relate to and are specifically limited to a review of the insurance business ceded to the Company by each reinsurance client company. Currently, the Company is in the process of conducting reinsurance audits of several of its client companies. The outcome of such audits cannot now be reasonably determined. The results of these audits may impact the Company's financial position and results of operations in future reporting periods.

ANNUITY AND LIFE RE (HOLDINGS), LTD.
MANAGEMENT'S DISCUSSION AND ANALYSIS OF
FINANCIAL CONDITION AND RESULTS OF OPERATIONS

1. General

Annuity and Life Re (Holdings), Ltd. ("Holdings") was incorporated on December 2, 1997 under the laws of Bermuda. Holdings provides annuity and life reinsurance to insurers and reinsurers through its wholly-owned subsidiaries: Annuity and Life Reassurance, Ltd. ("Annuity and Life Reassurance"), licensed under the insurance laws of Bermuda as a long term insurer; Annuity and Life Re America, Inc. ("Annuity and Life Re America"), an insurance holding company based in the United States; and Annuity and Life Reassurance America, Inc. ("Annuity and Life Reassurance America"), a life insurance company domiciled in the United States. Holdings, Annuity and Life Reassurance, Annuity and Life Re America and Annuity and Life Reassurance America are collectively referred to herein as the "Company".

2. Operating Results

Net Income. For the six-month period ended June 30, 2001, we had consolidated net income of \$24,917,000 or \$0.97 per common share, \$0.89 per common share on a fully diluted basis, compared with \$15,636,000 or \$0.61 per common share, \$0.57 per common share on a fully diluted basis for the six months ended June 30, 2000. For the three month period ended June 30, 2001, we had consolidated net income of \$13,202,000 or \$0.52 per common share, \$0.47 per common share on a fully diluted basis, compared with \$7,822,000 or \$0.31 per common share, \$0.29 per common share on a fully diluted basis for the three months ended June 30, 2000. The increase in the net income for the three and six month periods ended June 30, 2001 as compared with the net income for the three and six month periods ended June 30, 2000 reflects the strong growth and development of our reinsurance business, favorable underwriting and investment results and the net realized investment losses incurred in periods ended June 30, 2000. During the three and six month periods ended June 30, 2000 the investment portfolio was repositioned to improve performance and to increase future operating income.

Net Operating Income. In addition to net income, we report net operating income. This is not a substitute for net income computed in accordance with accounting principles generally accepted in the United States of America ("U.S. GAAP"), but is an important measure used by management, investors and others to measure our results. We define net operating income as net income excluding realized gains and losses from the sale of investments. Our definition of net operating income may differ from that used by other public life and annuity companies.

For the three-month and six month periods ended June 30, 2001, our net operating income increased 26% and 32%, respectively, over the comparable prior year periods. Net operating income for the six month period ending June 30, 2000 was \$24,572,000 or \$0.96 per common share, \$0.87 per common share on a fully diluted basis, compared with \$18,617,000 or \$0.73 per common share, \$0.68 per common share on a fully diluted basis for the six months ended June 30, 2000. Net operating income for the three month period ending June 30, 2001 was \$12,881,000 or \$0.50 per common share, \$0.46 per common share on a fully diluted basis, compared with \$10,240,000 or \$0.40 per common share, \$0.37 per common share on a fully diluted basis for the three months ended June 30, 2000. The increase in the net operating income for the three and six month periods ended June 30, 2001 as compared with the three and six month periods ended June 30, 2000 reflects the growth and development of our reinsurance business, favorable underwriting and investment results.

Net Premiums. Net premium revenue for the three-month and six-month periods ended June 30, 2001 was \$61,629,000 and \$115,142,000, respectively, an increase of 63% and 56% over the three-month and six-month periods ended June 30, 2000, respectively. Substantially all premium revenue was derived from traditional ordinary life reinsurance developed directly and through the use of intermediaries. The growth reflects the level of new business written and the increase in the face amount of insurance in force. At June 30, 2001 the total face amount of life insurance in force was \$91.1 billion compared with \$55.5 billion at June 30, 2000, an increase of 64%, and \$77.0 billion at December 31, 2000, an increase of 18%. New business writings

and premium levels are significantly influenced by the seasonal nature of the life reinsurance marketplace and by large transactions and therefore can fluctuate from period to period.

Net Investment Income. Total net investment income for the three month and six-month periods ended June 30, 2001 was \$19,605,000 and \$42,695,000, respectively, as compared with \$25,819,000 and \$52,617,000 for the three-month and six-month periods ended June 30, 2000. The decrease in investment income is primarily due to a decrease in the income earned on Funds Withheld under modified coinsurance agreements related to our Interest Sensitive Contracts Liabilities. The income earned on the funds withheld for the three month and six-month periods ended June 30, 2001 was \$14,564,000 and \$32,614,000, respectively, as compared with \$20,611,000 and \$42,411,000 for the three and six month periods ended June 30, 2000, respectively. The average yield rate earned on an annualized basis on the invested assets, excluding the funds withheld, for the six months ended June 30, 2001 was approximately 6.36% as compared with 6.52% for the six months ended June 30, 2000.

Realized Investment Gains. Realized investment gains (losses) for the three month and six month period ended June 30, 2001 were \$321,000 and \$346,000, respectively, as compared with (\$2,418,000) and (\$2,981,000), respectively, for the three month and six month periods ended June 30, 2000. These gains and losses result from active management of our investment portfolio intended to improve performance and increase operating income.

Realized gains and losses are not considered by the Company to be recurring components of earnings. We make decisions concerning the sales of invested assets based on a variety of market, business and other factors.

During the six month period ended June 30, 2001, unrealized gains were \$1,565,000 as compared with unrealized gains of \$3,271,000 incurred during the six month period ended June 30, 2000 which were included in Other Comprehensive Income. The unrealized gains and losses are principally related to changes in the general level of interest rates during those periods.

Other Income. Other income for the three month and six month period ended June 30, 2001 was \$4,645,000 and \$7,778,000, respectively, as compared with \$1,589,000 and \$3,397,000, respectively, for the three and six month periods ended June 30, 2000. This income is primarily derived from net surrender fees related to our Interest Sensitive Contract liabilities. The increase in the income is primarily due to the increase in the surrender and withdrawal level during the three and six month period ended June 30, 2001 as compared with the three and six-month periods ended June 30, 2000.

Claims and Policy Benefits. Life insurance claims and policy benefits for the three month and six month periods ended June 30, 2001 were \$41,426,000, 72% of net premium and \$79,168,000, 74% of net premium, respectively, as compared with \$25,329,000, 76% of net premium and \$54,875,000, 83% of net premium for the three month and six month periods ended June 30, 2000. Aggregate experience reported for the three month and six-month period ended June 30, 2001 was within pricing parameters and expected levels, taking into consideration seasonal incidence of claims. The reserves for future policy benefits takes into consideration the expected seasonal incidence of claims. On a percentage of premium basis results for the six month period ended June 30, 2001 were significantly better than the results reported for the six month period ended June 30, 2000. During the three months ended March 31, 2000 we reported an increase in the number of life insurance claims and higher than expected losses. This variance from expected losses was primarily due to incorrect claim information provided by one reinsurance client. This was corrected in the three-month period ended December 31, 2000 when we received corrected information from the client company. Currently, we are conducting reinsurance audits of two client companies. The probable outcome of these audits cannot now be reasonably determined. It is possible that the settlement of the audit findings may impact our operating results in a future period. Although we expect mortality to be fairly constant over long periods of time, it will fluctuate from period to period. Reserves for future policy benefits are determined by claims reported from ceding companies, our aggregate experience, seasonal claim patterns and overall mortality trends.

Interest Credited to Interest Sensitive Contracts Liabilities. Interest credited to interest sensitive contract liabilities, which are liabilities we assume under certain reinsurance agreements we enter into, for the three month and six month periods ended June 30, 2001 was \$4,497,000 and \$11,189,000, respectively, as

compared with \$7,475,000 and \$15,903,000 for the three month and six month periods ended June 30, 2000. The decrease reflects the level of our interest sensitive contracts liabilities and is related to income earned on the related funds withheld at interest. The income earned on the funds withheld at interest for the three month and six-month periods ended June 30, 2001 was \$14,564,000 and \$32,614,000, respectively, as compared with \$20,611,000 and \$42,411,000, respectively, for the three month and six month periods ended June 30, 2000. Currently, we are conducting a reinsurance audit of a reinsurance client company . The probable outcome of this audit cannot now be reasonably determined. It is possible that the settlement of the audit findings may impact our operating results in a future period.

Policy Acquisition and Other Insurance Expenses. Policy acquisition and other insurance expenses, consisting primarily of allowances and amortization of deferred policy acquisition costs, for the three month and six month periods ended June 30, 2001 were \$20,609,000 and \$37,675,000, respectively, as compared with \$15,314,000 and \$28,395,000, respectively, for the three month and six month periods ended June 30, 2000. Generally, policy acquisition costs and other insurance expenses fluctuate with business volume and changes in product mix. The increase in these costs reflects the growth, development and experience of our life and annuity business. In addition, during the three and six month periods ended June 30, 2001 as compared with the three and six month periods ended June 30, 2000 the surrender and withdrawal level on the Interest Sensitive Contracts Liabilities increased significantly, increasing the amortization of the related Deferred Policy Acquisition Costs and certain other related insurance expenses.

Other Operating Expenses. Operating expenses for the three month and six month periods ending June 30, 2001 were \$2,689,000, or 3.1% of total revenue, and \$5,354,000, or 3.2% of total revenue, respectively, as compared with \$2,165,000, or 3.5% of total revenue, and \$4,156,000, or 3.3% of total revenue, for the three month and six month periods ending June 30, 2000. We consider the operating expense level to be low by industry standards and are in line with the Company's plan to be a low cost provider. The reduction in the expense ratio is primarily due to growth and development of our reinsurance operations.

3. Financial Condition

Investments

Cash & Fixed Maturity Investments

Invested assets, including cash and cash equivalents, amounted to \$338,063,000 at June 30, 2001 as compared with \$321,819,000 at December 31, 2000. At June 30, 2001 and December 31, 2000 net unrealized gains on invested assets were \$3,630,000 and \$2,065,000, respectively, and generally reflect the declines in interest rates during the periods.

The Company's investment policy is designed to achieve above average risk adjusted returns, maintain a high quality portfolio, maximize current income, maintain an adequate level of liquidity and match the cash flows of the portfolio to the required cash flows for the related liabilities.

Funds Withheld at Interest — Interest Sensitive Contracts Liabilities

Assets with a carrying value of approximately \$1,508,014,000 at June 30, 2001 and \$1,530,110,000 at December 31, 2000, related to annuity reinsurance agreements entered into by the Company, are held by and managed by the ceding company in segmented portfolios. The liability for the annuity reinsurance is included on the Company's Balance Sheet as Interest Sensitive Contracts Liabilities. During the six-month period ended June 30, 2001 these liabilities decreased approximately 3% reflecting the level of deposits accepted by the Company, surrender and benefit payments made by the Company under the reinsurance agreements.

Liquidity and Capital Resources

Our liquidity and capital resources are a measure of our overall financial strength and our ability to generate cash flows from our operations to meet operating and growth needs. Our principal sources of funds are premiums received, net investment income, proceeds from investments called, redeemed or sold, cash and

short term investments. The principal obligations and uses of the funds are the payment of policy benefits, policy acquisition and operating costs and the purchase of investments.

For the six-month period ended June 30, 2001 we generated \$14,326,000 from our operating activities as compared with \$676,000 from our operating activities for the six months ended June 30, 2000. This change is primarily related to the development of our insurance operations, the underwriting results and the initial costs associated with writing new life reinsurance and annuity reinsurance business.

Our capital structure currently consists entirely of equity. At June 30, 2001 our total capitalization after deducting loans to management and including retained earnings and accumulated other comprehensive income amounted to \$467,843,000 as compared with \$441,216,000 at December 31, 2000. During the six month period ended June 30, 2001 the outstanding shares increased 180,829 due to the exercise of stock options, increasing capital by \$2,734,330. We continuously review our capital adequacy and we believe this level of capital is sufficient to support the Company's insurance writings and growth for the near future.

At June 30, 2001 we had no outstanding debt. At June 30, 2001 and December 31, 2000 letters of credit totaling \$187,822,000 and \$183,687,000, respectively, issued in the ordinary course of the Company's business have been issued by the Company's bankers in favor of certain ceding insurance companies to provide security and to meet regulatory requirements. At June 30, 2001 and December 31, 2000 letters of credit totaling \$141,487,000 and \$138,000,000, respectively, were fully collateralized by our investments. The Company may incur indebtedness in the future in connection with possible acquisitions of, investments in, joint ventures with or strategic alliances with companies whose businesses compliment the Company's business.

At June 30, 2001 and December 31, 2000 investments of \$65,572,000 and \$63,410,000, respectively, were held in trust for the benefit of certain ceding insurance companies to provide security and to meet regulatory requirements.

On February 15, 2001 and April 26, 2001 the Board of Directors declared quarterly stockholder dividends of \$.05 per share payable to shareholders of record on March 8, 2001 and May 17, 2001, respectively. The Board intends to continue to declare and payout of earnings a quarterly dividend. The continued payment of dividends is dependent on the ability of our operating subsidiaries to achieve satisfactory underwriting and investment results and other factors determined to be relevant by the Company's Board of Directors.

The Company has no material commitments for capital expenditures at June 30, 2001.

4. Forward-Looking and Cautionary Statements

The Company and its representatives may from time to time make written or oral forward-looking statements, including those contained in the foregoing Management's Discussion and Analysis. In order to take advantage of the "safe harbor" provisions of the Private Securities Litigation Reform Act of 1995, the Company is hereby identifying certain important factors which could cause the Company's actual results, performance or achievement to differ materially from those that may be contained in or implied by any forward-looking statement made by or on behalf of the Company. The factors that could cause such forward-looking statements not to be realized include, without limitation, acceptance in the market of the Company's reinsurance products; pricing competition; the amount of underwriting capacity from time to time in the market; general economic conditions and conditions specific to the reinsurance and investment markets in which the Company operates; material fluctuations in interest rate levels; regulatory changes and conditions; rating agency policies and practices; claims development; and loss of key executives. The Company cautions that the foregoing list of important factors is not intended to be, and is not, exhaustive. The Company does not undertake to update any forward-looking statement that may be made from time to time by or on behalf of the Company.

ANNUITY AND LIFE RE (HOLDINGS), LTD.

QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

There have been no material changes since December 31, 2000. Please refer to “Item 7A: Quantitative and Qualitative Disclosures About Market Risk” in our Annual Report on Form 10-K.

PART II OTHER INFORMATION

Item 4. Submission of Matters to a Vote of Securities Holders

(1) Annual Meeting of Shareholders

The Annual Meeting of Shareholders of the Company was held on April 26, 2001. The following matters were voted upon at the Annual Meeting, and received the votes set forth below:

(a) All of the following persons nominated were elected to serve as directors and received the number of votes set forth opposite their respective names:

	<u>For</u>	<u>Withheld</u>
Lawrence S. Doyle	22,928,743	26,683
Michael P. Esposito, Jr.	22,951,420	4,006
Mark Grier	22,949,620	5,806
Mary R. Hennessy	22,951,420	4,006
Jerry S. Rosenbloom	22,949,620	5,806

(b) A proposal to appoint KPMG as independent accountants for the Company for the 2001 fiscal year was approved and received 22,951,966 votes FOR and 1,740 votes AGAINST, with 1,720 abstentions and 0 broker non-votes.

Item 6. Exhibits and Reports on Form 8-K

(a) Exhibits — The following exhibits are filed as part of this report on Form 10-Q:

None

(b) Reports on Form 8-K — There were no reports on Form 8-K filed during the period ended June 30, 2001.

ANNUITY AND LIFE RE (HOLDINGS), LTD.

SIGNATURES

Pursuant to the requirements of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned thereunto duly authorized.

Annuity and Life Re (Holdings), Ltd.

/s/ LAWRENCE S. DOYLE

Name: Lawrence S. Doyle

Title: President and Chief Executive Officer
(Principal Executive Officer)

Date: August 10, 2001

/s/ WILLIAM W. ATKIN

Name: William W. Atkin

Title: Chief Financial Officer and Treasurer
(Principal Accounting and Financial Officer)

Date: August 10, 2001