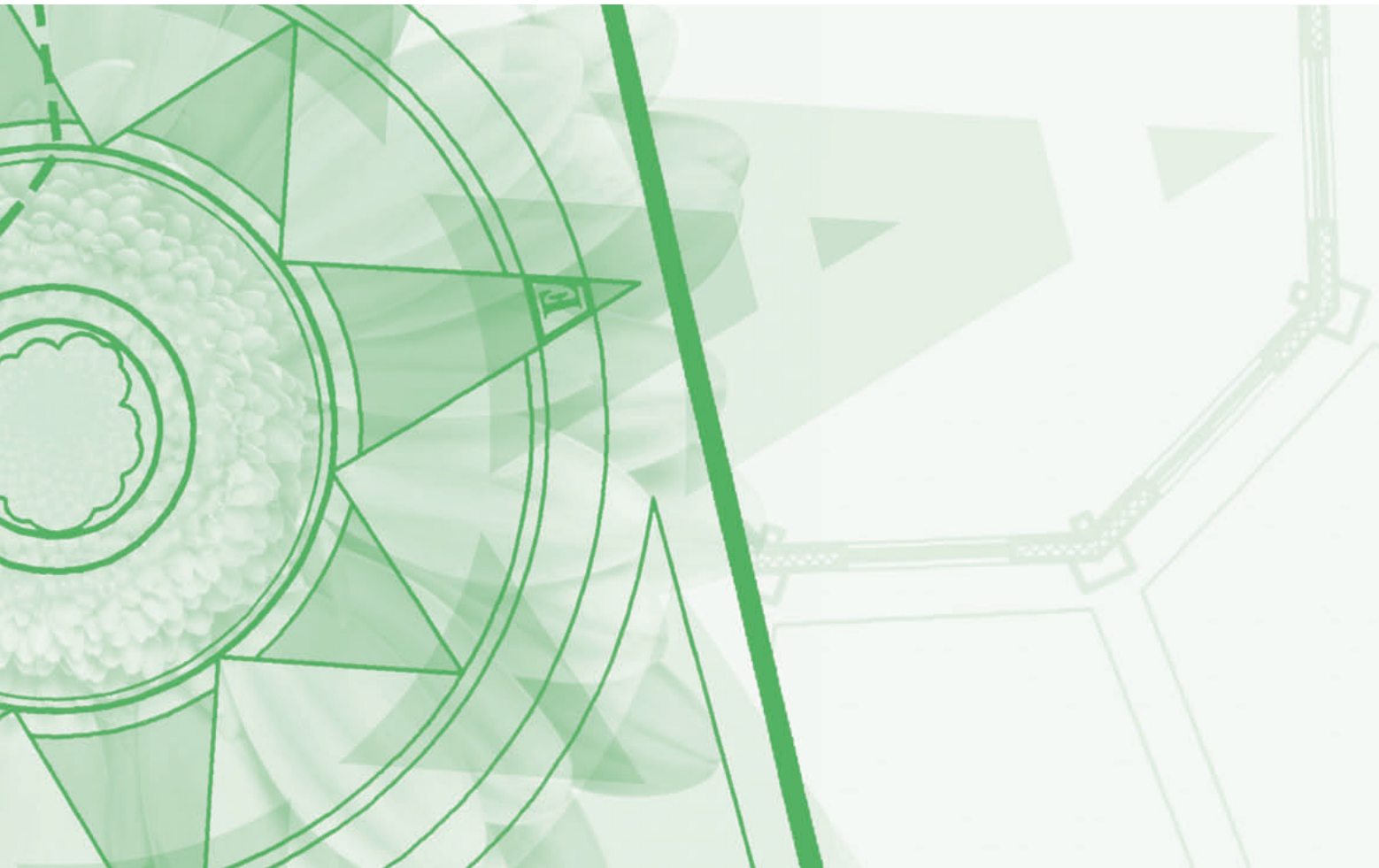


→ GROWTH

Tokio Millennium Re Ltd.

ANNUAL REPORT 2005



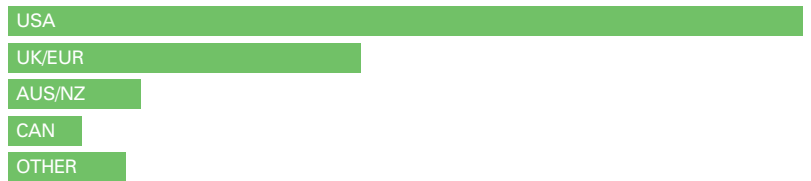


DIVERSIFYING RISK, SHARING KNOWLEDGE.

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AS AT DECEMBER 31, 2005

Total assets:	\$1,034.7m
Shareholder's equity:	\$685.1m
Net income:	\$(50.0)m



GEOGRAPHICAL SPREAD OF RISK

USA: 54% UK/Europe: 24% Australia/NZ: 9% Canada: 5% Other: 8%

→ 2005 HIGHLIGHTS



AM Best rating: A+ (Superior)



Standard & Poor's rating*: AA-

* 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.



TATSUHIKO HOSHINA
DIRECTOR & CHIEF UNDERWRITING OFFICER

YUICHI TAKEDA
PRESIDENT & CHIEF EXECUTIVE OFFICER

TAKAYUKI SUMI
DIRECTOR & SENIOR UNDERWRITING OFFICER

DEAR CLIENTS & BUSINESS PARTNERS,

Last year I cautioned that the world of reinsurance in 2005 would not be a smooth ride due to generally declining prices, regulatory uncertainties, and increasing threats from Mother Nature. Since then, we decided to increase our frequency assumption of major US hurricanes by 50% based on recent research. As a result we had to decline under-priced and unsustainable business.

The reality, it turns out, was even worse than anyone could have expected. New Orleans was flooded by Katrina, which was followed by Rita and Wilma. The Pakistan earthquake of magnitude 7.6, while not a huge industry event, caused many casualties. Our thoughts and prayers are with those victims who lost families and homes.

As a specialised natural catastrophe reinsurer, we are not immune to the aftermath of such events. 2005 saw our first ever net loss (\$50 million) since the establishment of the company, although the total loss incurred was about half of our worst case scenario payout.

In early summer 2005, with the committed support from our sole parent, Tokio Marine Nichido, we began to prepare to play a wider role, in line with our continuous mission to further diversify the world's catastrophe risks. While our proven expertise of risk management and expanding business franchise pushed us in this

direction, last year's consecutive hurricane events added another catalyst to act sooner rather than later.

Tokio Millennium now underwrites all layers of natural peril catastrophe risks, as well as terrorism, workers compensation catastrophe, and extreme weather risks, backed by an unconditional parental guarantee. On the product development side, we expanded capital market transactions and risk swaps, in line with our dedicated mission of exploring new markets.

Our business has been, and will be, conducted on a common catastrophe risk management and pricing platform, which urges us to concentrate on risks that we believe are appropriately priced. We employ proprietary tools to score insured exposure data and vendor models, before combining the results with qualitative aspects of our operation. However basic this exercise sounds, we will repeat it relentlessly with ever improving methods.

Our focus on quality clients with a long term perspective never changes. We are proud to offer large capacity to a limited number of the world's most disciplined primary insurance and reinsurance companies, in the form of traditional reinsurance, risk swaps, or even capital market structures. Tokio Millennium sincerely appreciates your continued support in our quest to provide quality risk management products in turbulent times.

→ MESSAGE FROM THE CEO



YUICHI TAKEDA

President & Chief Executive Officer



MARIO DICARO
SENIOR ANALYST (TeRAMS)

DWAYNE BASDEN
SENIOR TECHNOLOGY ANALYST

TRACEY OWENS-ANDERSON
UNDERWRITING ASSISTANT

EDWIN JORDAN
SENIOR VICE PRESIDENT, UNDERWRITING

OPERATING REPORT

Tokio Millennium pursues its mission to act as a strategic risk diversifier for the Tokio Marine Nichido Group by accepting natural catastrophe business outside Japan.

The parent company of Tokio Millennium, Tokio Marine and Nichido Fire Insurance, is the oldest and largest non-life insurance company in Japan, which has a high aggregation of Japanese windstorm and earthquake risks. It is the mission of Tokio Millennium to enhance the capital efficiency of the Group by geographically diversifying the aggregation of natural perils by accepting natural peril risks outside Japan.

Tokio Millennium pursues this mission with its advanced risk analysis technology, capital and risk management, transactional skills and large capacity.

The company also has the mission to obtain expertise in Alternative Risk Transfer products so as to share this knowledge with the Tokio Group with the aim to provide similar products to Japanese clients.

Tokio Millennium continued to increase its natural perils portfolio during 2005 and thereby further enhanced the geographical diversification of risk for the Tokio Group. Although Tokio Millennium was impacted by the series of hurricane events in the United States during 2005, the impact was

relatively small as a result of its underwriting discipline and scientific research.

TRADITIONAL CATASTROPHE REINSURANCE

The market's recognition of the importance of high quality security was reaffirmed particularly following the tragic events of Hurricane Katrina, which gave Tokio Millennium further opportunities to expand its portfolio. Utilising its large capacity and quality security, Tokio Millennium continued to focus on accepting high layer catastrophe contracts, which has been its target area of acceptance since the establishment of the company.

Tokio Millennium has pursued vigorous research into recent changes in the trend in frequency and severity of hurricanes in the North Atlantic basin. As a direct result of this research the company adjusted the exceedance probability curves by an average of 50% in April 2005. This gave rise to a reduction in business written for US hurricane exposed contracts during the June and July renewal season. This disciplined action proved to be very astute, as the insurance industry suffered the largest loss in history a few weeks later.

TRANSFORMER

The increase in demand from institutional investors to diversify their portfolio by entering into the reinsurance market has risen markedly during 2005.

→ OPERATING REPORT

Tokio Millennium was able to take advantage of this trend and has become one of the leading companies in transforming business, whereby the company sells reinsurance and buys derivatives from the investors. The underwriting risk is fully hedged and the company is protected from credit risk by having the investor fully collateralise the limit.

RISK SWAPS

Tokio Millennium's subsidiary, Tokio Millennium Agency Ltd, continues to increase its swap transactions as more companies have recognised the virtue and effectiveness of this product. Tokio Marine Nichido's Japanese earthquake and typhoon exposures are swapped with non-Japanese natural peril exposures from other insurance and reinsurance companies. Tokio Millennium Agency negotiates and administers the swap transactions on behalf of Tokio Marine Nichido. The total aggregate swapped in 2005 was in excess of \$1.9 billion. Tokio Millennium does not participate as a co-reinsurer on these swaps; but rather receives an agency fee through Tokio Millennium Agency.

ALTERNATIVE RISK TRANSFER

We continued our strategy of writing a limited number of structured contracts that have a low correlation with our traditional catastrophe reinsurance portfolio. During 2005 we wrote one whole account stop loss and three 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.

We hold a limited number of catastrophe bonds. These investments are managed as though the exposure forms part of the traditional catastrophe reinsurance portfolio in terms of risk accumulation. In 2005, one bond matured and two bonds were purchased for a total of \$7 million.

GOING FORWARD FOR 2006

In Tokio Millennium's first phase, the company focused on the niche market of top layer catastrophe programs. The company was not unduly concerned with the high volatility of its portfolio since any effect would be absorbed at the parental level. However, during 2005 a new business plan was developed to take the company into its second phase, in order to achieve a more stable profile and reduce volatility. The new approach is to write coverage further down into the mid to low layers and to diversify into other lines, such as terrorism, workers' compensation catastrophe and crop/hail business. This new approach is effective from January 1st, 2006.



SARAH VEZINA
UNDERWRITING ASSISTANT

SIMON ARNOTT
VICE PRESIDENT, UNDERWRITING

PETER WOOTLIFF
ANALYST (TeRAMS)

ZAIRA JONES
UNDERWRITING ASSISTANT

PETER MILLS
VICE PRESIDENT, UNDERWRITING



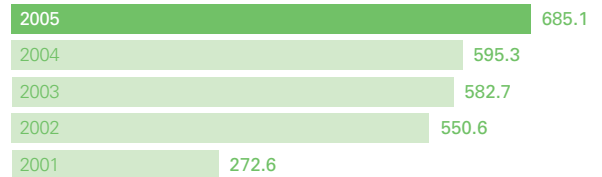
ROCHELLE TUCKER
ACCOUNTS ASSISTANT & RECEPTIONIST

MAURICE KANE
VICE PRESIDENT & FINANCIAL CONTROLLER

MIA MARAIS
ACCOUNTANT

VERONICA LEWIS
ACCOUNTS ADMINISTRATOR

FINANCIAL HIGHLIGHTS



SHAREHOLDER'S EQUITY

In millions of US dollars

Total operating income for 2005 was \$107 million compared to \$135.5 million in 2004. Operating income comprises net earned premiums, catastrophe bond income, structured reinsurance fees, and agency fees.

Net premiums written in the year amounted to \$115.4 million compared to \$102.3 million in 2004. Net premiums earned in the year amounted to \$102.5 million compared to \$123.5 million in 2004. The decrease of \$21 million in net earned premium is attributable to a reduction in structured quota share premiums, this was partially offset by increases in CAT XL and transformer premiums.

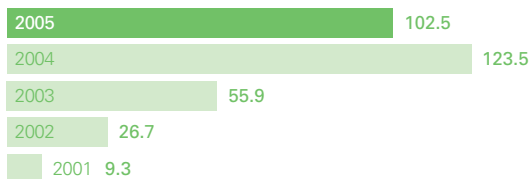
Catastrophe bond income for the year was \$2.1 million compared to \$2 million in 2004.

Fee income from structured reinsurance contracts declined in 2005 resulting in income of \$2.2 million, compared to \$9.8 million in 2004.

Net investment income was \$23.6 million compared to \$20.4 million in 2004. The increase of \$3.2 million results from an increase in our investment assets and higher yields on our cash holdings.

Total expenses were \$180.5 million compared to \$129.7 million in 2004. Total expenses consist of net losses incurred, acquisition expenses, catastrophe swap derivative expenses and recoveries,

→ FINANCIAL HIGHLIGHTS



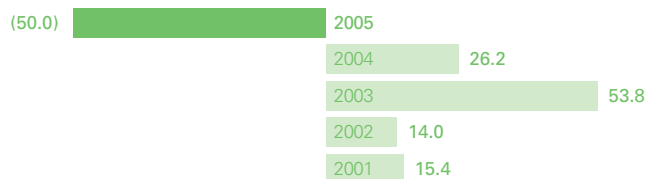
NET PREMIUMS EARNED

In millions of US dollars

general and administrative expenses and foreign exchange gains/losses.

Net losses incurred amounted to \$148.2 million compared to \$86.6 million in 2004. Hurricane Katrina accounted for \$89.4 million of these losses. A further \$23.7 million related to Hurricanes Dennis, Rita, Wilma and a North East Storm. The Company's structured quota share programmes incurred \$27.8 million of losses during 2005. The balance of incurred losses in 2005 relates to European storms and development on 2004 US hurricanes.

Acquisition expenses were \$26.4 million compared to \$39.5 million in 2004. The decrease of \$13.1 million is in line with the decrease in structured quota share earned premiums.



NET INCOME

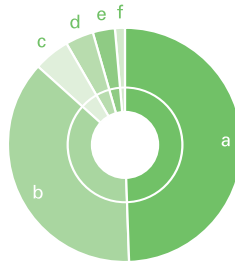
In millions of US dollars

In 2005 the Company expensed swap fees of \$7.8 million and made loss recoveries of \$15 million. The comparative figures for 2004 were \$3 million and \$7 million, respectively.

Loss and loss adjustment expenses as a percentage of operating income was 139%. This compares to 64% for the previous twelve months.

General and Administrative expenses were \$9.6 million compared to \$8.8 million in 2004. Foreign exchange losses were \$3.5 million compared to gains of \$1.2 million in 2004. These losses reflect the comparative weakening of our Euro and Sterling holdings over the US dollar in 2005.

→ FINANCIAL HIGHLIGHTS CONTINUED



a	Cash and cash equivalents	384,100
b	US treasuries & agencies	289,239
c	Non-US corporates	39,892
d	Non-US treasuries & agencies	29,836
e	US corporates	22,931
f	Asset-backed securities	10,038
		<hr/>
		776,036

INVESTMENT PORTFOLIO 2005

In thousands of US dollars

Net (loss)/income for the year was (\$50 million) compared to \$26.2 million in 2004.

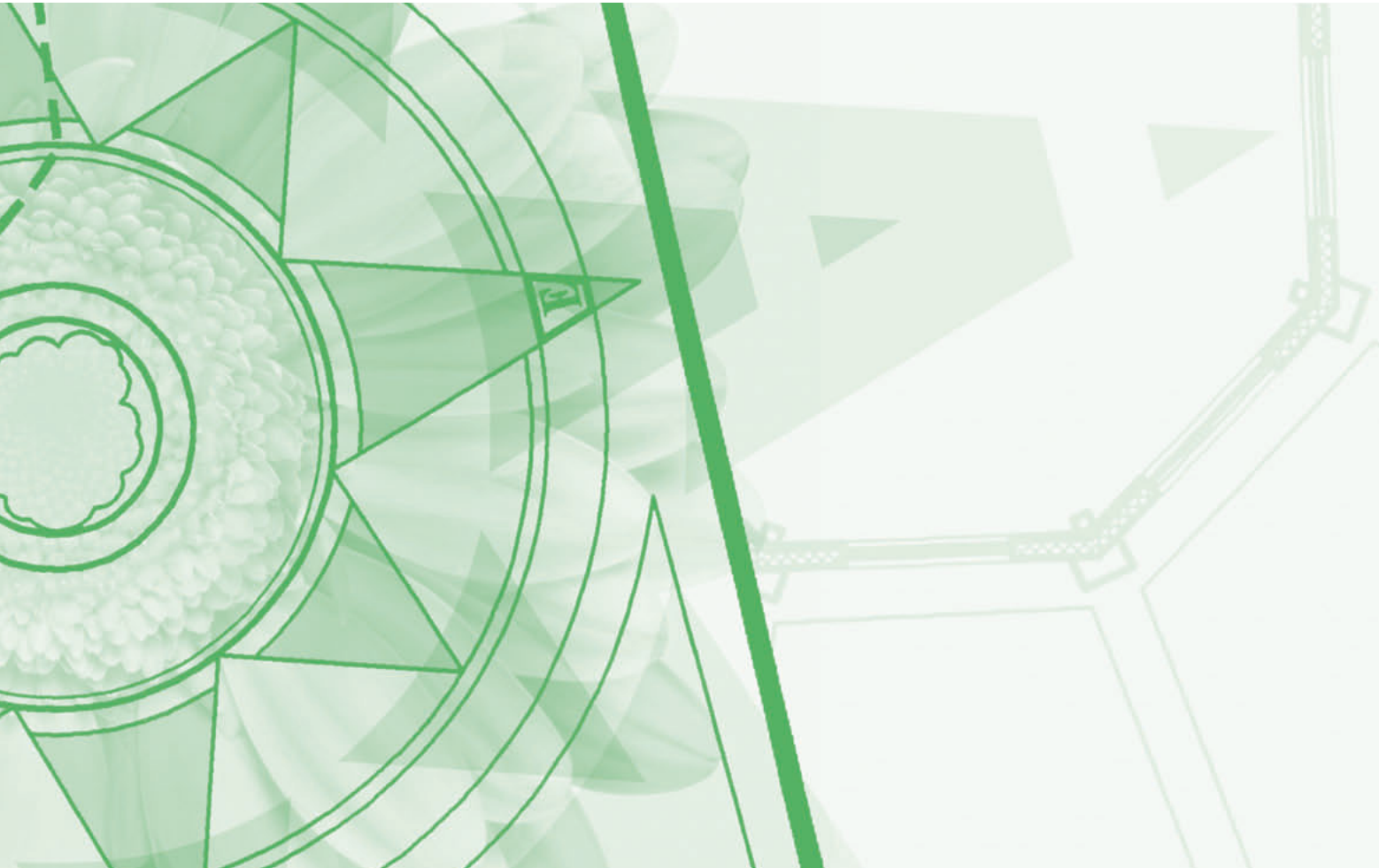
Investment assets, consisting of cash and cash equivalents and fixed maturity securities, amount to \$776.0 million at year end compared to \$604.4 million in 2004. Total assets amount to \$1,034.7 million compared to \$817.5 million in 2004.

Shareholders equity increased by \$89.9 million in 2005 to stand at \$685.1 million at year end. This increase is comprised of \$150 million additional share capital, net loss for the year of \$50 million and a decrease in unrealised gains on our fixed income portfolio of \$10.1 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 was 2.92 years with an average duration of 2.55 years.

The balance of our investment portfolio is held in AAA rated money market funds and cash deposits. The overweighting of cash and cash equivalents at year end results from the capital injection received in late December and a positioning to take maximum advantage of rising interest rates.



→ 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, 2005 and 2004 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, 2005 and 2004, 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.



CHARTERED ACCOUNTANTS

Hamilton, Bermuda
February 22, 2006

CONSOLIDATED BALANCE SHEETS

December 31, 2005 and 2004

	NOTES	2005 US\$'000	2004 US\$'000
ASSETS			
Cash and cash equivalents	3	384,100	157,600
Fixed maturity securities	4	391,936	446,788
Catastrophe bonds	4	26,884	25,125
Deposit asset	3	86,567	107,534
Accrued interest receivable		5,481	5,957
Reinsurance balances receivable		51,275	19,550
Prepaid reinsurance premiums	6	3,487	–
Catastrophe swap		5,719	1,084
Outstanding losses recoverable from reinsurers	5 & 6	24,328	814
Deferred acquisition expenses		15,318	13,186
Prepaid expenses		884	779
Capital assets	7	493	714
Funds withheld	3	37,911	38,135
Other assets		317	253
TOTAL ASSETS		1,034,700	817,519
LIABILITIES			
Outstanding losses and loss expenses	5	188,260	56,476
Deposit liability		86,567	107,534
Funds held on behalf of swap counterparties	2(f)	5,319	–
Reinsurance balances payable		7,563	4,872
Unearned premiums		58,678	42,345
Deferred fee income		1,778	2,450
Deferred commission income		517	–
Accounts payable and accrued expenses		880	712
Dividend payable		–	7,850
TOTAL LIABILITIES		349,562	222,239
SHAREHOLDER'S EQUITY			
Authorised, issued and fully paid, 250,000,000 (2004 – 100,000,000) shares of \$1 par value each	8	250,000	100,000
Contributed surplus	8	400,000	400,000
Retained earnings		38,383	88,381
Accumulated other comprehensive (loss) income		(3,245)	6,899
Total shareholder's equity		685,138	595,280
TOTAL LIABILITIES AND SHAREHOLDER'S EQUITY		1,034,700	817,519

See accompanying notes to consolidated financial statements.

CONSOLIDATED STATEMENTS OF OPERATIONS AND COMPREHENSIVE INCOME

Years ended December 31, 2005 and 2004

	NOTES	2005 US\$'000	2004 US\$'000
INCOME			
Reinsurance premiums assumed		129,837	102,435
Change in unearned premiums		(16,333)	23,666
Reinsurance premiums earned		113,504	126,101
Reinsurance premiums ceded	6	14,475	179
Change in prepaid reinsurance		(3,487)	2,463
Reinsurance premiums ceded		10,988	2,642
Net premiums earned		102,516	123,459
Catastrophe bond income		2,051	2,034
Fee income		2,188	9,822
Agency fee income		203	229
Total operating income		106,958	135,544
Net investment income	4	23,551	20,374
Total income		130,509	155,918
EXPENSES			
Loss and loss expenses incurred		172,725	86,671
Losses recoverable from reinsurers		(24,520)	(67)
Net loss and loss expenses incurred	5	148,205	86,604
Acquisition expenses		26,370	39,501
Catastrophe swap recovery	5	(7,151)	(3,960)
General and administrative expenses	10	9,622	8,831
Foreign exchange loss (gain)		3,461	(1,236)
Total expenses		180,507	129,740
Net (loss) income		(49,998)	26,178
OTHER COMPREHENSIVE LOSS			
Net change in unrealised losses on investments		(10,144)	(5,791)
Other comprehensive loss		(10,144)	(5,791)
COMPREHENSIVE (LOSS) INCOME		(60,142)	20,387

See accompanying notes to consolidated financial statements.

CONSOLIDATED STATEMENTS OF CHANGES IN SHAREHOLDER'S EQUITY

Years ended December 31, 2005 and 2004

	2005 US\$'000	2004 US\$'000
SHARE CAPITAL		
Balance at beginning of year	100,000	100,000
Issue of shares	150,000	–
Balance at end of year	250,000	100,000
CONTRIBUTED SURPLUS		
Balance at beginning and end of year	400,000	400,000
RETAINED EARNINGS		
Balance at beginning of year	88,381	70,053
Net (loss) income	(49,998)	26,178
Dividends	–	(7,850)
Balance at end of year	38,383	88,381
OTHER COMPREHENSIVE (LOSS) INCOME		
Balance at beginning of year	6,899	12,690
Net change in unrealised losses on investments	(10,144)	(5,791)
Balance at end of year	(3,245)	6,899
TOTAL SHAREHOLDER'S EQUITY	685,138	595,280

See accompanying notes to consolidated financial statements.

CONSOLIDATED STATEMENTS OF CASH FLOWS

Years ended December 31, 2005 and 2004

	2005 US\$'000	2004 US\$'000
CASH FLOWS FROM OPERATING ACTIVITIES		
Net (loss) income	(49,998)	26,178
Adjustments to reconcile net (loss) income to net cash provided by operating activities:		
Depreciation of capital assets	395	627
Amortisation of fixed maturity securities	3,588	4,372
Deposit asset	20,967	27,116
Accrued interest receivable	476	544
Reinsurance balances receivable	(31,725)	(2,335)
Prepaid reinsurance premiums	(3,487)	2,463
Catastrophe swap, at fair value	(4,635)	(953)
Outstanding losses recoverable from reinsurers	(23,514)	52
Deferred acquisition expenses	(2,132)	9,601
Prepaid expenses	(105)	(264)
Funds withheld	224	1,068
Other assets	(64)	(164)
Outstanding losses and loss expenses	131,784	42,816
Deposit liability	(20,967)	(27,116)
Reinsurance balances payable	2,691	(63)
Unearned premiums	16,333	(23,665)
Deferred fee income	(672)	(4,108)
Deferred commission income	517	–
Accounts payable and accrued expenses	168	(401)
Cash provided by operating activities	39,844	55,768
CASH FLOWS FROM INVESTING ACTIVITIES		
Purchase of fixed maturity securities	(12,657)	(23,134)
Proceeds on maturity of fixed maturity securities	53,990	35,220
Purchase of catastrophe bonds	(12,000)	(15,000)
Proceeds on maturity of catastrophe bonds	10,000	39,000
Purchase of capital assets, net of sales proceeds	(175)	(266)
Funds held on behalf of swap counterparties	5,319	–
Revaluation of securities held as collateral	29	–
Cash provided by investing activities	44,506	35,820
CASH FLOWS FROM FINANCING ACTIVITIES		
Share capital	150,000	–
Dividend paid	(7,850)	(16,129)
Cash provided (used) by financing activities	142,150	(16,129)
Net increase in cash and cash equivalents	226,500	75,459
Cash and cash equivalents at beginning of year	157,600	82,141
CASH AND CASH EQUIVALENTS AT END OF YEAR	384,100	157,600

See accompanying notes to consolidated financial statements.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

December 31, 2005 and 2004

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 significant inter-company balances have been eliminated on consolidation.

(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 premiums.

For excess of loss contracts, the ultimate premium is estimated at contract inception. Subsequent premium adjustments, if any, are recorded in the period in which they are determined. For proportional treaties, the amount of premium is normally estimated at inception by the ceding company. The Company accounts for such premium using initial estimates, which are reviewed regularly with respect to the actual premium reported by the ceding company. Reinstatement premiums are recognised in accordance with the provisions of the reinsurance contracts. Reinstatement premiums are accrued at the time losses are incurred and where coverage of the original contract is reinstated under pre-defined contract terms are earned pro-rata over the reinstated coverage period.

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 ("IBNR"). The IBNR provision is estimated by management based on reports from industry sources, including initial estimates of aggregate industry losses, individual loss estimates received from ceding companies and brokers, output from commercially available catastrophe loss models and 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.

The Company's assessment of a decline in value deemed to be other-than-temporary includes judgement as to the financial position and future prospects of the entity that issued the security. If that judgement changes in the future, the Company may ultimately record a realised loss after originally concluding that the decline in value was temporary. Factors which management consider in evaluating other-than-temporary declines in value include the extent of decline, the length of time the security is below cost, the Company's intent and ability to hold the security, the future prospects of the issuer and other qualitative and quantitative factors.

(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.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS CONTINUED

December 31, 2005 and 2004

(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 or assumed from the swap counterparty. Catastrophe swaps are recorded at fair value with changes in fair values recorded in the income statement.

At December 31, 2005, the maximum exposure to credit risk of the counterparties to the swap agreement is \$93.9 million (2004 – \$20 million) which is fully collateralised by assets held in trust by the swap counterparty for the benefit of the Company of \$44.0 million (2004 – \$20.0 million), letters of credit of \$44.9 million (2004 – \$nil) and funds held on behalf of swap counterparties of \$5.3 million (2004 – \$nil). Any diminution in the market value of instruments held as collateral is the responsibility of the counterparty and results in a reduction in the liability for funds held on behalf of swap counterparties.

(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 (Note 7)	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, 2005 cash and cash equivalents comprise \$384.1 million (2004 – \$157.6 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, 2005, a deposit asset of \$86.6 million (2004 – \$107.5 million) is held in trust by a ceding company with an A.M. Best credit rating of A.

As at December 31, 2005, funds withheld of \$36.5 million (2004 – \$37 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, 2005	Amortised cost US\$'000	Unrealised gains US\$'000	Unrealised losses US\$'000	Fair value US\$'000
US government and government agency securities	289,931	2,275	(2,967)	289,239
Non US government and government agency securities	30,905	–	(1,069)	29,836
US corporate securities	23,461	–	(530)	22,931
Non US corporate securities	40,564	–	(672)	39,892
Asset-backed securities	10,232	–	(194)	10,038
	395,093	2,275	(5,432)	391,936

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

(ii) The following table summarises for all fixed maturity securities in an unrealised loss position at December 31, 2005, the unrealised loss and fair value by the length of time the security has been continuously in an unrealised loss position.

At December 31, 2005	Less than 12 months		Greater than 12 months	
	Fair value US\$'000	Unrealised losses US\$'000	Fair value US\$'000	Unrealised losses US\$'000
US government and government agency securities	89,272	(530)	63,805	(2,437)
Non US government and government agency securities	9,821	(190)	20,016	(879)
US corporate securities	3,033	(57)	19,898	(473)
Non US corporate securities	–	–	39,893	(672)
Asset-backed securities	–	–	10,037	(194)
	102,126	(777)	153,649	(4,655)

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS CONTINUED

December 31, 2005 and 2004

At December 31, 2004	Less than 12 months		Greater than 12 months	
	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)

Unrealised losses on investments held at December 31, 2005 and 2004 comprise an accumulation of relatively small unrealised losses on a security by security basis caused by general interest rate movements rather than credit events. There are no amounts in respect of declines in the value of individual securities considered to be other than temporary included in gross realised losses on fixed maturity investments for the years ended December 31, 2005 and 2004.

(iii) For fixed maturity securities held on December 31, 2005 the maturity distribution is as follows:

At December 31, 2005	Amortised cost US\$'000	Fair value US\$'000
Within one year	59,573	59,137
From one to five years	245,712	242,925
From five to ten years	89,808	89,874
	395,093	391,936

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

(v) The components of net investment income for the years ended December 31, 2005 and 2004 were as follows:

	2005 US\$'000	2004 US\$'000
Interest on fixed maturity securities	20,431	22,151
Amortisation of fixed maturity securities	(3,588)	(4,372)
Interest on cash and cash equivalents	6,135	1,818
Interest on funds withheld	821	1,050
Sundry interest income	19	8
Investment expenses	(267)	(281)
Net investment income	23,551	20,374

(vi) In the normal course of business, fixed maturity securities and cash with fair values of \$119.6 million as at December 31, 2005 (2004 – \$105.7 million), were deposited in trust for the benefit of ceding companies.

(b) Catastrophe bonds

- (i) The Company's investments in catastrophe bonds consists of \$22 million, comprised of three catastrophe bonds with Standard and Poor's ratings of BB and BBB- and maturities ranging from 2007 to 2010 and \$5 million held as collateral from a swap counterparty. The issuers of these securities have used the proceeds raised to collateralise certain catastrophe reinsurance obligations, mainly US 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, fair value and unrealised gains and losses of catastrophe bonds are as follows:

	Cost US\$'000	Unrealised gains US\$'000	Unrealised losses US\$'000	Fair value US\$'000
At December 31, 2005				
Catastrophe bonds	27,000	–	(116)	26,884
At December 31, 2004				
Catastrophe bonds	25,000	125	–	25,125

- (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 2005 and 2004 is as follows:

	2005 US\$'000	2004 US\$'000
Gross balance as of January 1	56,476	13,660
Less outstanding losses recoverable from reinsurers	(814)	(866)
Net balance at January 1	55,662	12,794
Incurring losses related to:		
Current year	145,500	106,682
Prior years	2,705	(20,078)
Total incurred	148,205	86,604
Paid losses related to:		
Current year	(12,031)	(41,544)
Prior years	(27,904)	(2,192)
Total paid	(39,935)	(43,736)
Net balance at December 31	163,932	55,662
Plus outstanding losses recoverable from reinsurers	24,328	814
Gross balance at December 31	188,260	56,476

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS CONTINUED

December 31, 2005 and 2004

5. OUTSTANDING LOSSES AND LOSS EXPENSES CONTINUED

During 2005 the Company incurred net losses of \$89.4 million related to Hurricane Katrina. A further \$23.7 million related to Hurricanes Dennis, Rita, Wilma and a North East Storm. The Company made recoveries of \$15.0 million on the US hurricane losses under the Company's catastrophe swap derivatives. These recoveries have been included as catastrophe swap recoveries in the consolidated statement of income. The Company's non-property catastrophe programs incurred \$27.8 million of losses during 2005. The balance of incurred losses in 2005 relates to European storms and development on 2004 US hurricanes.

As a result of the change in estimates of insured events in prior years, the Company experienced adverse development in 2005 of \$2.7 million. Losses incurred in the year ended December 31, 2005 in respect of prior years primarily result from development of 2004 reserves relating to Hurricane Ivan of \$5 million, offset by favourable development on the other 2004 US hurricanes. This incurred loss of \$5 million was fully recoverable under a catastrophe swap derivative and has been included as part of the \$15 million catastrophe swap recovery within the consolidated statement of income.

For certain catastrophic events there is considerable uncertainty underlying the assumptions and associated estimated reserves for losses and loss adjustment expenses. Reserves are reviewed regularly and, as experience develops and new information becomes known, the reserves are adjusted as necessary. Such adjustments could require a material change in the amount estimated. The uncertainty surrounding reserves for property catastrophe exposures arises from problems such as policy coverage issues, multiple events affecting one geographic area and the impact on claims adjusting by ceding companies. These issues can cause significant delays to the timing of notification of changes to loss estimates reported by ceding companies. In particular the estimate for Hurricane Katrina has been based on a review of contracts potentially affected by the events, information received from both clients and brokers, industry insured loss estimates, output from both industry and proprietary models and management judgement. It has also been assumed that underlying policy terms and conditions are upheld during the loss adjustment process. The unique circumstances and severity of this devastating catastrophe, including the extent of flooding and limited access by claims adjusters, introduce additional uncertainty to the normally difficult process of estimating catastrophe losses. This is compounded by the potential for legal and regulatory issues arising regarding the scope of coverage. Consequently, the ultimate net impact of losses from this event on the Company's net income might differ substantially from the foregoing estimate. Such adjustments, if necessary, are reflected in results of operations in the period in which they become known.

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. The Company made recoveries of \$7 million on the US hurricane losses under the Company's catastrophe swap derivatives. These recoveries have been included as catastrophe swap recovery in the consolidated statement of income. The balance of incurred losses in 2004 relates to the Company's non-property catastrophe programs.

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. Under the terms of the contract, the PCS loss estimate cannot be revised further, and as a result the Company no longer has exposure to loss under this policy.

6. REINSURANCE

Reinsurance contracts do not relieve the Company from its obligations to policyholders. Failure of reinsurers to honor 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 minimize its exposure to significant losses from reinsurer insolvencies. Of the total prepaid reinsurance premiums at December 31, 2005, \$3 million (2004 – \$nil) were associated with a single reinsurer.

Outstanding losses recoverable from reinsurers of \$23.8 million (2004 – \$nil) is due from a single unrated reinsurer and is secured by assets held in trust by the reinsurer for the benefit of the Company.

7. CAPITAL ASSETS

Capital assets comprise:

	2005			2004
	Cost US\$'000	Accumulated depreciation US\$'000	Net book value US\$'000	Net book value US\$'000
Fixtures and fittings	296	(217)	79	109
Office equipment	27	(20)	7	13
Computer equipment & software	575	(383)	192	230
Leasehold improvements	1,059	(894)	165	326
Motor vehicles	97	(47)	50	36
	2,054	(1,561)	493	714

During 2004 the Company changed its depreciation period for leasehold improvements from 10 years to 5 years as the Company intends to cancel its current lease during 2006.

8. SHARE CAPITAL AND CONTRIBUTED SURPLUS

- (i) On December 23, 2005, the Company's authorized share capital was increased from 100 million shares to 250 million shares by the creation of 150 million common shares of par value \$1 each. The 150 million shares of par value \$1 each were issued to the parent company, Tokio Marine and Nichido Fire Insurance Co., Ltd. in exchange for \$150 million in cash.
- (ii) Contributed surplus represents cash contributed by the shareholder in excess of the issued share capital.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS CONTINUED

December 31, 2005 and 2004

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.

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

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

Other assets and liabilities: The fair value of accrued interest receivable, reinsurance balances receivable, catastrophe swap, 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 premiums, deferred acquisition expenses, deposit asset, outstanding losses recoverable from reinsurers, prepaid expenses, capital assets, deposit liability, 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 ten years. Rent for the current year of the contract amounts to \$221,888 (2004 – \$216,758) 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) On October 6, 2005 the Company entered into an agreement to lease certain commercial and residential premises for a period of ten years commencing in 2006. Rent for the initial year of the contract is estimated at \$1.3 million.
- (c) The Company's bankers have issued letters of credit for \$42.8 million (2004 – \$17.7 million) in favour of ceding companies. Fixed maturity securities and cash equivalents with a carrying value of \$44.6 million (2004 – \$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, 2005 the Company is required to maintain a minimum statutory capital and surplus of \$24.6 million. Actual statutory capital and surplus is \$668.9 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:

	2005 US\$'000
Total shareholder's equity	685,138
Less non-admitted assets:	
Deferred acquisition expenses	14,801
Prepaid expenses	880
Capital assets	493
Investment in subsidiary	21
Statutory capital and surplus	668,943

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, 2005 the Company was required to maintain relevant assets of approximately \$174.7 million. At that date relevant assets were approximately \$990 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.

13. INVESTIGATIONS BY THE SECURITIES EXCHANGE COMMISSION AND THE NEW YORK ATTORNEY GENERAL

In May 2005, Millea Holdings, Inc., through a New York subsidiary, received subpoenas from the Securities Exchange Commission and the Office of the United States Attorney for the Southern District of New York for documents and information relating to certain types of reinsurance transactions. As some of these reinsurance transactions relate to Tokio Millennium Re Ltd., the Company is fully cooperating in responding to all such requests. Other reinsurance companies have reported receiving similar subpoenas and requests.

At this time, the Company is unable to predict the direction the investigation will take and the impact, if any, it may have on the financial statements.

HISTORICAL FINANCIAL INFORMATION

December 31, 2005, 2004, 2003, 2002 and 2001

	2005 US\$'000	2004 US\$'000	2003 US\$'000	2002 US\$'000	2001 US\$'000
CONSOLIDATED BALANCE SHEETS					
ASSETS					
Cash and cash equivalents	384,100	157,600	82,141	194,951	232,828
Fixed maturity securities	391,936	446,788	468,757	313,848	–
Catastrophe bonds	26,884	25,125	49,406	49,245	39,000
Deposit asset	86,567	107,534	134,650	145,961	–
Reinsurance balances receivable	51,275	19,550	17,215	15,867	10,013
Funds withheld	37,911	38,135	39,203	430	570
Other assets	56,027	22,787	34,426	9,212	5,463
TOTAL ASSETS	1,034,700	817,519	825,798	729,514	287,874
LIABILITIES					
Outstanding losses and loss expenses	188,260	56,476	13,660	2,490	2,426
Deposit liability	86,567	107,534	134,650	145,961	–
Unearned premiums	58,678	42,345	66,010	19,781	12,093
Other liabilities	16,057	15,884	28,735	10,701	768
TOTAL LIABILITIES	349,562	222,239	243,055	178,933	15,287
SHAREHOLDER'S EQUITY					
Share Capital	250,000	100,000	100,000	100,000	100,000
Contributed surplus	400,000	400,000	400,000	400,000	150,000
Retained earnings	38,383	88,381	70,053	32,417	22,587
Other comprehensive income	(3,245)	6,899	12,690	18,164	–
Total shareholder's equity	685,138	595,280	582,743	550,581	272,587
TOTAL LIABILITIES AND SHAREHOLDER'S EQUITY	1,034,700	817,519	825,798	729,514	287,874
CONSOLIDATED STATEMENTS OF OPERATIONS					
INCOME					
Net reinsurance premiums written	115,362	102,256	100,015	34,418	16,815
Net premiums earned	102,516	123,459	55,852	26,748	9,335
Other operating income	4,442	12,085	13,270	5,284	3,824
Total operating income	106,958	135,544	69,122	32,032	13,159
Net investment income	23,551	20,374	17,540	11,075	7,867
Total income	130,509	155,918	86,662	43,107	21,026
EXPENSES					
Net loss and loss expenses incurred	148,205	86,604	14,074	23,001	2,016
Acquisition expenses	26,370	39,501	11,740	1,102	724
General and administrative expenses	9,622	8,831	7,044	5,176	3,001
Other expenses	(3,690)	(5,196)	39	(214)	(67)
Total expenses	180,507	129,740	32,897	29,065	5,674
NET INCOME	(49,998)	26,178	53,765	14,042	15,352

CORPORATE INFORMATION

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