Tokio Millennium Re Ltd.

Annual Report **2004**

TOKIO
MARINE
T M R

AM Best rating: **A++ (Superior)**

Standard & Poor's rating*: **AA-**

As at December 31, 2004

Total assets:	**$817.5m**
Shareholder's equity:	**$595.3m**
Net income:	**$26.2m**

Tokio Millennium Re Ltd. Directors: Shin-ichiro Okada, Shuzo Sumi, Fumiaki Namekawa, Tatsuhiko Hoshina, Yuichi Takeda, Takayuki Sumi
Parent Company: The Tokio Marine and Nichido Fire Insurance Co., Ltd., 2-1, Marunouchi 1-Chome, Chiyoda-ku, Tokyo 100-8050 Japan
Auditors: KPMG, Crown House, 4 Par-La-Ville Road, Hamilton HM CX Bermuda
Bermuda Lawyers: Conyers Dill & Pearman, Clarendon House, 2 Church Street, Hamilton HM CX Bermuda

*Information on the most current rating is available at www.standardandpoors.com or from Standard & Poor's at (212) 438-2400.
Ratings are not a guarantee of an insurer's financial strength nor a recommendation as to the insurer.

Corporate Information

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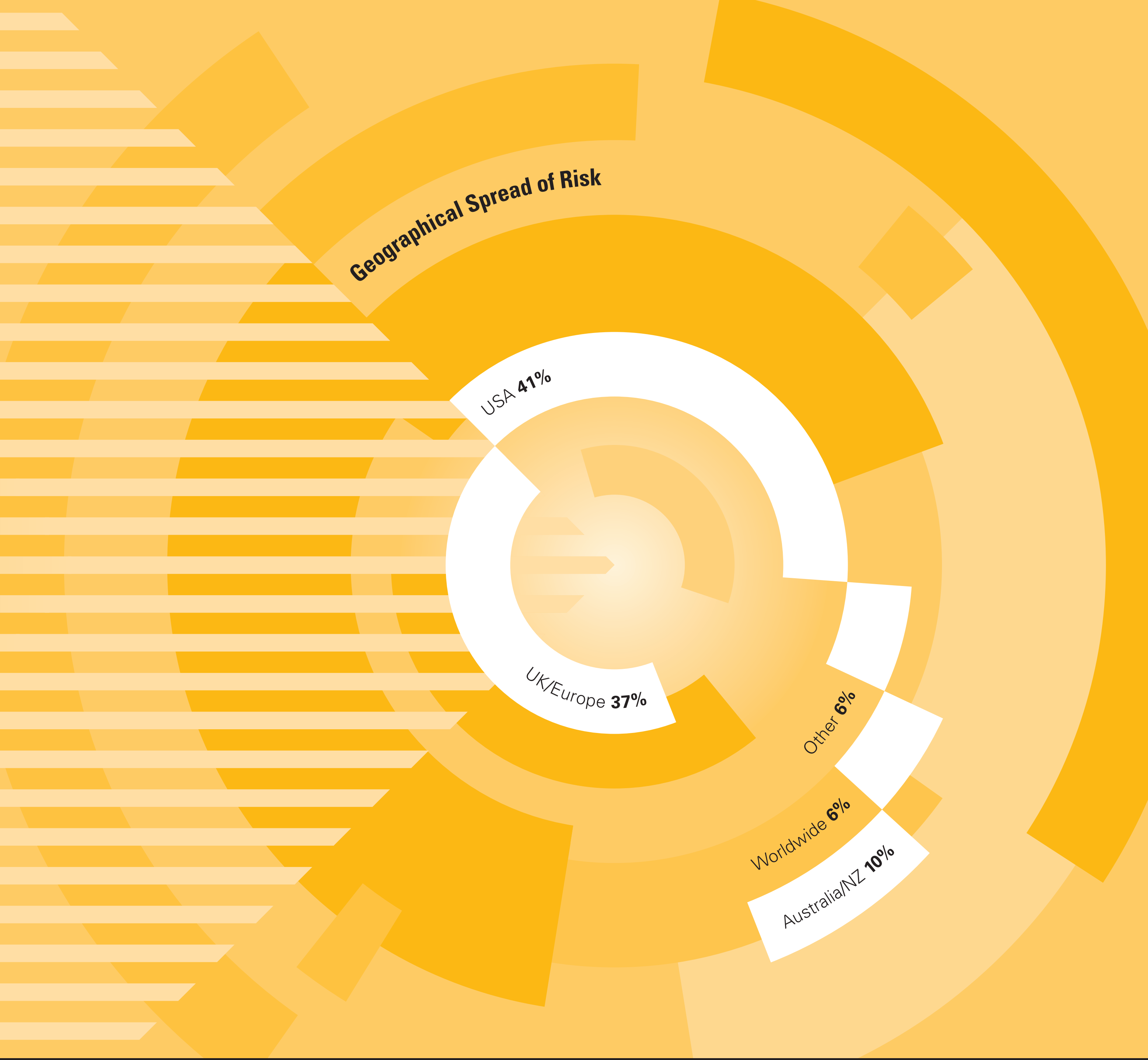


Diversifying risk, sharing knowledge

Japan's largest non-life insurance company, The Tokio Marine and Nichido Fire Insurance Company, Limited (Tokio Marine Nichido)* took a visionary step in 2000, establishing Tokio Millennium Re Ltd. (Tokio Millennium) in Bermuda.

Tokio Millennium's mission is to act as a strategic risk diversifier for the Tokio Marine Nichido group, by writing high layer natural catastrophe risks outside of Japan.

Tokio Millennium's other role within the Tokio Marine Nichido group is to strengthen its expertise in the ART market and to share the knowledge gained with the entire group so that similar products can be marketed to their Japanese clients.

* In October 2004, Tokio Marine and Fire Insurance Company merged with Nichido Fire and Marine Insurance Company, making the new, merged company by far the largest in terms of profitability and size among non-life companies in Japan.

Message from the CEO

Yuichi Takeda President & Chief Executive Officer

Pictured opposite, left to right:
Takayuki Sumi Senior Underwriting Officer, **Veronica Lewis** Accounts Administrator, **Edwin Jordan** Senior Vice President, **Maurice Kane** Vice President & Financial Controller, **Yuichi Takeda** President & Chief Executive Officer, **Simon Arnott** Vice President

Dear Clients,

Tokio Millennium truly values our insurance clients, who all share a common goal to benefit from a long-term, stable and highly secured reinsurance relationship.

We distinguish ourselves by sharing the same goal through our sole shareholder, Tokio Marine Nichido, one of the world's largest and highly regarded primary insurers. The power of shared vision among our management, our clients and our shareholder is paramount in our view. We therefore strive to create a new market for insurance clients offering our top tier rating.

In 2004, Tokio Millennium continued to grow its business of natural catastrophe reinsurance and other capital management products with some of the world's top insurance companies and intermediaries. Our total operating income grew substantially and our brand has been further recognised in the market. All of our risks were in line with expectations – with the exception of one programme, which more than halved our net income as a result of the four consecutive hurricanes in the US.

While the statistics indicate the return period of having four major hurricanes in Florida is likely to be more than 200 years, we are determined to do much better in managing our reinsurance capital. To this end, I am glad to report that some significant improvements have already been put in place prior to the 2005 renewal season, and as such will continue to serve the reinsurance and capital protection needs of our client's portfolios.

Looking forward, the reinsurance industry is unlikely to experience a smooth ride in 2005. The reinsurance cycle in general continues to soften in many lines, while global warming poses a significant challenge in relation to the ever increasing trend of both frequency and severity of natural disasters. The insurance industry at large faces questions with regard to the inappropriate use of reinsurance.

In a time of such great uncertainty, we abide by our conservative use of capital and disciplined underwriting, while utilising the latest technology to monitor and align the common and faithful interests of our clients and shareholder. We continue to offer both conventional and alternative reinsurance products, including risk swaps, which represent the most fundamental principles of insurance in a modern day format.

It is my great pleasure to report to you that our journey reached its fifth anniversary in March 2005. We hope our quest for focused reinsurance capital management will invite even more quality clients to join our circle and share in our common goals and aspirations.

Operating Report

Takayuki Sumi Senior Underwriting Officer

Tokio Millennium's mission is to act as a strategic risk diversifier for the Tokio Marine Nichido Group, by writing high layer natural catastrophe risks outside of Japan.

Advanced risk analysis, capital management, transactional skills and a large capital commitment allows Tokio Millennium to pursue this mission.

Tokio Millennium's additional role within the Tokio Marine Nichido group, is to strengthen its expertise in the ART market and to share the knowledge gained with the entire group so that similar products can be marketed to their Japanese clients.

2004 saw the continuation of our mission to geographically diversify the risk of Tokio Marine Nichido by accepting North American and international property catastrophe excess of loss reinsurance business and by participating in capital market transactions.

We strengthened our expertise in the alternative risk transfer market by continuing to grow our structured reinsurance portfolio, negotiate risk swaps and transform reinsurance to derivatives.

Traditional Catastrophe Reinsurance

The strength of our company is the security and large capacity we provide to our clients. Our continued growth has been aided by the market's increasing shift to high quality security. Many of our transactions in 2004 were private layers where the placements were not shown in the open market, as a result we were often the sole reinsurer.

Our extensive research and expenditure on internal and external pricing model tools enabled us to conservatively control both territorial and peril accumulations while maximising returns on utilised capital.

Underwriting was concentrated in territories where we believe the data was more reliable and the catastrophe modelling more robust. The territorial breakdown of our portfolio as at 1st January 2005 is shown on page one of this report.

Catastrophe Bonds

2004 saw catastrophe bond maturities of $39 million. We reinvested $15 million of these proceeds in one new catastrophe bond which matures in 2007. This brings our catastrophe bond holdings to $25 million compared to $49 million at year end 2003. Our reduced holding reflects the lower pricing environment for these bonds.

In terms of risk accumulation, the investment is managed as though the exposure forms part of our traditional catastrophe reinsurance portfolio.

Structured Products

Our goal as in previous years has been to write a limited number of contracts each year that are substantial in size and have a low correlation with our traditional catastrophe reinsurance portfolio. During 2004 we wrote two whole account stop loss and two structured quota share contracts.

We successfully commuted all of the whole account stop loss contracts that were in our portfolio as of year end. The current portfolio consists of structured quota share and working-layer US corporate workers' compensation contracts.

Transformer

We act as a transformer by selling reinsurance and buying derivatives. The underlying risk is fully hedged and our protection is collateralised. We began transforming in 2003 and have increased the number of transactions for 2004.

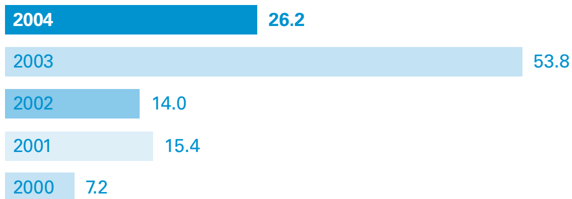
Risk Swaps

In May 2003 Tokio Millennium established a subsidiary, Tokio Millennium Agency Ltd. This subsidiary negotiates and administers Property Catastrophe Risk Swap transactions on behalf of Tokio Marine Nichido. The total aggregate swapped in 2004 was in excess of $1.5 billion.

Tokio Marine Nichido's Japanese earthquake and typhoon exposure were swapped with non-Japanese natural peril exposure from other insurance and reinsurance companies. Tokio Millennium Re does not participate as a co-reinsurer on these swaps; rather we receive an agency fee through Tokio Millennium Agency.

Financial Highlights

Maurice Kane Vice President & Financial Controller



Net Income
In millions of US dollars

2004 was another profitable year for Tokio Millennium Re. Total operating income was $135.5 million compared to $69.1 million in 2003.

Operating income comprises net earned premiums, structured reinsurance fees, catastrophe bond income and agency fees.

We wrote net premiums of $102.3 million compared to $100 million in 2003 and we earned net premiums of $123.5 million compared to $55.9 million in 2003. The increase of $67.6 million in net earned premium is attributable to the increase in written premiums in the previous twelve months.

Catastrophe bond income was $2 million compared to $3.8 million in 2003. The decrease of $1.8 million reflects the lower holdings of catastrophe bonds in 2004 compared to 2003.

Fee income from structured reinsurance contracts remained strong at $9.8 million compared to $9.4 million in 2003.

Our net investment income was $20.4 million compared to $17.5 million in 2003. The increase of $2.9 million is explained by an increase in our investment assets and higher yields on our cash holdings.

Total expenses were $129.7 million compared to $32.9 million in 2003. Total expenses consist of net losses incurred, acquisition expenses, catastrophe swap derivative expenses, general and administrative expenses and foreign exchange gains.

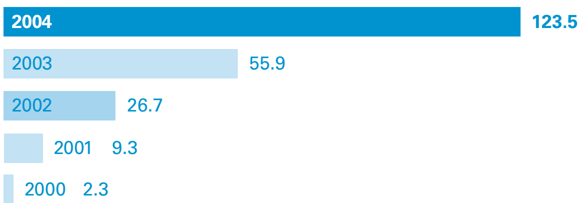
We incurred net losses of $86.6 million compared to $14.1 million in 2003. This is an increase of $72.5 million over the previous year. Of this increase $56.2 million results from US hurricane losses during August and September 2004. The balance of the increase relates to quota share contracts and is in line with expectations.

Acquisition expenses were $39.5 million compared to $11.7 million in 2003. The increase of $27.8 million is attributable to the increase in net earned premium.

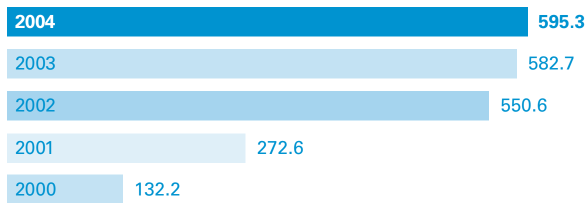
Catastrophe swap derivative expenses/ (recoveries) were ($4 million) compared to $1.4 million in 2003. The difference of ($5.4 million) is attributable to a $7 million recovery on our US hurricane losses written as part of our transformer portfolio.

Loss and loss adjustment expenses as a percentage of operating income was 64% and total expenses (including loss and loss adjustment expenses) as a percentage of operating income was 96%.

General and Administrative expenses were $8.8 million compared to $7 million in 2003. Foreign exchange gains were $1.2 million compared to $1.3 million in 2003.



Net Premiums Earned
In millions of US dollars



Shareholder's Equity
In millions of US dollars

These gains reflect the strengthening of our Euro and Sterling holdings over the US dollar.

Net income for the year was $26.2 million compared to $53.8 million in 2003.

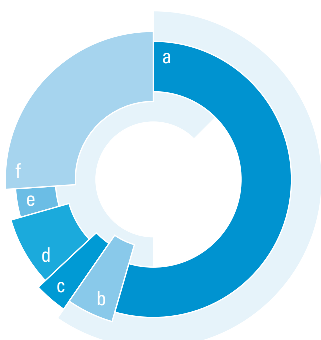
Investment assets, consisting of cash and cash equivalents and fixed maturity securities, amount to $604.4 million at year-end compared to $550.9 million in 2003. Total assets amount to $817.5 million compared to $825.8 million in 2003.

Shareholders equity increased by $12.5 million to stand at $595.3 million at year-end. The increase results from net income in the year of $26.2 million, less a proposed dividend of $7.9 million and a decrease in unrealised gains on our fixed income portfolio of $5.8 million.

Investment Portfolio

The bond portfolio primarily consists of US government securities with a weighted average credit rating of AAA. The minimum credit rating is AA-. At year-end the average maturity of the bond portfolio stood at 3.68 years and the average duration stood at 3.19 years.

The balance of our investment portfolio is held in AAA rated money market funds and cash deposits. The increase in cash and cash equivalents to $157.6 million is in response to the rising interest rate environment.



Investment portfolio	2004 US$'000
a US treasuries & agencies	**329,367**
b Non-US treasuries & agencies	**31,020**
c US corporates	**20,485**
d Non-US corporates	**45,684**
e Asset-backed securities	**20,232**
f Cash and cash equivalents	**157,600**
	604,388

Consolidated Financial Statements

Independent Auditors' Report

To the Board of Directors and Shareholder Tokio Millennium Re Ltd.

We have audited the accompanying consolidated balance sheets of Tokio Millennium Re Ltd. and subsidiary as at December 31, 2004 and 2003 and the related consolidated statements of operations and comprehensive income, changes in shareholder's equity and cash flows for the years then ended. These financial statements are the responsibility of the company's management. Our responsibility is to express an opinion on these consolidated financial statements based on our audits.

We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free of material misstatement. An audit includes consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control over financial reporting. Accordingly, we express no such opinion. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the consolidated financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the consolidated financial position of Tokio Millennium Re Ltd. and subsidiary as at December 31, 2004 and 2003, and the results of their operations and their cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America.

KPMG

Chartered Accountants
Hamilton, Bermuda
March 24, 2005

Consolidated Balance Sheets

December 31, 2004 and 2003

	Notes	2004 US$'000	2003 US$'000
Assets			
Cash and cash equivalents	3	157,600	82,141
Fixed maturity securities	4	446,788	468,757
Catastrophe bonds	4	25,125	49,406
Deposit asset	3	107,534	134,650
Accrued interest receivable		5,957	6,501
Reinsurance balances receivable		19,550	17,215
Prepaid reinsurance premiums	6	–	2,463
Catastrophe swap, at fair value		1,084	131
Outstanding losses recoverable from reinsurers	5 & 6	814	866
Deferred acquisition expenses		13,186	22,787
Prepaid expenses		779	515
Capital assets	7	714	1,074
Funds withheld	3	38,135	39,203
Other assets		253	89
Total assets		817,519	825,798
Liabilities			
Outstanding losses and loss expenses	5	56,476	13,660
Deposit liability		107,534	134,650
Reinsurance balances payable		4,872	4,935
Unearned premiums		42,345	66,010
Deferred fee income		2,450	6,558
Accounts payable and accrued expenses		712	1,113
Dividend payable		7,850	16,129
Total liabilities		222,239	243,055
Shareholder's equity			
Authorised, issued and fully paid, 100,000,000 shares of $1 par value each		100,000	100,000
Contributed surplus	8	400,000	400,000
Retained earnings		88,381	70,053
Accumulated other comprehensive income		6,899	12,690
Total shareholder's equity		595,280	582,743
Total liabilities and shareholder's equity		817,519	825,798

See accompanying notes to consolidated financial statements.

Consolidated Statements of Operations and Comprehensive Income

Years ended December 31, 2004 and 2003

	Notes	2004 US$'000	2003 US$'000
Income			
Reinsurance premiums assumed		102,435	103,804
Change in unearned premiums		23,666	(46,229)
Reinsurance premiums earned		126,101	57,575
Reinsurance premiums ceded	6	179	3,789
Change in prepaid reinsurance		2,463	(2,066)
Reinsurance premiums ceded		2,642	1,723
Net premiums earned		123,459	55,852
Catastrophe bond income		2,034	3,786
Fee income		9,822	9,351
Agency fee income		229	133
Total operating income		135,544	69,122
Net investment income	4	20,374	17,540
Total income		155,918	86,662
Expenses			
Loss and loss expenses incurred		86,671	14,496
Losses recoverable from reinsurers		(67)	(422)
Net loss and loss expenses incurred	5	86,604	14,074
Acquisition expenses		39,501	11,740
Catastrophe swap (recovery) expense		(3,960)	1,373
General and administrative expenses	10	8,831	7,044
Foreign exchange gain		(1,236)	(1,334)
Total expenses		129,740	32,897
Net income		26,178	53,765
Other comprehensive loss			
Net change in unrealised losses on investments		(5,791)	(5,474)
Other comprehensive loss		(5,791)	(5,474)
Comprehensive income		20,387	48,291

See accompanying notes to consolidated financial statements.

Consolidated Statements of Changes in Shareholder's Equity

Years ended December 31, 2004 and 2003

	2004 US$'000	2003 US$'000
Share capital		
Balance at beginning and end of year	100,000	100,000
Contributed surplus		
Balance at beginning and end of year	400,000	400,000
Retained earnings		
Balance at beginning of year	70,053	32,417
Net income	26,178	53,765
Dividends	(7,850)	(16,129)
Balance at end of year	88,381	70,053
Other comprehensive income		
Balance at beginning of year	12,690	18,164
Net change in unrealised losses on investments	(5,791)	(5,474)
Balance at end of year	6,899	12,690
Total shareholder's equity	595,280	582,743

See accompanying notes to consolidated financial statements.

Consolidated Statements of Cash Flows

Years ended December 31, 2004 and 2003

	2004 US$'000	2003 US$'000
Cash flows from operating activities		
Net income	26,178	53,765
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation of capital assets	627	245
Amortisation of fixed maturity securities	4,372	4,449
Gain on sale of fixed maturity securities	–	(28)
Deposit asset	27,116	11,312
Accrued interest receivable	544	(1,968)
Reinsurance balances receivable	(2,335)	(1,348)
Prepaid reinsurance premiums	2,463	(2,066)
Catastrophe swap, at fair value	(953)	(131)
Outstanding losses recoverable from reinsurers	52	(115)
Deferred acquisition expenses	9,601	(20,904)
Prepaid expenses	(264)	(158)
Funds withheld	1,068	(38,773)
Other assets	(164)	27
Outstanding losses and loss expenses	42,816	11,170
Deposit liability	(27,116)	(11,312)
Reinsurance balance payable	(63)	4,935
Unearned premiums	(23,665)	46,229
Deferred fee income	(4,108)	571
Accounts payable and accrued expenses	(401)	613
Cash provided by operating activities	55,768	56,513
Cash flows from investing activities		
Purchase of fixed maturity securities	(23,134)	(218,837)
Proceeds on maturity of fixed maturity securities	35,220	31,425
Proceeds on sale of fixed maturity securities	–	22,446
Purchase of catastrophe bonds	(15,000)	–
Proceeds on maturity of catastrophe bonds	39,000	–
Purchase of capital assets	(266)	(145)
Cash provided (used) by investing activities	35,820	(165,111)
Cash flows from financing activities		
Dividend paid	(16,129)	(4,212)
Cash used by financing activities	(16,129)	(4,212)
Net increase (decrease) in cash and cash equivalents	75,459	(112,810)
Cash and cash equivalents at beginning of year	82,141	194,951
Cash and cash equivalents at end of year	157,600	82,141

See accompanying notes to consolidated financial statements.

Notes to the Consolidated Financial Statements

December 31, 2004 and 2003

1. General

Tokio Millennium Re Ltd. (the "Company") was incorporated under the laws of Bermuda on March 15, 2000 and is licenced as a Class 3 reinsurer under the Insurance Act, 1978 of Bermuda and related regulations to write all classes of property and casualty business. The Company is a wholly owned subsidiary of the Tokio Marine and Nichido Fire Insurance Co., Ltd.

The Company participates in various excess of loss property catastrophe reinsurance contracts. Property catastrophe reinsurance covers unpredictable events such as hurricanes, windstorms, hailstorms, earthquakes, fires, freezes, floods and other man-made or natural disasters. Because the Company has large aggregate exposures to these risks, the Company expects that its claims experience will be characterised by relatively low frequency and high severity claims. The occurrence of claims from catastrophic events is likely to result in substantial volatility in the Company's financial results for any particular period. The Company endeavours to manage its exposures to catastrophic events by limiting the amount of its exposure in each geographic zone.

The Company also provides non-traditional customised insurance, reinsurance and financial solutions for its clients' world-wide property and casualty exposures on both a treaty and facultative basis.

On June 6, 2003 Tokio Millennium Agency Ltd. ("TMA"), a wholly owned Bermuda subsidiary of the Company, was incorporated with an initial share capital of $12,000. Its primary activity is to facilitate risk swap agreements between Tokio Marine and Nichido Fire Insurance Co., Ltd. and other insurance companies for which it receives agency fees.

2. Summary of significant accounting policies

The accompanying consolidated financial statements are prepared in accordance with accounting principles generally accepted in the United States of America which require management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the consolidated financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates. The following are the significant accounting policies adopted by the Company:

(a) Basis of consolidation

These consolidated financial statements include the results of operations of Tokio Millennium Re Ltd. and its wholly-owned subsidiary Tokio Millennium Agency Ltd. All material inter-company balances have been eliminated.

(b) Premiums earned and acquisition expenses

Premiums assumed are recorded on the accruals basis and are included in income on a pro-rated basis over the period of underlying coverage with the unearned portion deferred in the balance sheet. Reinsurance premiums ceded are similarly pro-rated over the period of coverage with the unearned portion being deferred in the balance sheet as prepaid reinsurance premium.

Acquisition expenses, mainly commissions and brokerage, related to unearned premiums are deferred and amortised to income over the periods in which the premiums are earned. The method followed in determining the deferred acquisition expenses limits the amount of the deferral to its realisable value by giving consideration to losses and expenses expected to be incurred as premiums are earned.

(c) Outstanding losses and loss expenses

Losses and loss expenses paid are recorded when advised by the ceding insurance companies. Outstanding losses comprise estimates of the amount of reported losses and loss expenses received from the ceding insurance companies plus a provision for losses incurred but not reported estimated by management, based on actuarial analysis using historical data available to the Company on the business assumed together with industry data.

Given the inherent nature of major catastrophic events, considerable uncertainty underlies the assumptions and associated estimated reserve for losses and loss expenses. These estimates are reviewed regularly and, as experience develops and new information becomes known, the reserves are adjusted as necessary. Such adjustments, if any, are reflected in income in the period in which they are determined. Due to the inherent uncertainty in estimating the liability for losses and loss expenses, there can be no assurance that the ultimate liability will not be settled for a significantly greater or lesser amount than that recorded. Based on the current assumptions used, management believes that the Company's recorded amount is a reasonable estimate of the ultimate cost of losses incurred to the balance sheet date.

Amounts recoverable from reinsurers are estimated in a manner consistent with the underlying liabilities.

(d) Investments

Investments in fixed maturity securities and catastrophe bonds are classified as available for sale and are carried at fair value with any unrealised gains and losses included in accumulated other comprehensive income as a separate component of shareholder's equity. Fair value is based on quoted market prices. The cost of fixed maturity securities is adjusted for amortisation of premiums and discounts. Realised gains and losses on fixed maturity securities and catastrophe bonds are recognised in net income using the specific identification method and include adjustments for declines in value that are considered other than temporary. Interest income on fixed maturity securities and catastrophe bonds is accrued to the balance sheet date.

(e) Deposit asset and liability

In the normal course of its operations, the Company enters into certain contracts that do not meet the risk transfer provisions of Statement of Financial Accounting Standard No. 113, "Accounting and Reporting for Reinsurance of Short Duration and Long Duration Contracts." These contracts are accounted for as deposits. Generally consideration is retained by the cedant on a funds withheld basis and is recorded as a deposit asset. The Company is credited with interest on the deposit asset at a contractually determined rate. Interest income is recorded in the statement of operations as part of net investment income. The Company initially records a deposit liability in the amount of the consideration due or received. Actuarial analysis is used to estimate the present value of the ultimate liability assumed under the contract and the appropriate accretion rates to increase the initial deposit over the contract term. The accretion charge is recorded in the statement of operations as part of net investment income. Losses paid on these contracts are recorded as a reduction of the deposit asset and deposit liability.

The Company earns fee income for the provision of these contracts. Fee income is earned based upon the terms of the contracts, with the unearned portion deferred in the balance sheet, as deferred fee income.

(f) Derivative financial instruments

The Company designates its derivatives based upon criteria established by Statement of Financial Accounting Standard No. 133, "Accounting for Derivative Instruments and Hedging Activities" ("SFAS 133"). From time to time the Company enters into catastrophe swap derivatives, under which certain catastrophe reinsurance exposures are ceded to the swap counterparty. Catastrophe swaps are recorded at fair value with changes in fair values recorded in the income statement.

At December 31, 2004, the maximum exposure to the credit risk of the counterparty to the swap agreement is $20 million (2003 – $13 million) which is fully collateralised by assets placed in trust by the counterparty.

2. Summary of significant accounting policies (continued)

(g) Capital assets

Capital assets are stated at cost less accumulated depreciation calculated on a straight-line basis over the estimated useful lives of the assets which are as follows:

Computer equipment & software	3 years
Office equipment	4 years
Fixtures and fittings	5 years
Motor vehicles	5 years
Leasehold improvements	5 years

(h) Translation of foreign currencies

Foreign currency assets and liabilities considered monetary items, are translated at exchange rates in effect at the balance sheet date. Foreign currency revenues and expenses are translated at the transaction date exchange rates. Exchange gains and losses are included in the determination of net income.

(i) Cash and cash equivalents

For purposes of the statements of cash flows the Company considers all deposits with an original maturity of ninety days or less and money market funds which can be redeemed without penalty as equivalent to cash.

3. Concentration of credit risk

As at December 31, 2004 cash and cash equivalents comprise $157.6 million (2003 – $82.1 million) held with three banking institutions. The Company's management evaluates the financial strength and stability of these institutions on a periodic basis.

As at December 31, 2004, a deposit asset of $107.5 million (2003 – $133.5 million) is held in trust by a ceding company with an A.M. Best credit rating of A.

As at December 31, 2004, funds withheld of $37.0 million (2003 – $37.7 million) is held in trust by a ceding company with an A.M. Best credit rating of A-.

4. Investments

(a) Fixed maturity securities

(i) The amortised cost, fair value and unrealised gains and losses of investments in fixed maturity securities are as follows:

At December 31, 2004	Amortised cost US$'000	Unrealised gains US$'000	Unrealised losses US$'000	Fair value US$'000
US government and government agency securities	321,840	8,893	(1,366)	329,367
Non US government and government agency securities	31,107	97	(184)	31,020
US corporate securities	20,624	–	(139)	20,485
Non US corporate securities	46,072	–	(388)	45,684
Asset-backed securities	20,371	–	(139)	20,232
	440,014	8,990	(2,216)	446,788

At December 31, 2003	Amortised cost US$'000	Unrealised gains US$'000	Unrealised losses US$'000	Fair value US$'000
US government and government agency securities	336,614	13,325	(1,177)	348,762
Non US government and government agency securities	31,302	89	(219)	31,172
US corporate securities	20,870	60	–	20,930
Non US corporate securities	46,569	182	(8)	46,743
Asset-backed securities	21,118	80	(48)	21,150
	456,473	13,736	(1,452)	468,757

(ii) The following table summarises for all fixed maturity securities in an unrealised loss position at December 31, 2004, the unrealised loss and fair value by the length of time the security has been continuously in an unrealised loss position.

	Less than 12 months		Greater than 12 months	
At December 31, 2004	**Fair value US$'000**	**Unrealised losses US$'000**	**Fair value US$'000**	**Unrealised losses US$'000**
US government and government agency securities	49,304	(550)	19,092	(816)
Non US government and government agency securities	20,912	(184)	–	–
US corporate securities	20,485	(139)	–	–
Non US corporate securities	45,684	(388)	–	–
Asset-backed securities	20,232	(139)	–	–
	156,617	(1,400)	19,092	(816)

(iii) For fixed maturity securities held on December 31, 2004 the maturity distribution is as follows:

At December 31, 2004	**Amortised cost US$'000**	**Fair value US$'000**
Within one year	54,812	54,949
From one to five years	249,870	252,686
From five to ten years	135,332	139,153
	440,014	446,788

(iv) The Company's investments in fixed maturity securities carry a weighted average credit rating of AAA, as assigned by Standard & Poors. The minimum credit rating of securities within the fixed maturity investment portfolio is AA-.

4. **Investments** (continued)

(a) Fixed maturity securities (continued)

(v) The components of net investment income for the years ended December 31, 2004 and 2003 were as follows:

	2004 US$'000	2003 US$'000
Interest on fixed maturity securities	22,151	21,134
Amortisation of fixed maturity securities	(4,372)	(4,449)
Interest on cash and cash equivalents	1,826	950
Interest on deposit assets, net of accretion of deposit liability	–	–
Interest on funds withheld	1,050	162
Gain on sale of fixed maturity securities	–	28
Investment expenses	(281)	(285)
Net investment income	20,374	17,540

(vi) In the normal course of business, fixed maturity securities and cash with fair values of $105.7 million as at December 31, 2004 (2003 – $38.4 million) were deposited in trust for the benefit of ceding companies.

(b) Catastrophe bonds

(i) The Company's investments in catastrophe bonds comprise two catastrophe bonds with Standard and Poor's ratings of BB and BB+ respectively and maturities ranging from 2005 to 2007. The issuers of these securities have used the proceeds raised to collateralise certain catastrophe reinsurance obligations, namely U.S. hurricane risks. The investment in these securities is therefore at risk of loss, in whole or in part, if a covered catastrophe occurs.

The cost and fair value of catastrophe bonds are as follows:

At December 31, 2004	Amortised cost US$'000	Unrealised gains US$'000	Unrealised losses US$'000	Fair value US$'000
Catastrophe bonds	25,000	125	–	25,125
At December 31, 2003				
Catastrophe bonds	49,000	411	(5)	49,406

(ii) The Company earns income on these securities based upon LIBOR plus a fixed rate of interest.

5. Outstanding losses and loss expenses

The summary of changes in outstanding losses and loss expenses for 2004 and 2003 is as follows:

	2004 US$'000	2003 US$'000
Gross balance as of January 1	13,660	2,490
Less outstanding losses recoverable from reinsurers	(866)	(751)
Net balance at January 1	12,794	1,739
Incurred losses related to:		
Current year	106,682	14,263
Prior years	(20,078)	(189)
Total incurred	86,604	14,074
Paid losses related to:		
Current year	(41,544)	(359)
Prior years	(2,192)	(2,660)
Total paid	(43,736)	(3,019)
Net balance at December 31	55,662	12,794
Plus reinsurance recoverable	814	866
Gross balance at December 31	56,476	13,660

As a result of the change in estimates of insured events in prior years, the Company experienced favourable development of $20.1 million. In 2001, the Company entered into a reinsurance agreement providing the cedant with $20 million of cover in excess of certain attachment points. The Company was liable for the full limit of loss if the cedant's losses exceed the attachment by $20 million and property reinsurance market losses as reported by the Property Claims Services ("PCS") exceed $20 billion. As a result of the terrorist attack on the World Trade Centre on September 11, 2001 the cedant incurred losses of $20 million above the attachment point. During 2002, the property market loss reported by PCS was greater than $20 billion, and the Company paid losses of $20 million to the insured. However, during 2004 the PCS loss estimate was revised downwards to $18.8 billion and the loss payment of $20 million paid in 2002 was refunded.

During 2004 the Company incurred losses in the amount of $56.2 million as a result of US hurricanes which occurred during August and September 2004. Under the Company's catastrophe swap derivatives, $7.0 million of the US hurricane losses was recovered and has been included as catastrophe swap recovery in the consolidated statement of income. The balance of incurred losses in 2004 relate to the Company's non property catastrophe programmes.

The establishment of the provision for outstanding losses and loss adjustment expenses is based on known facts and interpretation of circumstances and is therefore a complex and dynamic process influenced by a large variety of factors. These factors include the Company's experience with similar cases and historical trends involving claim payment patterns, pending levels of unpaid claims, product mix or concentration, claim severity and frequency patterns such as those caused by natural disasters, fires, or accidents, depending on the business assumed.

6. Reinsurance

Reinsurance contracts do not relieve the Company from its obligations to policyholders. Failure of reinsurers to honour their obligations could result in losses to the Company; consequently, allowances are established for amounts deemed uncollectible. The Company evaluates the financial condition of its reinsurers and monitors concentrations of credit risk arising from similar geographic regions, activities, or economic characteristics of the reinsurers to minimise its exposure to significant losses from reinsurer insolvencies. At December 31, 2004, prepaid reinsurance premiums of $Nil (2003 – $2.3 million) were associated with a single reinsurer with an A.M. Best credit rating of A.

7. Capital assets

Capital assets comprise:

			2004	2003
	Cost US$'000	Accumulated depreciation US$'000	Net book value US$'000	Net book value US$'000
Fixtures and fittings	283	174	109	142
Office equipment	30	17	13	7
Computer equipment & software	521	291	230	111
Leasehold improvements	1,014	688	326	760
Motor vehicles	86	50	36	54
	1,934	1,220	714	1,074

During the current year the Company changed its depreciation period for leasehold improvements from 10 years to 5 years as the Company does not intend to exercise the option to renew the lease for an additional five years when it expires in August 31, 2006. The cumulative adjustment in the amount of $344,473 has been recorded as an amortisation expense in the current year.

8. Contributed surplus

Contributed surplus represents cash contributed by the shareholder in excess of the issued share capital.

9. Fair value of financial instruments

The following methods and assumptions were used by the Company in estimating fair value disclosures for financial instruments.

Cash and cash equivalents: The carrying amounts reported in the balance sheet for these instruments approximate their fair values.

Catastrophe bonds: The fair value of catastrophe bonds is based on independent broker quotes.

Fixed maturity securities: The fair value of investments in fixed maturity securities is based on quoted market prices.

Other assets and liabilities: The fair value of accrued interest receivable, reinsurance balances receivable, catastrophe swap at fair value, funds withheld, other assets, reinsurance balances payable, accounts payable and accrued expenses and dividend payable approximates their carrying value due to their short term nature.

The estimates of fair values presented herein are subjective in nature and are not necessarily indicative of the amounts that the Company would actually realise in a current market exchange. However, any differences would not be expected to be material. Certain instruments such as prepaid reinsurance, deferred acquisition expenses, deposit asset, outstanding losses recoverable from reinsurers, prepaid expenses, capital assets, deposit liabilities, outstanding losses and loss expenses, unearned premiums and deferred fee income are excluded from fair value disclosure. Thus the total fair value amounts cannot be aggregated to determine the underlying economic value of the Company.

10. Commitments

(a) On September 1, 2001, the Company entered into an agreement to lease office space. The term of the lease is five years with an option to renew for a further five years. Rent for the current year of the contract amounts to $216,758 (2003 – $206,913) which has been included in general and administrative expenses. This amount will increase by a factor dependent on the Bermuda consumer price index on an annual basis. Rent is payable in equal monthly installments.

(b) The Company issued letters of credit for $17.7 million in favour of ceding companies. Fixed maturity securities and cash equivalents with a carrying value of $27.9 million have been pledged as security for these letters of credit.

11. Statutory requirements

The Company is required by its licence to maintain capital and surplus greater than a minimum statutory amount determined as the greater of a percentage of outstanding losses or a given fraction of net written premiums. At December 31, 2004 the Company is required to maintain a minimum statutory capital and surplus of $15.6 million. Actual statutory capital and surplus is $580.6 million and accordingly there is no restriction on the amount of retained earnings available for the payment of dividends to the shareholder.

Actual statutory capital and surplus, as determined using statutory accounting principles, is as follows:

	2004 US$'000
Total shareholder's equity	595,280
Less non-admitted assets:	
Deferred acquisition expenses	13,186
Prepaid expenses	779
Capital assets	714
Investment in subsidiary	20
Statutory capital and surplus	580,581

The Company is also required to maintain a minimum liquidity ratio whereby the value of its relevant assets are not less than 75% of the amount of its relevant liabilities. Relevant assets include cash and cash equivalents, catastrophe bonds, fixed maturity securities, accrued interest receivable, reinsurance balances receivable, funds withheld and other assets. Certain categories of assets do not qualify as relevant assets under the statute. Relevant liabilities are outstanding losses and loss expenses, unearned premiums, deferred fee income, dividend payable, accounts payable and accrued expenses, net of outstanding losses recoverable from reinsurers and prepaid reinsurance premiums.

At December 31, 2004 the Company was required to maintain relevant assets of approximately $85.4 million. At that date relevant assets were approximately $693.2 million and the minimum liquidity ratio was therefore met.

12. Taxation

Under current Bermuda law the Company is not required to pay any taxes in Bermuda on either income or capital gains. The Company has received an undertaking from the Minister of Finance in Bermuda that in the event of any such taxes being imposed the Company will be exempted from taxation until the year 2016.

Historical Financial Information

December 31, 2004, 2003, 2002, 2001 and 2000

Consolidated Balance Sheets	2004 US$'000	2003 US$'000	2002 US$'000	2001 US$'000	2000 US$'000
Assets					
Cash and cash equivalents	157,600	82,141	194,951	232,828	106,526
Fixed maturity securities	446,788	468,757	313,848	–	–
Catastrophe bonds	25,125	49,406	49,245	39,000	23,500
Deposit asset	107,534	134,650	145,961	–	–
Reinsurance balances receivable	19,550	17,215	15,867	10,013	3,280
Funds withheld	38,135	39,203	430	570	–
Other assets	22,787	34,426	9,212	5,463	3,566
Total assets	817,519	825,798	729,514	287,874	136,872
Liabilities					
Outstanding losses and loss expenses	56,476	13,660	2,490	2,426	–
Deposit liability	107,534	134,650	145,961	–	–
Unearned premiums	42,345	66,010	19,781	12,093	4,234
Other liabilities	15,884	28,735	10,701	768	403
Total liabilities	222,239	243,055	178,933	15,287	4,637
Shareholder's equity					
Share capital	100,000	100,000	100,000	100,000	100,000
Contributed surplus	400,000	400,000	400,000	150,000	25,000
Retained earnings	88,381	70,053	32,417	22,587	7,235
Other comprehensive income	6,899	12,690	18,164	–	–
Total shareholder's equity	595,280	582,743	550,581	272,587	132,235
Total liabilities and shareholder's equity	817,519	825,798	729,514	287,874	136,872

Consolidated Statements of Operations	2004 US$'000	2003 US$'000	2002 US$'000	2001 US$'000	(9 months) 2000 US$'000
Income					
Net reinsurance premiums written	102,256	100,015	34,418	16,815	6,563
Net premiums earned	123,459	55,852	26,748	9,335	2,329
Other underwriting income	12,085	13,270	5,284	3,824	290
Total operating income	135,544	69,122	32,032	13,159	2,619
Net investment income	20,374	17,540	11,075	7,867	6,203
Total income	155,918	86,662	43,107	21,026	8,822
Expenses					
Net loss and loss expenses incurred	86,604	14,074	23,001	2,016	–
Acquisition expenses	39,501	11,740	1,102	724	50
General and administrative expenses	8,831	7,044	5,176	3,001	1,581
Other expenses	(5,196)	39	(214)	(67)	(44)
Total expenses	129,740	32,897	29,065	5,674	1,587
Net income	26,178	53,765	14,042	15,352	7,235

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