

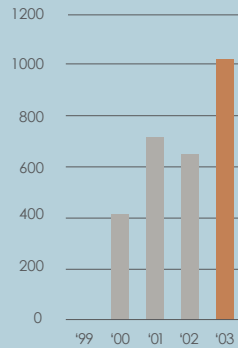


YEAR/PERIOD ENDED DECEMBER 31
(dollars in millions, except per share)

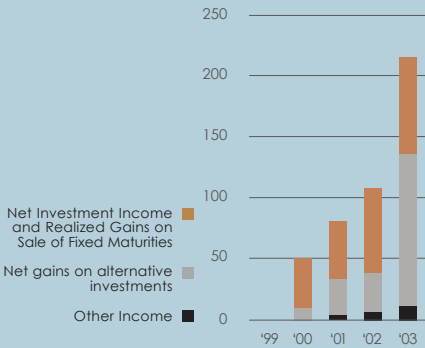
	2003	2002	2001	2000	1999
Gross premiums written	1,009.8	647.4	710.6	409.7	–
Net premiums earned	727.2	388.0	500.9	401.4	–
Net investment income	60.1	64.4	43.9	38.9	–
Net gains on alternative investments	124.0	32.1	29.8	9.6	–
Income (loss) before minority interest	130.9	(7.1)	2.6	11.3	(7.4)
Fixed maturities and cash	1,805.9	1,371.7	982.4	507.3	305.1
Alternative investments	831.4	653.2	627.8	347.1	–
Total assets	3,495.6	2,643.4	2,048.6	935.5	305.1
Shareholders' equity (1)	805.2	710.7	699.7	514.6	296.6
Book value per share (1)	17.82	15.75	14.92	14.70	13.44
Diluted earnings per share	2.84	(0.15)	0.06	0.35	(20.05)
Cash dividends per share	0.09	0.08	0.02	–	–
Return on average shareholders' equity (1)	17.27%	(1.01)%	0.4%	2.7%	(5.0)%

NOTE 1: Formerly shown as Combined shareholders' equity, Combined book value per share and Return on average combined equity. On July 30, 2003, the holders of non-voting common shares of Max Re Ltd. and warrants to acquire non-voting common shares of Max Re Ltd. exchanged such shares and warrants for common shares of the Company and warrants to acquire common shares of the Company. The effect of this exchange was the elimination of minority interest and a corresponding increase in shareholders' equity.

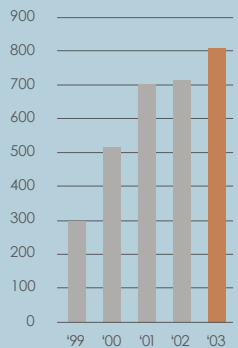
Gross Premiums Written
(\$ Millions)



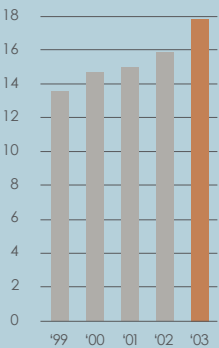
Investment & Other Income
(\$ Millions)



Shareholders' Equity (1)
(\$ Millions)



Book Value Per Share (1)
(\$)



With historically low interest rates limiting demand for our structured reinsurance products and insurance rates buoyed in the wake of the tragic events of September 11, 2001 and several corporate scandals, we determined that our interests would be well served by expanding our operations to include the underwriting of more traditional, potentially higher margin reinsurance and insurance risk.

I am pleased to report that 2003 has been an outstanding year for our Company. Not only have we produced stellar earnings, but, along the way, we passed some significant milestones, which made for both challenges and rewards.

In 2003, all aspects of our business performed well, resulting in income before minority interest of \$130.9 million (2002 - \$(7.1) million) or \$2.84 per share (2002 - \$(0.15)), which equates to a return on equity of 17.27% (2002 - (1.0)%).

When I reported to you last year, I indicated that the Company was in the process of realigning its underwriting strategy in order to improve profitability in an environment that had changed considerably since we commenced operations in 2000. With historically low interest rates limiting demand for our structured reinsurance products and insurance rates buoyed in the wake of the tragic events of September 11, 2001 and several corporate scandals, we determined that our interests would be well served by expanding our operations to include the underwriting of more traditional, potentially higher margin reinsurance and insurance risk. To accomplish this effectively, we established new teams with the high levels of expertise and experience that we believe are necessary to provide a superior level of service to our clients, while simultaneously ensuring that we are appropriately remunerated for the risks we assume. It is gratifying that these teams are now at full strength, and have already made significant contributions to the profitability of Max Re.

Gross premiums written in 2003 amounted to \$1.01 billion, up 56% from \$647.4 million in 2002. Property and casualty underwriting contributed \$901.5 million (2002 - \$632.7 million), while life and annuity contributed \$108.3 million (2002 - \$14.7 million). The mix of premiums clearly reflected our strategic shift. Traditional reinsurance underwriting produced gross premiums written of \$318.6 million (2002 - \$137.9 million) and, in only a partial first year of operations, insurance underwriting produced \$163.2 million, for a total of \$481.8 million from traditional underwriting (2002 - \$137.9 million), or 48% (2002 - 21%) of total gross premiums written. A large portion of this traditional premium written in 2003 will be earned and contribute to income in 2004.

Max Re continues to be a leading provider of structured and alternative risk (ART) reinsurance products to property and casualty insurance companies. We specialize in customized financial solutions that are tailored to our clients' needs. Although the demand for these products has recently waned somewhat, due to lower fixed maturity investment yields and improved insurance market conditions reducing the need for ceding companies to seek



ROBERT J. COONEY
Chairman, President &
Chief Executive Officer

structured and ART products, gross premiums written amounted to \$236.2 million (2002 - \$308.6 million) for structured reinsurance and \$183.5 million (2002 - \$186.2 million) for ART.

Low interest rates throughout the year continued to limit opportunities for our life and annuity products. Nevertheless, by providing innovative solutions to individual client problems, our life and annuity team was able to book two attractive transactions, while strictly adhering to our established risk/reward criteria. We continue to value the diversity and flexibility of the Company's underwriting capabilities, and expect life and annuity to produce a greater proportion of our business when interest rates rise.

We have continued to expand our European resources. During the year, Max Insurance Europe Limited was formed to market and underwrite insurance products and Max Re Europe Limited enhanced its traditional reinsurance capabilities. In 2003, 37.1% of our gross premiums written related to clients domiciled in Europe. Much of this production was generated from our Dublin office.

The underwriting performance measure for our property and casualty business is the combined ratio of losses and expenses against net premiums earned. The Company generated a technical underwriting profit for the first time in 2003, with an overall combined ratio of 99.8%. The component combined ratios were 117.6%, 86.6%, 93.8% and 92.8% for the structured reinsurance, traditional reinsurance, ART and insurance products, respectively.

We continued to allocate a significant portion of our invested assets to alternative investments (31.5% at December 31, 2003). In the more favorable investment climate of 2003, we were particularly pleased with the return on these investments of \$124.0 million, or 16.57%, compared to \$32.1 million, or 5.24%, in 2002. Alternative investments consist primarily of an investment in Max Re Diversified Strategies Ltd. (MDS), our fund of funds, as well as certain strategic insurance investments. We regularly review the performances and risk factors pertaining to the funds comprising MDS, which numbered forty-eight at year end (up from thirty-eight at year end 2002), and make portfolio adjustments based on our analysis. We have been successful at limiting volatility by diversifying across both managers and the presently eleven non-correlated strategies, and have produced consistently positive annual returns.

The Company's fixed maturities portfolio (68.5% of invested assets at December 31, 2003) returned 3.26% (2002 - 8.59%), reflecting a period of low yields and a steepening yield curve. We seek to tailor our high grade, fixed maturities portfolio to match our insurance liabilities, and actively manage the risk of credit loss and impairment. To date, our fixed maturities portfolio has not been impacted by a credit loss or impairment.

An overall return of 7.74% (2002 - 7.37%) was generated on total invested assets, which amounted to \$2.6 billion as of December 31, 2003 (2002 - \$2.0 billion).

Total revenue for the year, including net premiums earned, investment returns and other income, was \$941.3 million compared to \$496.1 million in 2002. Net cash flow generated from operating activities increased to \$451.8 million from \$225.4 million a year earlier.

Shareholders' equity grew to over \$805 million at year-end, up 13.3% from \$711 million at the end of 2002. Book value per share was \$17.82 per share at year-end, up from \$15.75 per share at year-end 2002.

A.M. Best and Fitch have reaffirmed the Company's ratings of A- (Excellent) and A (Strong), respectively.

We have recently recruited some extraordinary talent to supplement our existing staff and implement our strategic shift towards traditional underwriting. Looking back, perhaps our greatest achievement has been the formulation of an exceptional cadre of employees, with the expertise, dexterity and integrity to execute our flexible, strategic model, and ensure Max Re's continued success.

In January, 2004, we regretfully accepted the resignation of one of our directors. Mr. Stephan Bub's guidance will be missed.

I would like to thank our clients and intermediaries for their confidence in our Company. It has been our pleasure to serve you.

In May 2003, we moved our headquarters to Max Re House, a new, purpose built office building. On the shores of Hamilton Harbour, it stands in the commercial district that has become the epicenter for underwriting activities in the world's fastest growing insurance market. From here, we expect to continue to develop our Company as a leading provider of a wide range of insurance and reinsurance options, building on our reputation for professionalism, innovation and a high level of customer service.



ROBERT J. COONEY
Chairman, President &
Chief Executive Officer

Max Re has had a superb year. Earnings growth has been excellent. Our markets are expanding. Our reputation continues to precede us across the world. With a successful diversification into more traditional reinsurance and insurance lines, we have reinforced the foundation we built on structured and alternative risk products. Talent has been the key. For each new product line, we have selectively recruited exceptionally talented professionals. Our growing profitability and the gratifying forward momentum of our operations is a direct result of their expertise.

PROPERTY AND CASUALTY REINSURANCE

Structured Products and Alternative Risk Transfer (ART)

Clients sought less innovative structuring from their property and casualty coverage in 2003 and more pure risk transfer. For Max Re, this meant a migration away from structured products and a greater focus on the development of innovative ART transactions.

When Max Re started business in 2000, our property and casualty underwriters specialized in structured, non-traditional products. Our clients normally had financial goals in addition to pure risk transfer. Because of this, we entered into many large-premium, asset-intensive transactions.

The environment has changed. In the post-9/11, post-Enron world, our clients are less inclined to purchase these lower-risk transactions. We believe the fundamentals of their underlying books of business have improved, so they now have less need for innovative structures.

In today's property and casualty market, Max Re is less likely to allocate capital to lower-risk, structured deals, because we earn more on a risk-adjusted basis by accepting more risk from our clients. Therefore, we have been de-emphasizing structured transactions.

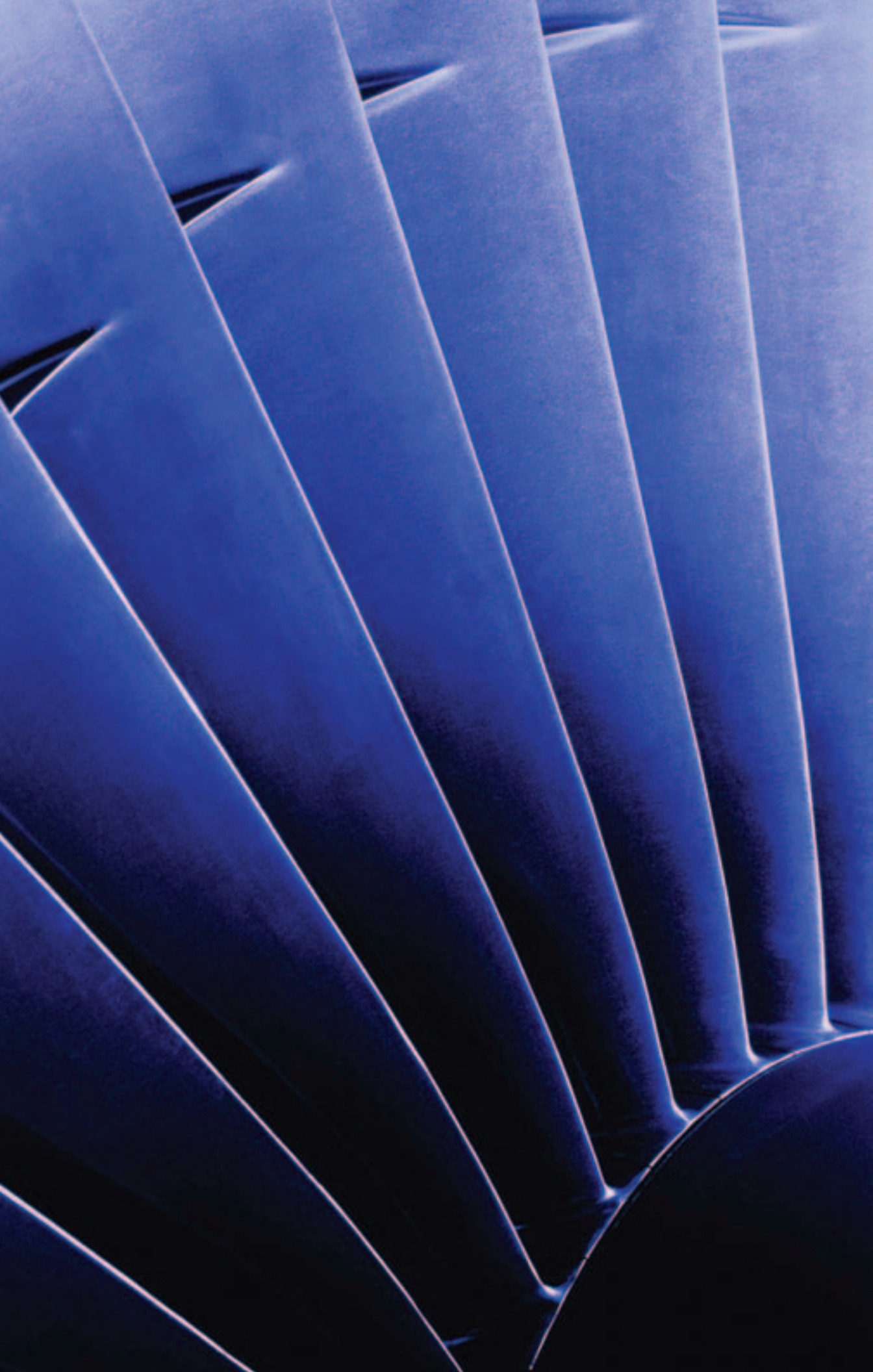
However, we believe there are still attractive, opportunistic transactions. Given our unique investment strategy and our ability to blend asset features into our risk transfer products, we continue to seek ART transactions that meet our risk-return requirements. These transactions may provide us with a hedge against a downturn in the property and casualty market cycle.

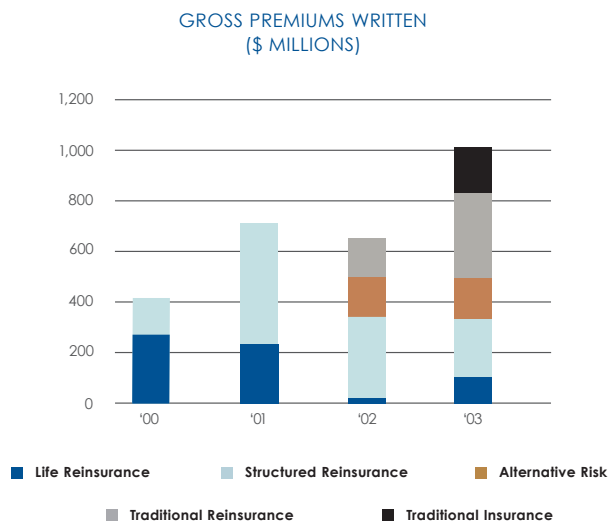
During 2003, we had a good deal of success with innovative ART transactions, both for insurance and reinsurance clients. These are appropriate for classes of business where there have been capacity withdrawals, or where clients have had difficult loss experience.

Our property and casualty lines of business include directors' and officers' (D&O), errors and omissions (E&O), general and fiduciary liabilities and various specialty casualty lines, as well as some whole account solutions. Corporate clients include consultants, accountants, nursing homes, and large corporations that have had some volatile claims experience.

Historically, these clients have found traditional open-market pricing to be too high, or the required retentions beyond the level of risk they wish to retain, or adequate market capacity is just not available.

After the tragic events of September 11, 2001, aviation insurance rates soared to their highest levels in recent history. This presented direct aviation insurers with a great opportunity for profit, but also presented a problem – the cost of their reinsurance protections also increased dramatically. These insurers did not look forward to paying away a substantial amount of their expected profits to manage the annual volatility in their business through traditional reinsurance purchases. Max Re's solution was to structure a multi-year transaction that was priced similarly to the traditional reinsurance market and provided our clients with protection from significant losses for insured events, but incorporated an aggregate limit over the period; additional premiums in the event of losses; and profit sharing in the absence of losses. This product allowed our clients to enjoy greater profitability in the event of favorable loss experience but, also, to sleep at night, knowing that any one year's results would not be devastated by a single major airline loss or a series of smaller losses. We believe Max Re is able to absorb this risk due to the portfolio effect of our diversified book of business. Further, this structure suits Max Re, because the ultimate downside of multiple events over the multi-year period is defined within an aggregate limit.





We customize multi-year ART structures that enable our clients to participate in the underwriting profits related to their business, if their losses are close to or better than predictions. Sometimes these structures have additional premiums as a function of losses, but often they do not. In the post-Enron world, most of our clients seek fixed structures with certain premiums on a multi-year basis. This gives them continuity of reinsurance capacity at a fixed price and greater certainty in their budgeting.

In 2004, we will continue to work with select clients that have the right fundamentals for either structured or ART transactions. Our goal is to develop long-term, mutually profitable client relationships.

PROPERTY AND CASUALTY REINSURANCE
Traditional Risks

It was an excellent year for traditional property and casualty reinsurance, with double-digit returns in most lines and outstanding performance in aviation and professional liability.

In 2003, gross premiums written for traditional reinsurance almost doubled compared to 2002. Growth occurred broadly throughout the year, as we continued to diversify. Several new classes were added to the portfolio and we significantly diversified our base of cedants and intermediaries. Almost three times as many contracts were written compared to the year before.

In 2003, our two largest underwriting lines were aviation and professional liability.

We believe the aviation sector continues to be an attractive opportunity. Rates increased dramatically in 2002, yet loss activity has been nominal because safety has become such a prominent issue with airlines, regulators and the public.

Professional liability rates are expected to continue to increase, as we believe legacy losses continue to effect underwriting results from prior years and there is a healthy demand for reinsurance capacity, as several players have dropped out or scaled back their offerings.



PROPERTY & CASUALTY REINSURANCE

Standing, left to right: CHRIS DOWNEY, Senior Vice President, DAVID MARRA, Senior Vice President, MIKKO TROTT, Junior Underwriter
FRED RUCK, Senior Vice President, CLARK HONTZ, Executive Vice President, Alternative Risk Transfer
JOHN DOUCETTE, Executive Vice President, Structured Risk Transfer, Seated, left to right: JANET SINCLAIR, Executive Assistant
BILL YIT, Senior Vice President, DAVID KALAINOFF, Executive Vice President, Traditional Risk Transfer
JOE BONANNO, Vice President, DON BAHR, Senior Vice President

We had a successful year writing traditional workers' compensation reinsurance, with premiums more than double the 2002 level. While we continue to focus on excess working layers supporting regional carriers, we have furthered our penetration into various states and regions in the United States. The ebb and flow of capacity in workers compensation has created opportunities. Some players have withdrawn because of financial considerations, while others have moved slowly to replace them.

We entered the medical malpractice business in 2003, supporting cedants within the physician and surgeon and hospital liability sectors. This business is written by Max Re on an excess-of-loss basis, including a significant portion on a retrospectively rated basis. New capital entered the primary physicians and surgeons sector, as direct writers reached excessive leverage levels and were forced to limit premium growth. We expect more start up companies again in 2004.

In the marine sector, we continue to seek high quality underwriting facilities consistent with Max Re's standards. Prices have stabilized, as additional capacity has moved into the business. We intend to expand our marine activities in coming months.

Underlying rates achieved by our cedants varied by the class of business. Double-digit rate increases continued in professional liability, directors and officers, workers compensation and medical malpractice. In the general liability, excess and umbrella markets, there were single-digit rate increases, except in the more difficult areas, where they were substantially higher. Marine rates have leveled off, while aviation rates decreased in 2003, as loss activity subsided.

Our strategy is to support specialty underwriters who have a vividly clear understanding of their insurance cover and rating approach. Our quota share support of direct writers has been key to our success. However, we expect excess writings to increase as the risk appetite of our cedants changes.

Max Re's traditional reinsurance underwriters have in-depth underlying product knowledge and their work is disciplined and highly analytical, in line with the Company's overall approach to all risk assumption.

PROPERTY AND CASUALTY REINSURANCE

European Operations

Our European property and casualty reinsurance business increased substantially in 2003. While rates continued to soften in the property lines, pricing remained strong in our core selected casualty lines. We continued to expand both our portfolio and our geographic diversification.

Many European reinsurers struggled during the year with legacy issues and rating agency downgrades. By comparison, Max Re Europe Limited (MREL) was well placed to continue the rollout of our ART and traditional property and casualty product offerings. We believe our structuring capabilities are strong and we are able to provide seamless solutions across multiple classes of risk and across the full spectrum of risk transfer.

MREL is now well recognized by most major and niche brokers in London and continental Europe. Our analytical and client-focused approach to underwriting risk has been well received by both clients and brokers, as has our transparency. We have the advantage of being able to offer greater flexibility on certain reinsurance exposures, because we believe we are not as constrained as some competitors by overall internal exposure aggregation. Others may apply blanket exclusions for certain risks. We believe our clients are drawn to Max Re's comprehensive product offerings.

A regional insurer focused on the construction industry has seen their excess workers' compensation reinsurance premiums increased by a multiple over the past year, as a result of a greater than expected number of large claims in one specific year and the general aversion of reinsurers to construction business. We reviewed the large losses to ensure that the increased frequency was fortuitous. Through interviews with our client's underwriting, claims and loss control staff and a review of their book of business, we determined that the company was actually a cut above the average, with an effective focus on the construction class. We were able to present a loss sensitive solution to the client that bridged the gap between their assessment of a reasonable premium and our requirements.



European market conditions were favorable throughout 2003. There was an overall improvement in rate adequacy. Terms and conditions tightened on original insurance lines. There was also a withdrawal/reduction of both insurance and reinsurance capacity by a number of major market players.

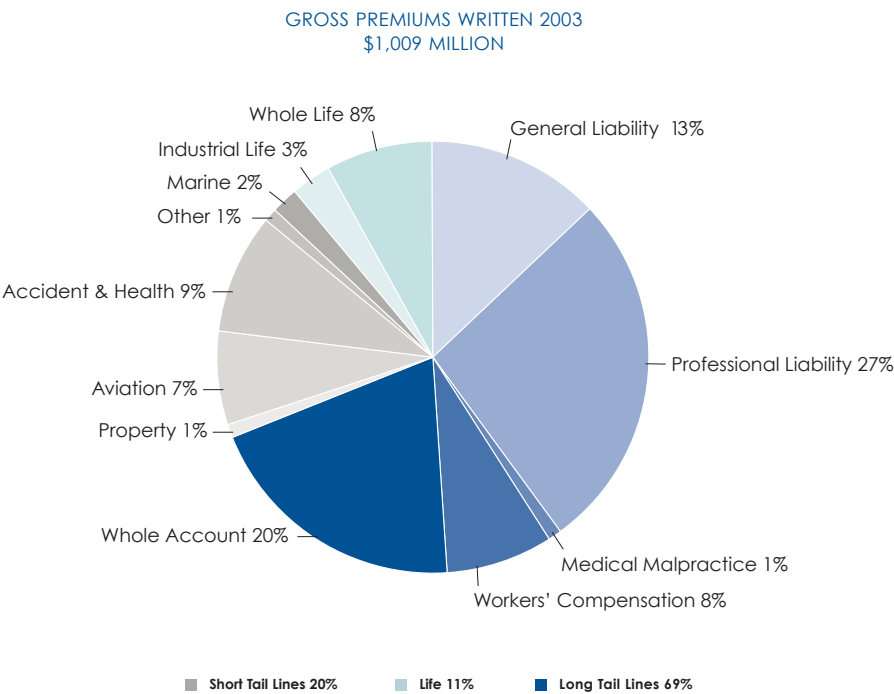
We are optimistic about our prospects in Europe. We believe the market movement will continue toward those reinsurers who have excellent asset quality and liquidity and who are not harried by legacy liability issues. As we continue to monitor rate adequacy closely, we expect to see a growing number of new business opportunities with reasonable, risk-adjusted returns.

PROPERTY AND CASUALTY INSURANCE

The newly formed property and casualty insurance group was off to a rapid start in 2003, attracting clients unable to purchase satisfactory insurance coverage in capacity-scarce markets.

In less than a year, Max Re's property and casualty insurance group wrote approximately \$145 million in annual gross written premiums, exceeding our target for 2003. After forming early in the year with a seasoned underwriting team of corporate insurance specialists, we began writing excess liability business in March and professional liability in April.

Our goal is to achieve results considerably better than industry averages. Our strategy is to help clients overcome market challenges resulting from scarce capacity and to earn solid returns with creative annual or multi-year solutions. Our competitive strengths are extensive underwriting experience, state-of-the-art information technology for risk selection, sophisticated pricing techniques and our successful and progressive investment strategies. Through our strong internal risk control procedures and analytics, we seek to structure and price accounts to achieve anticipated risk-adjusted returns.





INSURANCE

Standing, left to right: JIM GRAY, Senior Vice President, EUGENIA DEAN, Administrator & Technical Assistant
JONATHAN EVANS, Vice President, ALBEY DESILVA, Executive Assistant & Technical Assistant
Seated, left to right: ANGELO GUAGLIANO, Executive Vice President, DREW DINSMORE, Vice President
MIKE MORGAN, Senior Vice President, BUDDY ANCKNER, Senior Vice President

For many customers, the innovative Max Re approach of integrating financial features and incentives with traditional risk transfer provides an attractive alternative to more traditional risk transfer structures.

The long-standing relationships of the Max Re insurance staff with clients and brokers have also proved invaluable in developing opportunities and we expect even stronger submission flow in 2004. As we continue to find areas of the market underserved by more established companies, we intend to look for emerging high-margin niche opportunities.

PROPERTY AND CASUALTY INSURANCE

European Operations

Launched in the early summer, the European operations of the property and casualty insurance group began aggressively building the Max Re profile in international markets.

Max Insurance Europe Limited (MIEL) was established in Dublin in June 2003 as a springboard into the international insurance markets.

Since then, MIEL has closed more than sixty contracts, testimony to our acceptance as a significant new market in Europe.

Market conditions remain favorable. Rates appear to be holding firm. Casualty prices on the benchmark European conglomerates are still increasing, although more slowly. For some risk classes, there appears to be a shortage of capacity and in others there is virtually no capacity at all. Professional lines pricing is generally good and, we believe, holding firm.

Our goal is to continue to build Max Re's profile in Europe. We are focused on excess liability, including first-party recall for consumer product manufacturers. We also offer coverage for professional lines, such as D&O, E&O and employment practices liabilities.

Submission activity from predominantly Fortune 1000 companies is expected to continue to be robust and our business pipeline remains strong. We expect current conditions will prevail through 2004 and into 2005.

LIFE AND ANNUITY REINSURANCE

The life and annuity reinsurance group continues to profit from the industry's desire for disciplined analysis and efficient structures. The group added significant new business in 2003, while balancing its portfolio selectively with high-quality liabilities.

Our life and annuity reinsurance group wrote two attractive transactions in 2003, made up of conventional whole life insurance with excellent counterparties. Added to our existing books of business, these have created an increasingly well-balanced portfolio of liabilities. No individual liability type – mortality, longevity, or morbidity – dominates. The diversity of our portfolio hedges the unpredictability of the underlying transactions. In light of the long duration of the liabilities, funds generated by the life transactions comprise a substantial portion of the Company's assets.

Increasingly, success in life insurance and reinsurance requires a deep analytical understanding of the business and its economic drivers. For Max Re, this has become a competitive advantage. We offer efficient structures, based on disciplined analysis, that help clients manage capital and operational issues.

In December of 2003, Max Re concluded a reinsurance transaction with North Carolina Mutual Life Insurance Company, a company with experienced management, which is the oldest and largest African-American insurance company in the United States. The company has historically been very profitable, but its recent entry into a new line of business has resulted in losses, eroding its capital base and ratings. As part of a plan to efficiently restore capital to its previous levels, the company selected a large block of over 200,000 policies to unlock value through an indemnity reinsurance transaction. While working initially with several competing reinsurers, the transaction was fully completed with Max Re in a very short time frame, without compromising the detailed due diligence requirements of both parties. Max Re's proposal met North Carolina Mutual's expectations for fair value, speed of execution and the ability for the company to take advantage of the transaction's financial benefits before the end of the year. In addition, in structuring the transaction, Max Re recognized the continuing value of the company's strong operational and customer relationships.

"Max Re provided North Carolina Mutual with a financial solution that strengthened our financial position by restoring surplus to our pre-downgrade level. Their due diligence and decision making processes were thorough, yet were completed within our short time horizon." James H. Speed, President & CEO, North Carolina Mutual Life Insurance Company.



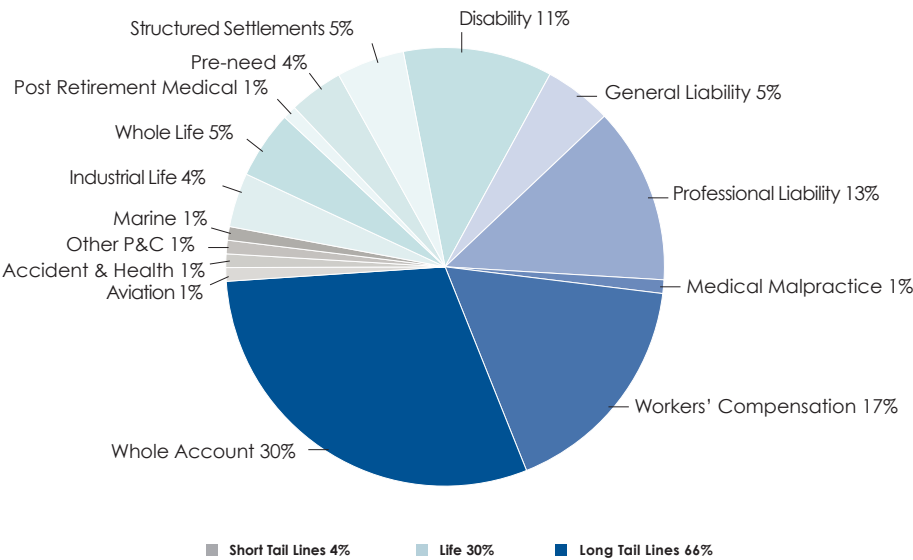
In an economic environment with serious and unpredictable challenges, life company managements are paying greater attention to risk, using every proven risk management tool. Reinsurance is one of the most effective and reliable of these tools. Reinsurance solutions often offer a more effective use of capital, improvement in risk-based capital and expense ratios and improved operational platforms.

Furthermore, for a growing number of life insurance companies, the stress of keeping problematic or non-core books of business has reached a point where they are beginning to seek reinsurance solutions.

We expect the use of life reinsurance will continue to grow over the next few years. It will be used as an alternative to company acquisitions or dispositions, or a facilitator of such transactions. We believe that the renewed energy behind M&A activity, particularly in the North American life insurance market, is promising.

We expect a steady flow of new life reinsurance business in the coming year. We will continue to assume only risks that can be managed, measured and controlled. We will not underwrite risks of unknown accumulations, or exposures to equity market performance. This approach, as the past two years have shown, imposes some constraints on the growth of our business. But in being selective, we believe we are building an impressive book of economically profitable, high-quality transactions.

LOSS, BENEFIT AND DEPOSIT LIABILITIES – DECEMBER 2003
\$1,739 MILLION





LIFE AND ANNUITY REINSURANCE
NICOLE HARRISON, Executive Assistant, ED BETTETO, Senior Vice President, ART PALMER, Vice President
PHIL KRUSE, Executive Vice President, (Seated) CHRIS RUTTEN, Senior Vice President



W. DAVE BRINING
Executive Vice President
Marketing & Client Services

At Max Re, we place enormous emphasis on diversity and flexibility. We neither want to put all our investment eggs in one basket, nor rely on a very limited product range. We believe it's important to position ourselves as a leader and an expert in multiple markets, to be able to offer innovative products in each and always to do so with the highest level of customer service. So, we have assembled and structured our resources with these goals in mind. We want to be able to react nimbly and intelligently to the vagaries of our operating environment, without compromising our strict risk management standards or our reputation as a high quality, user friendly, insurance and reinsurance provider.

COMMUNITY

Max Re is committed to having a positive influence on the communities in which it operates. As a corporate sponsor, we are proud to provide financial support for a number of charities that we believe are actively and effectively addressing clear social, educational and healthcare needs and problems within Bermuda and elsewhere.



During 2003, our principal corporate donations were made to the Bermuda Foundation for Insurance Studies, the Family Learning Centre, the Patients Assistance League (PALS), the National Childhood Cancer Foundation (NCCF), the ISIS Foundation and the International Companies Education Awards.

Community involvement by Max Re's staff is also encouraged. Our Matching Gifts Program will match all contributions by employees to recognized unreligious, unpolitical charities around the world, subject to a maximum of \$20,000 per employee per year.

ST. BALDRICK'S DAY

In 2003, ten Max Re employees joined in an insurance tradition know as "St. Baldrick's Day." Started by reinsurance executives in New York three years ago, participants have their heads ceremonially shaved in a show of support for victims of childhood cancer and to raise funds for cancer research. Pledges of financial support from friends, family and corporate sponsors, including Max Re, resulted in Team Max raising in excess of \$200,000. A Bermuda charity, PALS, received \$35,000, with the remainder being contributed to NCCF.

Chris Downey, John Doucette, Clark Hontz, Keith Hynes, Marco Gervais, Phil Kruse, David Marra, Rob Megens, Jim Tees and Janet Sinclair, as well as Jim Tees' 13 year old son, Matt, comprised Team Max.

While the majority of professional liability account placements consist of standard terms and conditions, Max Re is often selected because of its experience and capability in specifically tailoring coverage terms to the needs of its clients. For example, a large multinational telecommunications provider, which had experienced a difficult series of events, needed a special form of Directors' and Officers' Insurance. They needed a policy that would provide coverage to the newly constituted management team in the event the company would not indemnify their potential exposure and the company's existing program of D&O insurance would not respond to a claim. After a thorough underwriting analysis, Max Re was able to construct a policy that incepted on the date the new management team took over and that provided coverage for all the gaps in the existing insurance program. This allowed the company to complete its recruitment of a new board and move forward to bring the company back to full viability.





MAX RE EUROPE LIMITED, MAX INSURANCE EUROPE LIMITED AND MAX EUROPE HOLDINGS LIMITED
Standing, left to right: MICHELLE SAVAGE, Assistant Vice President and Financial Controller, Max Europe Holdings Limited
COLIN SHAW, Senior Vice President, Max Insurance Europe Limited, JOEY O'DEA, Senior Vice President, Max Insurance Europe Limited
MANULAR SANDILYA, Vice President, Max Re Ltd., GRAINNE HEAVEY, Assistant Vice President, Max Insurance Europe Limited
ADAM MULLAN, Executive Vice President, Max Re Europe Limited, ROB MEGENS, Vice President, Max Re Ltd.
Seated, left to right: DENISE DUFF Underwriting Assistant, Max Insurance Europe Limited
WALKER RAINEY, Senior Vice President & Chief Financial Officer, Max Europe Holdings Limited
JOHN BOYLAN, Executive Vice President, Max Insurance Europe Limited, MARGARET BOURKE, Officer Manager, Max Europe Holdings Limited



As we enter 2004, we believe our investment portfolio is the best it's ever been. We've increased the diversification, added additional managers and prepared for the economic environment we foresee for both Fixed Maturities and Alternative Investments.

During 2003, the strength of Max Re's flexible strategic model became apparent. Underwriting profit from our property and casualty operations and earnings from our progressive asset strategy led to record net income.

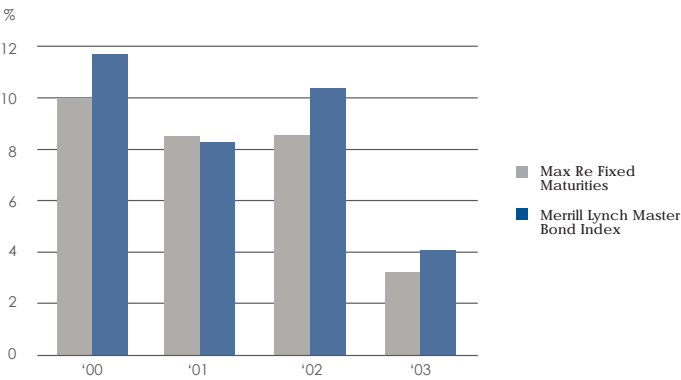
We continue to manage risk and return across our balance sheet utilizing the following principals:

- ☐ Diversification is your friend.
- ☐ Every risk should be capped at a "comfortable level."
- ☐ Detailed data gathering, due diligence and analysis are critically important.
- ☐ Thoroughly reviewing standard contracts and utilizing customized wording will be rewarded.
- ☐ Best practices modeling will produce higher returns at lower risk.

These principals are applied to both our assets and our liabilities, and integrated across our balance sheet.

From 2000 through 2002, declining interest rates benefited total return on Max Re's Fixed Maturities portfolio. The rise in interest rates reversed this result in 2003. Over the entire four-year period, with significant credit events and scandals, Max Re has not incurred a single credit loss or impairment on its Fixed Maturities portfolio, reflective of our risk adverse posture and excellent portfolio management.

MAX RE FIXED MATURITIES VS. MERRILL LYNCH
MASTER BOND INDEX HISTORICAL ASSET RETURNS

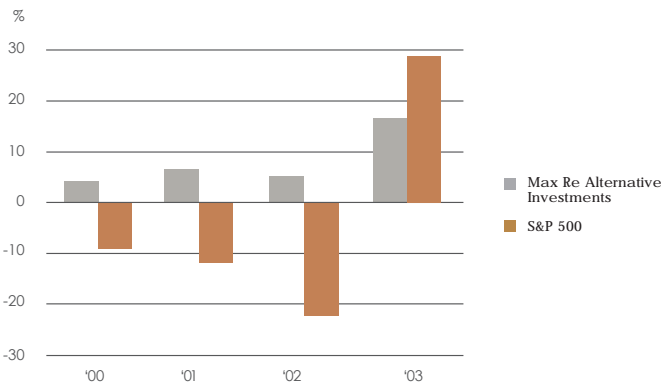


Max Re takes pride in its ability to respond to the individual needs of clients with innovative and customized solutions. In a recent example, a US-based distributor and marketer of unconventional specialized products with over \$1 billion in revenues approached us, because other underwriters were not willing to take the time to gain an understanding of the company's operations. As a result, the insurance market was forcing the company to consider taking a higher self-insured retention than desired. Despite the company's efforts to inform underwriters of their actual exposure, they were being confronted by resistance from many insurance companies. However, after meeting with Max Re, the company applauded our fresh approach, and asked if we could structure an alternative solution. We went to work and very quickly responded with a program that allowed the company to maintain a lower retention and provided certainty of insurance protection over the next few years, as well as a premium budget they could actually build into their financial plan. In addition, the company had the opportunity to receive a return premium, if the account remained loss free, as it had been historically. The Max Re solution provided its client with the ability to build an excess program on a more competitive basis.



On the other hand, returns from our Alternative Investments were tested in the very difficult markets of 2000 through 2002. Our risk management demonstrated its effectiveness for those years with positive returns in each annual period. In 2003, our Alternative Investments showed what they can produce in a favorable environment with a return of 16.57%.

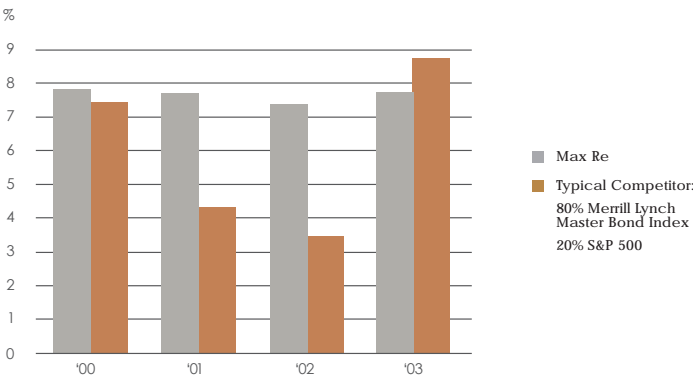
MAX RE ALTERNATIVE INVESTMENTS VS.
S&P 500 HISTORICAL ASSET RETURNS



In 2003, we continued to define and diversify our portfolio of Alternative Investments, and ended the year with forty-eight investments, compared to thirty-eight investments at year-end 2002. During 2003, each strategy produced a positive return, with Distressed Securities, Emerging Markets and Event Driven Arbitrage producing the best returns.

We measure our investment result against a hypothetical Typical Competitor Portfolio comprised of 80% fixed maturities (represented by the Merrill Lynch Master Bond Index) and 20% equity investments (represented by the S&P 500). During our four years of operations, our investment portfolio has an average annual return of 7.66% compared to the Typical Competitors average annual return of 5.97%. Max Re has been able to generate this return advantage and also achieve a standard deviation of return 30% below the Typical Competitor.

MAX RE VS. TYPICAL COMPETITOR
HISTORICAL ASSET RETURNS



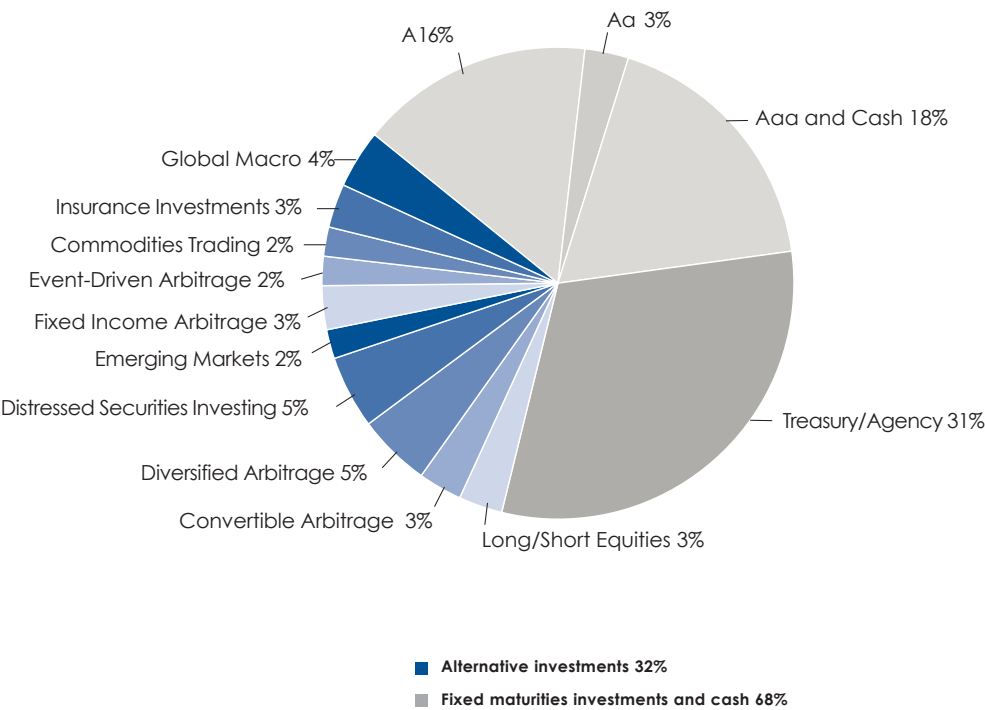


FINANCE

Standing, left to right: KIP HERRING, Senior Vice President, SARENE LOAR, Vice President & Counsel
RACHAEL LATHAN, Paralegal, COLIN JAMES, Senior Insurance Accountant
SHEILA GRINGLEY, Assistant Company Secretary, JIM TEES, Senior Vice President, Treasurer & Secretary
Seated, left to right: CHARLOTTE HARVEY, Senior Reinsurance Accountant, JOE ROBERTS, Senior Vice President & Controller
KEITH HYNES, Executive Vice President & Chief Financial Officer, NANCY DA SILVA, Vice President

As we enter 2004, we believe our investment portfolio is the best it's ever been. We've increased the diversification, added additional managers, and prepared for the economic environment we foresee for both Fixed Maturities and Alternative Investments.

INVESTMENT PORTFOLIO ANALYSIS – DECEMBER 2003
\$2,637 MILLION





RISK MANAGEMENT

MARCO GERVAIS, Senior Vice President, VICTOR CHOI, Assistant Vice President
ANNA FORTUNA, Assistant Vice President, LUC GAGNON, Executive Vice President, Corporate Actuary
(Seated) PETER MINTON, Executive Vice President & Chief Risk Officer



ADMINISTRATION & TECHNOLOGY
Seated, Left to Right: RONDA PIRES, Assistant Vice President, Administration
KEVIN LOHAN, Vice President, Technology & Systems, LINDA ELLIS, Receptionist
Standing, Left to Right: BLYTHE WALKER, Vice President, Technology & Systems
NOREENA VICKERS, Office Manager

The following is a discussion and analysis of the Company's results of operations for the year ended December 31, 2003 compared to the year ended December 31, 2002, and for the year ended December 31, 2002 compared to the year ended December 31, 2001 and also a discussion of the Company's financial condition as of December 31, 2003. This discussion and analysis should be read in conjunction with the audited consolidated financial statements and related notes that are included in this Annual Report.

Overview

The Company is a Bermuda-based provider of reinsurance and insurance products for both the property and casualty and the life and annuity markets. In the past two years, the property and casualty market has presented more opportunities to the Company than the life and annuity market due to a shortage of reinsurance capacity in the property and casualty market, resulting in improvement in premium rates. Further, a weak global economy and corrections in the global capital markets over the last several years have resulted in a wider pricing gap between buyers and sellers for the type of life and annuity reinsurance products that the Company offers. The Company anticipates continuing greater demand for its property and casualty products than for its life and annuity products for the foreseeable future.

To manage reinsurance and insurance liability exposure, make investment decisions and assess overall enterprise risk, the Company models its underwriting and investing activities on an integrated basis. The Company's integrated risk management, as well as features of its products, provides flexibility in making decisions regarding investments. The Company's investments are currently comprised of a high grade fixed maturities portfolio and an alternative investment portfolio that currently employs ten strategies invested in approximately 45 underlying trading entities designed to provide diversification and to generate positive returns while attempting to reduce the frequency and severity of loss outcomes. The alternative investment portfolio also includes two strategic reinsurance private equity investments. Based on fair value at December 31, 2003, the allocation of invested assets was approximately 68.5% in cash and fixed maturities and 31.5% in alternative investments.

The Company's principal operating subsidiary is Max Re. At December 31, 2003, Max Re had \$793.2 million of shareholders' equity. The Company conducts its European activities through Max Europe Holdings and its operating subsidiaries, Max Re Europe and Max Insurance Europe. The Company also provides reinsurance underwriting and administrative services on a fee basis through Max Re Managers. The Company holds all of its alternative investments in Max Re Diversified, other than reinsurance private equity investments that are held by Max Re.

Executive Summary

The Company achieved a key objective of shifting its property and casualty product mix toward traditional reinsurance and insurance business during the year ended December 31, 2003. The strategy resulted in improved underwriting performance, which, coupled with strong investment performance, enabled the Company to generate increased net income. Implementation of the shift in product mix was realized through the hiring of a seasoned team of insurance underwriting professionals with proven track records. The Company believes these professionals bring underwriting talent, experience, discipline and market presence, which allowed the Company's insurance operations to grow to over 16% of total gross premium written volume for the year ended December 31, 2003.

The Company also realized a diversification of its reinsurance underwriting business. The shift in underwriting focus and hiring of additional traditional reinsurance underwriting professionals, coupled with the introduction of insurance operations, enabled the Company to develop its professional liability, general liability, aviation and property underwriting capability and to expand into additional lines of business. Consequently, the Company believes its underwriting portfolio is more balanced and diversified than in previous years.

The Company experienced growth in premium revenue during the year ended December 31, 2003 with gross premium written of \$1,009.8 million compared to \$647.4 million in 2002. The increase of 56.0% reflects the Company's strategic decision to shift its product mix toward traditional reinsurance and insurance products during the year. These markets are presenting additional underwriting opportunities to the Company at favorable pricing terms. Traditional reinsurance operations represent 31.6% of total volume, up from 21.3% in the prior year. The Company recognizes the potential for increased volatility in its loss ratio arising from the shift in product mix to traditional reinsurance and insurance business. The Company plans to manage this risk by selecting appropriate line sizes and underlying exposures to diversify its existing underwriting portfolio and to continue to purchase reinsurance protection to manage its risk.

The Company's shift in product mix has resulted in improved underwriting performance in 2003. Loss ratios (losses, benefits and experience refunds as a percentage of net premiums earned) for the property and casualty business have declined from 83.3% in 2002 to 74.5% in 2003 and the combined ratio (total losses and expenses as a percentage of net premiums earned) has similarly declined from 111.2% in 2002 to 99.8% in 2003. Traditional reinsurance and insurance products are expected to generate lower loss and combined ratios than structured risk transfer products. In 2004, the Company expects to continue to increase the percentage of its gross premium written volume represented by traditional reinsurance and insurance operations.

Losses, benefits and experience refunds represent the largest expense to the Company and account for over 50% of total liabilities at December 31, 2003. The Company establishes loss expenses and reserves using a combination of loss reserving techniques and actuarial methods. Loss expenses and reserves are reviewed regularly to reflect new information received by the Company. The adequacy of the Company's reserves is reviewed annually by outside actuaries to support management's estimates. There was no significant adjustment to the Company's reserves for the year ended December 31, 2003. An analysis of property and casualty loss development may be found in Note 4 to the audited consolidated financial statements, attached hereto.

The Company's investments during the year ended December 31, 2003 produced a total return of 7.74% compared to 7.37% for the year ended December 31, 2002. The principal contributor to the investment performance during the year ended December 31, 2003, was the 16.57% rate of return generated on the Company's alternative investments compared to a 5.24% rate of return in 2002. The Company currently invests in eleven strategies within its alternative investment portfolio, with all strategies showing positive rates of return during the year ended December 31, 2003. In 2003, the Company reallocated investments over a broader array of investment managers, to achieve diversification, to protect against concentrated exposure and to benefit from the proven track records of the new investment managers.

The Company continually assesses its liquidity needs by monitoring new business prospects and development of its existing operations. In 2003, the Company generated \$451 million of cash from operations of which the Company invested \$396 million in fixed maturities and alternative investments. The Company expects to continue to generate operating cash inflow in 2004 through profitable new business, which will be offset partially by paid losses on existing reinsurance and insurance obligations, as well as operating expenses.

Drivers of Profitability

Revenues

The Company derives revenues from three principal sources—premiums from reinsurance and insurance business, income from its investment portfolio and, to a lesser extent, management fees from underwriting services. Reinsurance and insurance premiums are a function of the amount and type of contracts written as well as prevailing market prices. Premiums are earned over the terms of the underlying contracts. Each of the Company's reinsurance contracts contains unique pricing, terms and conditions and expected profit margins. Therefore, the amount of premiums is not necessarily an accurate indicator of the Company's anticipated profitability.

The Company's net investment income is a function of the average invested assets and the average yield that the Company earns on those invested assets. The investment yield on the Company's fixed maturities investments is a function of market interest rates as well as the credit quality and maturity of its fixed maturities holdings. The Company realizes capital gains or losses on its fixed maturities investments as a result of changing market conditions, including, but not limited to, changes in market interest rates and changes in the market's perception of the credit quality of the Company's fixed maturities holdings. The Company's net gains on alternative investments is a function of the success of the funds in which the Company is invested, which depends on, among other things, the underlying strategies of the funds, the ability of the fund managers to execute the fund strategies and general economic conditions, and the underlying operating results of the private equity reinsurance investments.

Expenses

The Company's three principal expenses are losses, benefits and experience refunds, acquisition costs, and general and administrative expenses. Losses, benefits and experience refunds are based on the amount and type of reinsurance and insurance contracts written by the Company during the current reporting period and information received during the current reporting period from ceding clients pertaining to contracts written in prior years. The Company records losses, benefits and experience refunds based on an actuarial estimate of the expected losses, benefits and experience refunds to be incurred on each contract written. The ultimate losses, benefits and experience refunds depend on the

actual costs to settle these liabilities. The Company increases or decreases losses, benefits and experience refunds estimates as actual claim reports are received. The Company's ability to estimate losses, benefits and experience refunds accurately at the time of pricing its contracts is a critical factor in determining profitability.

Acquisition costs consist principally of ceding commissions paid to ceding clients and brokerage expenses, and typically represent a percentage of the premiums on reinsurance and insurance contracts written. These costs are generally deferred and amortized over the period in which the related premiums are earned.

General and administrative expenses are principally employee salaries and related personnel costs, rent and other operating costs. These costs are primarily fixed in nature and do not vary with the amount of premiums written.

Critical Accounting Policies

The Company's consolidated financial statements are prepared in accordance with GAAP, which require management to make estimates and assumptions. The Company believes that the following accounting policies affect the more significant judgments and estimates used in the preparation of its consolidated financial statements.

Revenue recognition

The Company follows FAS No. 60, "Accounting and Reporting by Insurance Enterprises," FAS No. 97, "Accounting and Reporting by Insurance Enterprises for Certain Long-Duration Contracts and Realized Gains and Losses from the Sale of Investments," and FAS No. 113, "Accounting and Reporting for Reinsurance of Short-Duration and Long-Duration Contracts," in determining the accounting for its reinsurance and insurance products. Assessing whether or not the contracts it writes meets the conditions for risk transfer requires judgment. The determination of risk transfer is fundamental to the Company's determination of gross premiums written and is based, in part, on the use of actuarial and pricing models and assumptions.

The Company's premiums are recorded at the inception of each contract, based upon contract terms and information received from ceding clients and their brokers. For excess of loss contracts, the amount of premium is usually contractually documented at inception, and no management judgment is necessary in accounting for this. For quota share or proportional contracts, gross premiums written are normally estimated at inception by the ceding client. The Company accounts for such premiums using the initial estimates, and then adjusts them as advised by its ceding clients. The Company also accrues for reinstatement and additional premiums resulting from losses. Such accruals are based upon contractual terms, and the only element of management judgment involved is with respect to the amount of losses, benefits and experience refunds, as described below. Premiums are earned on a pro rata basis over the coverage period.

Reinstatement and additional premiums are recognized and earned at the time losses are adjusted by the Company. Reinstatement premiums are the premiums charged for the restoration of the reinsurance limit of a contract to its full amount after payment by the reinsurer of losses as a result of an occurrence. Additional premiums are premiums charged based on loss experience during the policy term or coverage period.

Losses, benefits and experience refunds

Under GAAP, the Company is not permitted to establish loss reserves until the occurrence of an event that may give rise to a loss. Once such an event occurs, the Company establishes reserves based upon estimates of total losses incurred by the ceding client as a result of the event and the Company's estimate of the portion of such loss it covers. As a result, only loss reserves applicable to losses incurred up to the reporting date may be recorded, with no allowance for the provision of a contingency reserve to account for expected future losses.

Setting appropriate reserves for losses, benefits and experience refunds is an inherently uncertain process. Losses, benefits and experience refunds reserves represent estimates, at a given point in time, of the ultimate settlement costs of losses incurred (including IBNR losses, which are losses that have been incurred but not yet reported). The Company regularly reviews and updates these estimates using the most current information available and employing generally accepted actuarial methods. Consequently, the ultimate liability for a loss is likely to differ from the original estimate. Whenever the Company determines that an existing reserve for losses, benefits and experience refunds needs adjustment, it is required to record a change in estimate, increasing or decreasing the reserve with a corresponding reduction or increase, which could be material, in its operating results in the period in which the deficiency or redundancy is identified. Adjustments resulting from changes in the Company's

estimates are recorded in the period such adjustments are determined. The establishment of new reserves, or the adjustment of reserves for reported claims, could result in significant upward or downward changes to the Company's financial condition or results of its operations in the period such amounts are reported.

The Company's reinsurance and insurance reserves are actuarial projections as of the balance sheet date of the ultimate unpaid losses and benefits associated with its reinsurance and insurance contracts. Considerable judgment is required to evaluate losses and benefits and establish liabilities for losses and benefits. The Company employs a variety of actuarial loss reserving techniques and several models to assist in the setting and reviewing of reserves. The actuarial loss reserves techniques and models employed are principally based on paid and incurred loss development methods. Further, the Company retains an independent actuarial firm to annually review the adequacy of the reserves as determined by management. Additional information regarding losses, benefits and experience refund amounts incurred will be revealed over time and the estimates of such amounts may need to be revised, resulting in gains and losses in the periods determined.

Investments

The Company's investments are carried at fair value or amounts that approximate fair value. Fair value for the Company's investments in fixed maturities is generally based on quoted market prices, dealer quotes or pricing models. At December 31, 2003, the valuation of approximately 98% of the Company's fixed maturities investments was based on quoted market prices. Fair value for the Company's alternative investments is generally based on the net asset value reported by the respective investment fund managers or, for its reinsurance equity investments, based on the carried amount under the equity method of accounting. The investment fund managers generally carry their trading positions and investments at fair value. The Company relies principally on the financial reports from these entities for recording the net gains on alternative investments in its statement of income. For its equity investments, the Company initially records the investments at cost and periodically adjusts the carrying values to recognize its proportionate share of income or loss from these investments. Future adverse changes in general market, global and economic conditions, changes to the interest and currency rate environment or poor operating results by the Company's investments carried under the equity method of accounting could result in losses.

See Note 2 to the audited consolidated financial statements of the Company included herein for the Company's significant accounting policies.

Results of Operations

Year ended December 31, 2003 compared to year ended December 31, 2002

Gross premiums written. Gross premiums written for the year ended December 31, 2003 were \$1,009.8 million compared to \$647.4 million for the year ended December 31, 2002, an increase of 56.0%. Gross premiums written for property and casualty were \$901.5 million for the year ended December 31, 2003 compared to \$632.7 million for the year ended December 31, 2002. Gross premiums written for property and casualty increased principally due to increased production of traditional reinsurance business and the commencement of the Company's traditional insurance operations in the first quarter of 2003. Gross premiums written for life and annuity were \$108.3 million for the year ended December 31, 2003 compared to \$14.7 million for the year ended December 31, 2002. Gross premiums written for life and annuity in the year ended December 31, 2003 resulted from two life insurance contracts written in the fourth quarter.

Reinsurance premiums ceded. Premiums ceded for the year ended December 31, 2003 were \$154.6 million compared to \$54.7 million for the year ended December 31, 2002, an increase of 182.6%. Reinsurance premiums ceded were principally related to the Company's quota-share retrocessional and aggregate stop loss agreements with Grand Central Re and the quota share retrocession of its traditional insurance business. In addition during 2003, the Company purchased specific reinsurance to manage the risks associated with certain lines of business and to manage the exposure retained by the Company on certain transactions. As the Company's traditional reinsurance and insurance business grows, the Company is purchasing, and expects to continue to purchase, additional retrocessional coverage consistent with its risk management objectives.

Net premiums written. Net premiums written for the year ended December 31, 2003 were \$855.2 million compared to \$592.7 million for the year ended December 31, 2002, an increase of 44.3%. Net premiums written for property and casualty products for the year ended December 31, 2003 were \$768.6 million compared to \$580.3 million for the year ended December 31, 2002. Net premiums written for life and annuity products for the year ended December 31, 2003 were \$86.6 million compared to \$12.5 million for the year ended December 31, 2002.

Net premiums earned. Net premiums earned for the year ended December 31, 2003 were \$727.2 million compared to \$388.0 million for the year ended December 31, 2002, an increase of 87.4%. Property and casualty net premiums earned were \$640.6 million, after the deduction of \$86.6 million of earned premiums ceded, for the year ended December 31, 2003 compared to \$375.6 million, after the deduction of \$44.4 million of earned premiums ceded, for same period in 2002. Life and annuity net premiums earned were \$86.6 million, after the deduction of \$21.7 million of earned premiums ceded, for the year ended December 31, 2003 compared to \$12.5 million, after the deduction of \$2.2 million of earned premiums ceded, for the same period in 2002. The difference between net premiums written and net premiums earned for the year ended December 31, 2003 compared to 2002 reflects the earning pattern of an increasingly mature book of property and casualty contracts. In addition, the life and annuity business written in the fourth quarter of the year was fully earned in the year ended December 31, 2003.

Net investment income. Net investment income, excluding realized and unrealized gains and losses, for the year ended December 31, 2003 decreased \$4.3 million to \$60.1 million compared to \$64.4 million for the year ended December 31, 2002, a decrease of 6.7%. The decrease was principally attributable to a \$13.4 million decline in the investment income earned from premiums and deposits withheld by clients during the year ended December 31, 2003. Funds withheld by clients declined significantly in the year principally due to the commutation of certain contracts. The overall decline in investment income was partially offset by the growth in the fixed maturities portfolio from \$1,279.6 million to \$1,604.4 million resulting from cash received from the collection of premiums written since December 31, 2002. For the year ended December 31, 2003, yields on the fixed maturity investments remained at historically low levels. The average investment yield on the cash, fixed maturities investments and funds withheld by clients for the year ended December 31, 2003 was 3.8% compared to an average yield of 5.2% for the year ended December 31, 2002. The decline principally relates to the reduction in interest earned on the funds withheld balances, which also decreased.

Net gains on alternative investments. Net gains on the alternative investment portfolio were \$124.0 million, including \$12.1 million from the Company's private equity reinsurance investments, for the year ended December 31, 2003 compared to \$32.1 million, including \$8.4 million from the Company's private equity reinsurance investments, for the year ended December 31, 2002. The increase was attributable to both a 16.6% rate of return on the alternative investments for the year ended December 31, 2003 compared to a 5.2% rate of return for the year ended December 31, 2002 and an increase in the amount of the alternative investments resulting from cash flows generated from operating activities during 2003. Every alternative investment strategy employed by the Company was profitable during the year ended December 31, 2003. Alternative investment strategies principally contributing to income during the year ended December 31, 2003 were distressed securities, emerging markets, event driven arbitrage, global macro, long/short equity and fixed income arbitrage.

Losses, benefits and experience refunds. Losses, benefits and experience refunds were \$592.3 million for the year ended December 31, 2003 compared to \$361.0 million for the year ended December 31, 2002, an increase of 64.1%. Property and casualty losses were \$477.3 million for the year ended December 31, 2003 compared to \$313.0 million for the year ended December 31, 2002. The increase in property and casualty losses was related to the increase in property and casualty premiums written and earned during the year ended December 31, 2003 compared to the same period in 2002. The loss ratio for property and casualty business for the year ended December 31, 2003 was 74.5% compared to 83.3% for the year ended December 31, 2002. The decrease in loss ratio reflects the increased traditional reinsurance and insurance underwriting production which is currently producing lower loss ratios than the Company's structured and alternative risk products.

During the year ended December 31, 2003, incurred losses related to prior year contracts amounted to \$25.3 million, and included amortization of deferred charges on retrospective property and casualty reinsurance contracts of \$4.0 million, and was net of \$5.1 million in realized profits from contracts terminated during the current year that were written in prior years. The Company recognized additional premiums, net of acquisition costs, of \$19.2 million relating to incurred losses on prior years, which offsets the increase in incurred losses related to prior year contracts. One reinsurance contract that provides whole account coverage accounted for \$19.1 million of the prior year incurred losses amount. The contract is a multi year reinsurance contract under which additional premium was recorded for a prior year. The premium adjustment caused the Company to recognize additional losses for the prior year at a percentage rate consistent with the original loss ratio.

The life and annuity benefits were \$114.9 million for the year ended December 31, 2003 which related to two transactions written and earned in the fourth quarter of the current year combined with the accretion of liability for future benefits on contracts written in prior years, compared to \$47.9 million for the year ended December 31, 2002.

Acquisition costs. Acquisition costs were \$149.5 million for the year ended December 31, 2003 compared to \$97.7 million for the year ended December 31, 2002, an increase of 53.0%. The increase in acquisition costs results from an increase in property and casualty net premiums earned. The decline, in percentage terms, of acquisition costs to net premiums earned during the year ended December 31, 2003, from 25.2% to 20.6%, principally reflected lower acquisition costs on insurance business written and the life and annuity business. Acquisition costs during each of the years ended December 31, 2003 and 2002 consisted primarily of amortization of deferred policy acquisition costs incurred in connection with writing property and casualty business. Acquisition costs are customarily associated with the type of premium written by the Company. Generally, acquisition costs fluctuate with business volume and changes in product mix. A significant component of deferred policy acquisition costs are ceding commissions paid to the buyer of the Company's reinsurance products.

Interest expense. Interest expense was \$28.8 million for the year ended December 31, 2003 compared to \$23.1 million for the year ended December 31, 2002, an increase of 24.7%. The increase resulted principally from interest expense on additional funds withheld from reinsurers of the Company and on increased deposit liabilities and increased interest expense on the swap transaction, accounted for as a bank loan, resulting from a higher principal balance for the year ended December 31, 2003 compared to the same period in 2002.

General and administrative expenses. General and administrative expenses were \$39.8 million for the year ended December 31, 2003 compared to \$21.3 million for the year ended December 31, 2002, an increase of 86.9%. The increase resulted principally from expenses associated with establishing the Company's insurance operations and expanding the Company's traditional reinsurance capabilities through the hiring of additional staff. The general and administrative expense to net premiums earned ratio remained unchanged at 5.5% for the year ended December 31, 2003 compared to that for the year ended December 31, 2002.

Net income (loss). Net income for the year ended December 31, 2003 was \$120.6 million compared to a net loss of \$5.8 million for the year ended December 31, 2002. The results for the year ended December 31, 2003 were principally attributable to increased income from the Company's alternative investments and underwriting income generated from the Company's property and casualty products compared to the year ended December 31, 2002.

Year ended December 31, 2002 compared to year ended December 31, 2001

Gross premiums written. Gross premiums written for the year ended December 31, 2002 were \$647.4 million compared to \$710.6 million for the year ended December 31, 2001, a decrease of 8.9%. Gross premiums written for property and casualty were \$632.7 million for the year ended December 31, 2002 compared to \$496.5 million for the year ended December 31, 2001. Gross premiums written for property and casualty increased principally due to increased demand for, and improved pricing of, the Company's products and the expansion of the product offering to include traditional property and casualty reinsurance risks during 2002. Gross premiums written for life and annuity were \$14.7 million for the year ended December 31, 2002 compared to \$214.1 million for the year ended December 31, 2001. The Company believes that the lack of life and annuity underwriting production during the year ended December 31, 2002 was attributable to the low interest rate environment and weak global economy in 2002. The demand for the type of life and annuity reinsurance that the Company offers is typically weak during periods when interest rates are low.

Reinsurance premiums ceded. Premiums ceded for the year ended December 31, 2002 were \$54.7 million compared to \$116.4 million for the year ended December 31, 2001, a decrease of 53.0%. The reinsurance premiums ceded were principally related to the Company's quota-share retrocessional agreement with Grand Central Re. The decline in premiums ceded in the year is a result of the decline in the volume of life and annuity business written by the Company and the change in the mix of property and casualty business written.

Net premiums written. Net premiums written for the year ended December 31, 2002 were \$592.7 million compared to \$594.2 million for the year ended December 31, 2001, a decrease of 0.3%. Net premiums written for property and casualty products for the year ended December 31, 2002 were \$580.2 million compared to \$412.6 million for the year ended December 31, 2001. Net premiums written for life and annuity products for the year ended December 31, 2002 were \$12.5 million compared to \$181.6 million for the year ended December 31, 2001.

Net premiums earned. Net premiums earned for the year ended December 31, 2002 were \$388.0 million compared to \$500.9 million for the year ended December 31, 2001, a decline of 22.5%. Property and casualty net premiums earned were \$375.5 million, after the deduction of \$44.4 million of earned premiums ceded, for the year ended December 31, 2002 compared to \$319.3 million, after the deduction of \$66.6 million of earned premiums ceded, for the year ended December 31, 2001. Life and annuity net premiums earned were \$12.5 million, after the deduction of \$2.2 million of earned premiums ceded, for the year ended December 31, 2002 compared to \$181.6 million, after the deduction of \$32.4 million of earned premiums ceded, for the year ended December 31, 2001. The difference between net premiums written and net premiums earned for the years ended December 31, 2002 and 2001 reflects the fact that most of the Company's property and casualty reinsurance contracts are written on a prospective basis, with the premium earned over the period reinsurance protection is provided, whereas each of the Company's life and annuity contracts assumes the existing risk of the reinsured, and, accordingly, the related premium is earned at the time the Company enters into the contract.

Net investment income. Net investment income, excluding realized and unrealized gains and losses, for the year ended December 31, 2002 increased \$20.5 million to \$64.4 million compared to \$43.9 million for the year ended December 31, 2001, an increase of 46.7%. The increase was primarily attributable to the growth in the fixed maturities portfolio from \$884.1 million to \$1,279.6 million resulting from cash received from the collection of premiums written since December 31, 2001 and \$6.4 million of additional investment income earned from premiums and deposits withheld by clients during the year ended December 31, 2002 compared to calendar year 2001. The average investment yield on the fixed maturities portfolio for the year ended December 31, 2002 was 5.19% compared to an average yield of 6.15% for the year ended December 31, 2001.

Net gains on alternative investments. Net gains on the alternative investment portfolio were \$32.1 million, including \$8.4 million from the Company's private equity reinsurance investments, for the year ended December 31, 2002 compared to \$29.8 million, net of \$0.3 million loss from the Company's private equity reinsurance investments for the year ended December 31, 2001, an increase of 7.7%. The alternative investment portfolio returned a 5.2% gain during the year ended December 31, 2002 compared to a 6.7% gain during the year ended December 31, 2001. The increase in net gains of \$2.3 million resulted from the return from the Company's private equity reinsurance investments and the larger size of the alternative investment portfolio, offset by the lower return earned on these investments in 2002 compared to 2001.

Losses, benefits and experience refunds. Losses, benefits and experience refunds were \$361.0 million for the year ended December 31, 2002 compared to \$514.3 million for the year ended December 31, 2001, a decrease of 29.8%. Property and casualty losses and experience refunds were \$313.0 million for the year ended December 31, 2002 compared to \$313.0 million for the year ended December 31, 2001. The increase in property and casualty losses and experience refunds was smaller than the increase in property and casualty net premiums written and net premiums earned as the Company's product mix changed during the year 2002.

During the year ended December 31, 2002, incurred losses related to prior years contracts amounted to \$49.9 million, and included amortization of deferred charges on retrospective property and casualty reinsurance contracts of \$6.3 million. The Company recognized additional premiums and interest on those premiums, net of acquisition costs, of \$37.8 million, substantially mitigating the losses incurred on prior year contracts. One contract written during calendar year 2000 accounted for \$41.2 million of the prior year incurred losses amount. The contract was a whole account stop loss cover, with worker's compensation as the principal underlying risk, providing reinsurance for calendar year 1999, where losses incurred and settled through December 31, 2002 by the underlying reinsured exceeded the Company's estimates and consequently resulted in additional losses being recorded by the Company.

Life and annuity benefits and experience refunds were \$48.0 million for the year ended December 31, 2002 compared to \$201.4 million for the year ended December 31, 2001. The decrease was principally attributable to the lower volume of life and annuity premiums written and earned in 2002 compared to 2001. The Company recorded net adverse mortality and morbidity expense of \$7.0 million during the year ended December 31, 2002 resulting principally from worse than expected claims experience on a coinsurance transaction involving group long term disability written during calendar year 2000.

Acquisition costs. Acquisition costs were \$97.7 million for the year ended December 31, 2002 compared to \$30.9 million for the year ended December 31, 2001, an increase of 216.2%. The increase in acquisition costs was a result of the Company's increase in property and casualty reinsurance volume and a change in the mix and ceding commission rates of contracts written in 2002 compared to 2001. Acquisition costs during each of the years ended December 31, 2002 and 2001 consisted primarily of

amortization of deferred policy acquisition costs incurred in connection with writing property and casualty business. Acquisition costs are customarily associated with the type of premium written by the Company. Generally, acquisition costs fluctuate with business volume and changes in product mix. The largest component of deferred policy acquisition costs are ceding commissions paid to the buyer of the Company's reinsurance products.

Interest expense. Interest expense was \$23.1 million for the year ended December 31, 2002 compared to \$12.1 million for the year ended December 31, 2001, an increase of 90.9%. The increase resulted principally from interest expense on additional funds withheld from reinsurers of the Company and on increased deposit liabilities and increased interest expense on the swap transaction into which the Company entered in March 2002.

General and administrative expenses. General and administrative expenses were \$21.3 million for the year ended December 31, 2002 compared to \$21.0 million for the year ended December 31, 2001, an increase of 1.4%. The increase reflected the costs associated with growing the Company's operations and principally relates to staff additions, offset by decreased bonuses paid to management and employees in 2002 compared to 2001. The general and administrative expense ratio was 5.5% for the year ended December 31, 2002 compared to 4.2% for the year ended December 31, 2001.

Net income (loss). Net loss for the year ended December 31, 2002 was \$5.8 million compared to net income of \$2.5 million for the year ended December 31, 2001. The change to a net loss in 2002 compared to net income in 2001 resulted from the unfavorable development on the Company's reinsurance reserves and lower investment returns than necessary to support the Company's increased reinsurance liabilities.

Financial Condition

Cash and invested assets. Aggregate invested assets, comprising cash and cash equivalents, fixed maturities and alternative investments were \$2,637.3 million at December 31, 2003 compared to \$2,024.8 million at December 31, 2002, an increase of 30.2%. The increase in cash and invested assets from 2002 to 2003 resulted principally from \$451.8 million in cash flows from operations generated in 2003, appreciation of the alternative investments portfolio of \$124.0 million and a \$50.0 million increase in the swap transaction accounted for as a bank loan.

Property and casualty losses and experience refunds. Property and casualty losses and experience refunds totaled \$991.7 million at December 31, 2003 compared to \$778.1 million at December 31, 2002, an increase of 27.5%. The increase in property and casualty losses and experience refunds was principally attributable to increased premiums earned during the year ended December 31, 2003 and expected claim settlements. The increase is partially offset by a decrease in these liabilities, resulting from an amendment, effective January 1, 2003, to the terms of a property and casualty contract written in a prior year. The amendment was a material change to the contract, causing the Company to record the amended contract as a deposit arrangement, thereby reducing the liabilities for property and casualty losses and experience refunds by \$160.7 million and increasing the deposit liabilities by a corresponding amount. An analysis of the changes in property and casualty losses and experience refunds can be found in Note 4 to the audited consolidated financial statements of the Company included herein.

Life and annuity benefits and experience refunds. Gross life and annuity benefits and experience refunds totaled \$480.1 million at December 31, 2003 compared to \$405.0 million at December 31, 2002, an increase of 18.5%. The increase in 2003 was principally attributable to the benefit reserves of \$107.2 million required on business written and earned during the current year, partially offset by benefit payments of \$32.1 million on existing contracts in force.

Losses recoverable from reinsurers. Losses recoverable from reinsurers totaled \$273.7 million at December 31, 2003 compared to \$212.2 million at December 31, 2002, an increase of 29.0%, principally reflecting losses ceded under the Company's retrocessional agreements. At December 31, 2003, two retrocessionaires account for 61.8% and 28.7% of the Company's losses recoverable from reinsurers. The retrocessionaires have a financial strength ratings of "A-" and "A", respectively, by A.M. Best Company. The Company retains funds from these two retrocessionaires to secure the obligations.

Bank loans. In March 2002, Max Re completed a \$100.0 million sale of shares of Max Re Diversified to a third party financial institution. Simultaneous with the sale, Max Re entered into a total return swap with the purchaser of these shares whereby Max Re received the return earned on the Max Re Diversified shares in exchange for a variable rate of interest based on LIBOR plus a spread. Under GAAP, these transactions were viewed on a combined basis and accounted for as a financing transaction, which resulted in the recording of a \$100.0 million bank loan.

On February 18, 2003, the Company and the third party financial institution mutually terminated the swap transaction described above and, immediately following the termination, the Company completed a \$150.0 million sale of shares of Max Re Diversified to the same third party financial institution and entered into a total return swap with the purchaser on similar terms as the terminated transaction. Max Re Diversified shares owned by Max Re with a fair value of \$86.2 million at December 31, 2003 were pledged as collateral to which the Company is exposed to credit risk. Under GAAP, these transactions are viewed on a combined basis and accounted for as a financing transaction, which resulted in the recording of a \$150.0 million bank loan. The swap termination date is February 2005, with provisions for earlier termination at the Company's option or in the event that the Company fails to comply with certain covenants, including maintaining a minimum financial strength rating and a minimum Max Re Diversified net asset value. At termination, the purchaser has the option to sell the Max Re Diversified shares to the Company at a price equal to the fair value of the Max Re Diversified shares on the date of repurchase. The swap transaction enables the Company to transform a portion of its Max Re Diversified assets into fixed maturities investments that can be held in trusts for the benefit of certain ceding reinsurance companies that require fixed maturity trust assets to meet regulatory requirements.

Duration of liabilities. The average duration of the Company's liabilities as of December 31, 2003 was approximately 4.2 years. This average duration was calculated using the actuarial estimates of cash flow of the contracts in force. The actuarial estimates of cash flow of the contracts include assumptions as to the size and timing of payments due from the Company under the contracts. Variations in the Company's actual experience from its assumptions may cause the average duration of its liabilities to be shorter or longer.

Shareholders' equity. The Company's shareholders' equity increased to \$805.2 million at December 31, 2003 from \$710.7 million, including minority interest, at December 31, 2002, an increase of 13.3%, principally reflecting income of \$120.6 million for the year ended December 31, 2003, partially offset by unrealized holding losses on fixed maturities arising during the period of \$21.2 million and dividends paid and minority interest distributions in the amount of \$4.1 million.

On July 30, 2003, the holders of non-voting common shares of Max Re and warrants to acquire non-voting common shares of Max Re exchanged such shares and warrants for Common Shares of the Company and warrants to acquire Common Shares of the Company. The effect of this exchange resulted in the elimination of minority interest and an increase in shareholders' equity of equal amounts as of the date of the exchange. This exchange did not have a dilutive effect on equity.

Liquidity and capital resources. The Company generated \$451.8 million from operations during the year ended December 31, 2003 compared to \$225.4 million in 2002, an increase of 100.4%, principally reflecting the shift in product mix, which generated increased gross premiums written during the year. The Company generated \$53.8 million from financing activities, with the principal contributor being an increase in the bank loan facility of \$50.0 million during the year. The cash generated from operating and financing activities was applied to the Company's investing activities, through the net purchase of \$341.6 million in fixed maturities and \$54.5 million in alternative investments.

As a holding company, Max Re Capital's principal assets are its investments in the common shares of its principal subsidiary, Max Re, and the common shares of its other subsidiaries. The Company's principal source of funds is from interest income on cash balances and cash dividends from its subsidiaries, including Max Re. The payment of dividends is limited under Bermuda insurance laws. In particular, Max Re may not declare or pay any dividends if it is in breach of its minimum solvency or liquidity levels under Bermuda law or if the declaration or payment of the dividends would cause it to fail to meet the minimum solvency or liquidity levels under Bermuda law. At December 31, 2003, Max Re, which is required to have \$382.8 million in statutory capital and surplus in order to pay dividends, had \$698.0 million in actual statutory capital and surplus.

Capital resources. At December 31, 2003, the Company's capital structure consisted of equity. Total capitalization after deducting loans to employees and including retained earnings and accumulated other comprehensive income amounted to \$805.2 million as compared with \$710.7 million at December 31, 2002. The Company has flexibility with respect to capitalization as the result of its access to the debt and equity markets. The Company regularly reviews its capital adequacy and believes its current level of capital is sufficient to support the Company's current reinsurance and insurance operations. The Company is currently evaluating various capital resource alternatives to continue growing its business, and believes that issuing debt is likely in 2004.

In the ordinary course of business, the Company is required to provide letters of credit or other regulatory approved security to certain of its ceding clients to meet contractual and regulatory requirements.

The Company has three letter of credit facilities as of December 31, 2003, totaling \$470.0 million. The Company's primary letter of credit facility is with a syndicate of commercial banks, one of which is affiliated with a director of Max Re Capital. In June 2003, the Company amended the terms of this facility principally to lower the cost of the facility and reduced the capacity of the facility from \$375.0 million to \$270.0 million. In accordance with the facility agreement, the syndicate will issue letters of credit that may total up to \$243.0 million secured by fixed maturities and up to \$27.0 million secured by alternative investments. The Company believes that the terms of this letter of credit facility are comparable to the terms that the Company would expect to negotiate with an unrelated party. At December 31, 2003 and December 31, 2002, letters of credit totaling \$249.9 million and \$284.6 million, respectively, were issued and outstanding under this facility. Fixed maturities and cash equivalents with a fair value of \$285.9 million and Max Re Diversified shares with a fair value of \$74.3 million at December 31, 2003 were pledged as collateral for these letters of credit.

The Company also has a \$100.0 million letter of credit facility with the New York branch of Bayerische Hypo- und Vereinsbank AG ("HVB"), a shareholder of the Company. HVB is the majority shareholder of Grand Central Re, which is managed by Max Re Managers and in which the Company has a 7.5% equity interest. The Company believes that the terms of this letter of credit facility are comparable to the terms that the Company would expect to negotiate at arms' length with an unrelated party. At December 31, 2003 and December 31, 2002, letters of credit totaling \$21.1 million and \$58.5 million, respectively, were issued by HVB under this facility. All letters of credit issued under this facility are collateralized by a portion of the Company's invested assets. Fixed maturities and cash equivalents with a fair value of \$21.1 million and Max Re Diversified shares with a fair value of \$81.1 million at December 31, 2003 were pledged as collateral for these letters of credit. Effective January 1, 2004, the letter of credit facility with HVB was reduced to \$50.0 million.

In September 2003, the Company entered into a \$100.0 million letter of credit facility with an independent commercial bank. At December 31, 2003, there were \$nil million letters of credit issued under this letter of credit facility. Fixed maturities and cash equivalents with a fair value of \$nil million were pledged as collateral for these letters of credit.

Each of the letter of credit facilities requires that the Company, and/or certain of its subsidiaries, comply with certain covenants, including a minimum consolidated tangible net worth and restrictions on the payment of dividends. The Company was in compliance with all the covenants of each of its letter of credit facilities at December 31, 2003.

On each of January 31, 2003, May 1, 2003 and July 25, 2003, the Company's Board of Directors declared a quarterly shareholder dividend of \$0.02 per share payable to shareholders of record on February 17, 2003, May 12, 2003 and August 8, 2003, respectively. On October 31, 2003, the Board of Directors declared a shareholder dividend of \$0.03 per share payable to shareholders of record on November 14, 2003. Continuation of cash dividends in the future will be at the discretion of the Board of Directors and will be dependent upon the Company's results of operations and cash flows, and its financial position and capital requirements, general business conditions, legal, tax, regulatory and any contractual restrictions on the payment of dividends and other factors the Board of Directors deems relevant. On January 30, 2004, the Board of Directors declared a dividend of \$0.03 per share to be paid on February 23, 2004 to shareholders of record on February 13, 2004.

The Company has been assigned an insurer financial strength rating of "A- (Excellent)" by A.M. Best Company, Inc. and an insurer financial strength rating of "A (Strong)" by Fitch, Inc. These ratings reflect each rating agency's opinion of the Company's financial strength, operating performance and ability to meet obligations. If an independent rating agency downgrades or withdraws any of the Company's ratings, the Company could be severely limited or prevented from writing any new reinsurance contracts, which would significantly and negatively affect its business. To date, the Company's ratings have been affirmed by A.M. Best and Fitch on each rating review. Ratings are based upon factors relevant to policyholders and are not directed toward the protection of investors.

No off-balance sheet arrangements. The Company does not participate in transactions that generate relationships with unconsolidated entities or financial partnerships, such as entities often referred to as structured finance or variable interest entities ("VIEs"), which would have been established for the purpose of facilitating off-balance sheet arrangements or other contractually narrow or limited purposes. As of December 31, 2003, the Company was not aware of any unconsolidated VIE transactions.

December 31, 2003 and 2002

(Expressed in thousands of U.S. Dollars, except per share and share amounts)

	2003	2002
Assets		
Cash and cash equivalents	\$ 201,515	\$ 92,103
Fixed maturities, available for sale at fair value	1,604,430	1,279,564
Alternative investments, at fair value	831,359	653,165
Accrued interest income	14,608	12,304
Premiums receivable	389,393	190,214
Losses recoverable from reinsurers	273,711	212,241
Funds withheld	56	55,276
Deferred acquisition costs	87,116	79,447
Deferred charges	5,259	32,086
Prepaid reinsurance premiums	67,343	25,408
Other assets	20,769	11,633
Total assets	\$ 3,495,559	\$ 2,643,441
Liabilities		
Property and casualty losses and experience refunds	\$ 991,687	\$ 778,069
Life and annuity benefits and experience refunds	480,099	405,008
Deposit liabilities	267,350	115,513
Funds withheld from reinsurers	213,483	152,172
Unearned property and casualty premiums	471,625	323,672
Reinsurance balances payable	74,693	42,264
Accounts payable and accrued expenses	41,392	16,019
Bank loan	150,000	100,000
Total liabilities	2,690,329	1,932,717
Minority interest	–	116,565
Shareholders' equity		
Preferred shares (par value \$1.00)		
20,000,000 shares authorized; no shares issued or outstanding	–	–
Common shares (par value \$1.00)		
200,000,000 shares authorized		
45,184,611 (2002 - 37,998,779) shares issued and outstanding	45,185	37,999
Additional paid-in capital	637,772	526,582
Loans receivable from common share sales	(11,965)	(12,575)
Unearned stock grant compensation	(4,032)	(2,656)
Accumulated other comprehensive income	25,790	49,108
Retained earnings (deficit)	112,480	(4,299)
Total shareholders' equity	805,230	594,159
Total liabilities, minority interest and shareholders' equity	\$ 3,495,559	\$ 2,643,441

See accompanying notes to consolidated financial statements

Years Ended December 31, 2003, 2002 and 2001

(Expressed in thousands of U.S. Dollars, except per share and share amounts)

	2003	2002	2001
Revenues			
Gross premiums written	\$ 1,009,779	\$ 647,390	\$ 710,551
Reinsurance premiums ceded	(154,574)	(54,679)	(116,417)
Net premiums written	\$ 855,205	\$ 592,711	\$ 594,134
Earned premiums	\$ 835,449	\$ 434,681	\$ 599,991
Earned premiums ceded	(108,245)	(46,644)	(99,044)
Net premiums earned	727,204	388,037	500,947
Net investment income	60,132	64,353	43,870
Net gains on alternative investments	124,036	32,127	29,784
Net realized gains on sale of fixed maturities	19,259	5,390	2,512
Other income	10,743	6,181	3,857
Total revenues	941,374	496,088	580,970
Losses and expenses			
Losses, benefits and experience refunds	592,274	360,982	514,323
Acquisition costs	149,534	97,738	30,860
Interest expense	28,829	23,131	12,121
General and administrative expenses	39,845	21,337	21,042
Total losses and expenses	810,482	503,188	578,346
Income (loss) before minority interest	130,892	(7,100)	2,624
Minority interest	(10,325)	1,346	(93)
Net income (loss)	120,567	(5,754)	2,531
Change in net unrealized appreciation of fixed maturities	(21,169)	35,633	6,674
Foreign currency translation adjustment	(2,149)	—	—
Comprehensive income	\$ 97,249	\$ 29,879	\$ 9,205
Basic earnings (loss) per share	\$ 2.91	\$ (0.15)	\$ 0.08
Diluted earnings (loss) per share	\$ 2.84	\$ (0.15)	\$ 0.06

See accompanying notes to consolidated financial statements

Years Ended December 31, 2003, 2002 and 2001

(Expressed in thousands of U.S. Dollars, except per share and share amounts)

	2003	2002	2001
Common shares			
Balance - beginning of year	\$ 37,999	\$ 39,582	\$ 27,683
Issue of shares	371	262	13,102
Issue of shares on elimination of minority interest	7,120	–	–
Repurchase of shares	(305)	(1,845)	(1,203)
Balance - end of year	45,185	37,999	39,582
Additional paid-in capital			
Balance - beginning of year	526,582	543,438	376,905
Issue of common shares	4,127	3,736	198,210
Issue of common shares on elimination of minority interest	110,285	–	–
Repurchase of shares	(3,591)	(19,058)	(15,856)
Stock option expense	369	–	–
Direct equity offering expenses	–	–	(15,821)
Distribution to shareholders	–	(1,534)	–
Balance - end of year	637,772	526,582	543,438
Loans receivable from common share sales			
Balance - beginning of year	(12,575)	(12,575)	(11,650)
Loans granted	–	–	(1,025)
Loans repaid	610	–	100
Balance - end of year	(11,965)	(12,575)	(12,575)
Unearned stock grant compensation			
Balance - beginning of year	(2,656)	(2,894)	(630)
Stock grants awarded	(3,740)	(971)	(3,288)
Amortization	2,364	1,209	1,024
Balance - end of year	(4,032)	(2,656)	(2,894)
Accumulated other comprehensive income			
Balance - beginning of year	49,108	13,475	6,801
Holding (losses) gains on fixed maturities arising in year	(11,111)	46,942	10,652
Net realized gains included in net income	(19,259)	(5,390)	(2,512)
Currency translation adjustments	(2,149)	–	–
Allocation to minority interest	6,504	(5,919)	(1,466)
Holding gains transferred on elimination of minority interest	2,697	–	–
Balance - end of year	25,790	49,108	13,475
Retained earnings (deficit)			
Balance - beginning of year	(4,299)	3,044	1,306
Net income (loss)	120,567	(5,754)	2,531
Dividends paid	(3,788)	(1,589)	(793)
Balance - end of year	112,480	(4,299)	3,044
Total shareholders' equity	\$ 805,230	\$ 594,159	\$ 584,070

See accompanying notes to consolidated financial statements

Years Ended December 31, 2003, 2002 and 2001

(Expressed in thousands of U.S. Dollars, except per share and share amounts)

	2003	2002	2001
Operating activities			
Net income (loss)	\$ 120,567	\$ (5,754)	\$ 2,531
Adjustments to reconcile net income (loss) to net cash provided by operating activities:			
Minority interest share of net income (loss)	10,325	(1,346)	93
Amortization of unearned stock grant compensation	2,733	1,209	1,024
Amortization of discount on fixed maturities	5,986	1,378	(1,015)
Net gains on alternative investments	(124,036)	(32,127)	(29,784)
Net realized gains on sale of fixed maturities	(19,259)	(5,390)	(2,512)
Accrued interest income	(2,304)	(1,408)	(4,477)
Premiums receivable	(199,179)	(100,607)	(86,899)
Losses recoverable from reinsurers	(85,570)	(38,578)	(168,293)
Funds withheld	55,220	204	(13,489)
Deferred acquisition costs	(8,402)	(39,612)	(39,835)
Deferred charges	7,398	12,351	(22,756)
Prepaid reinsurance premiums	(45,979)	(8,035)	(17,373)
Other assets	(9,136)	(4,558)	(4,108)
Property and casualty losses and experience refunds	374,283	181,692	460,039
Life and annuity benefits and experience refunds	75,091	(18,759)	169,848
Funds withheld from reinsurers	61,311	52,313	80,459
Unearned property and casualty premiums	174,916	212,709	110,560
Reinsurance balances payable	32,429	12,468	26,529
Accounts payable and accrued expenses	25,373	7,283	1,158
Cash provided by operating activities	451,767	225,433	461,700
Investing activities			
Purchases of fixed maturities	(1,210,386)	(746,259)	(588,120)
Sales (purchases) of alternative investments	(54,524)	7,936	(250,910)
Sales of fixed maturities	785,383	306,241	178,571
Redemptions of fixed maturities	83,407	88,905	16,780
Cash used in investing activities	(396,120)	(343,177)	(643,679)
Financing activities			
Net proceeds from subscriptions to share capital	758	3,027	191,179
Repurchase of common shares	(3,896)	(20,903)	(17,059)
Proceeds from bank loan	50,000	100,000	–
Dividends and distributions	(3,788)	(3,123)	(793)
Distributions to/conversions of minority shareholders	(285)	(3,600)	(146)
Deposit liabilities, net	10,366	36,124	79,389
Notes and loans repaid	610	–	100
Cash provided by financing activities	53,765	111,525	252,670
Net increase (decrease) in cash and cash equivalents	109,412	(6,219)	70,691
Cash and cash equivalents, beginning of year	92,103	98,322	27,631
Cash and cash equivalents, end of year	\$ 201,515	\$ 92,103	\$ 98,322
Supplemental Disclosure of Cash Flow Information			
Interest paid	\$ 3,370	\$ 2,176	\$ –

See accompanying notes to consolidated financial statements

A non cash item that was an amendment to a reinsurance contract resulted in the following changes in the year ended December 31, 2003: decreased property and casualty losses and experience refunds by \$160,665, decreased unearned property and casualty premiums by \$26,963, decreased deferred charges by \$19,429, decreased losses recoverable from reinsurers by \$24,100, decreased prepaid reinsurance premiums by \$4,044, decreased acquisitions costs by \$733 and increased deposit liabilities by \$139,322.

Shareholders' equity reflects the exchange on July 30, 2003 of non-voting common shares of Max Re Ltd. and warrants to acquire non-voting common shares of Max Re Ltd., (which were accounted for as minority interest) for common shares of the Company and warrants to acquire common shares of the Company. The exchange is a non cash item and has no effect on the consolidated Statement of Cash Flows.

1. General

Max Re Capital Ltd. ("the Company") was incorporated on July 8, 1999 under the laws of Bermuda. The Company's principal operating subsidiary is Max Re Ltd. ("Max Re"). Max Re is registered as a Class 4 insurer and long-term insurer under the insurance laws of Bermuda. The Company's European activities are conducted from Dublin, Ireland through Max Europe Holdings Limited and its two wholly owned operating subsidiaries, Max Re Europe Limited and Max Insurance Europe Limited.

2. Significant accounting policies

(a) Basis of presentation

The consolidated financial statements include the financial statements of Max Re Capital Ltd., Max Re and Max Re Managers Ltd., together with Max Re's subsidiaries, Max Europe Holdings Limited and Max Re Diversified Strategies Ltd. ("Max Re Diversified"). All significant inter-company balances and transactions have been eliminated.

The accompanying financial statements are prepared in accordance with accounting principles generally accepted in the United States of America ("GAAP") 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 financial statements and the reported amounts of revenues and expenses during the period. Actual results could differ from those estimates.

Certain reclassifications have been made to the prior year reported amounts to conform to the current year presentation.

(b) Minority interest

Minority interest represented non-voting shares in Max Re held by certain founding shareholders of the Company. On July 30, 2003, the holders of non-voting common shares of Max Re exchanged such shares for common shares of the Company. The effect of this exchange results in the elimination of the minority interest and an increase in shareholders' equity of equal amounts as of the date of exchange.

The minority's share of net income was calculated quarterly using the minority's weighted average ownership percentage. Minority interest represented the minority's proportionate share of Max Re's net assets prior to the exchange described above.

(c) Premium revenue recognition

Property and Casualty

Premiums written are earned on a pro-rata basis over the period the coverage is provided. Reinsurance premiums are recorded at the inception of the policy and are estimated based upon information received from ceding companies and any subsequent differences arising on such estimates are recorded in the period they are determined. Unearned premiums represent the portion of premiums written which relate to the unexpired terms of policies in force. Premiums ceded are similarly pro-rated over the period the coverage is provided with the unearned portion being deferred as prepaid reinsurance premiums. Premium estimates for retrospectively rated contracts are recognized within the periods in which the related losses are incurred.

Life and Annuity

Reinsurance premiums from traditional life and annuity policies with life contingencies are generally recognized as revenue when due from policyholders. Traditional life policies include those contracts with fixed and guaranteed premiums and benefits. Benefits and expenses are matched with such income to result in the recognition of profit over the life of the contracts.

Premiums from annuity contracts without life contingencies are reported as annuity deposits. Policy benefits and claims that are charged to expenses include benefit claims incurred in the period in excess of related policyholders' account balances.

Deposits

Short duration reinsurance contracts entered into by the Company which are not deemed to transfer significant underwriting and timing risk are accounted for as deposits, whereby liabilities are initially recorded at the same amount as assets received. An initial accretion rate is established based on actuarial estimates whereby the deposit liability is increased to the estimated amount payable over the term of the contract. This accretion charge is presented in the period as either interest expense, where the contract does not transfer underwriting risk, or losses, benefits and experience refunds where the

contract does not transfer significant timing risk. Long duration contracts written by the Company that do not transfer significant mortality or morbidity risks are also accounted for as deposits. The Company periodically reassesses the amount of deposit liabilities and any changes to the estimated ultimate liability is recognized as an adjustment to earnings to reflect the cumulative effect since the inception of the contract and by an adjustment to the future accretion rate of the liability over the remaining estimated contract term.

(d) Investments

Investments in securities with fixed maturities are classified as available for sale and are carried at fair value with any unrealized gains and losses included in accumulated other comprehensive income as a separate component of shareholders' equity. The cost of fixed maturities is adjusted for amortization of premiums and discounts. Realized gains and losses on investments are recognized in net income using the specific identification method and include adjustments to the net realizable value of investments for declines in value that are considered other than temporary. Investment income is recognized when earned and includes interest income together with amortization of premium and discount on fixed maturities.

Fair value of investments in fixed maturities is generally based on quoted market prices. If quoted market prices are not available, fair values are estimated based on dealer quotes, pricing models or quoted prices for instruments with similar characteristics. Changes in fair value are recorded in the period they are determined.

Alternative investments represent a diversified portfolio of (i) limited partnerships and stock investments in trading entities that invest in a range of financial products including U.S. and non-U.S. securities and financial instruments and (ii) other strategic equity investments. Investments in limited partnerships and trading entities are carried at the net asset value provided by the respective entity. These entities generally carry their trading positions and investments at fair value as determined by their respective investment managers. The change in net asset value is included in net gains on alternative investments and recognized in net income.

Investments in unquoted equities where the Company has significant influence are carried under the equity method of accounting. Under this method the investments are initially recorded at cost and adjusted periodically to recognize the Company's proportionate share of income or loss from the investments. The Company believes this approximates fair value for these equity investments for which quoted market prices are not available. The Company's share of income or loss from these investments is included in net gains on alternative investments and recognized in net income.

(e) Fee revenue recognition

Transaction structuring and advisory fees are earned as the services generating the fees are performed.

(f) Losses and loss adjustment expenses and experience refunds

Property and Casualty

The liability for losses, including loss adjustment expenses, represents estimates of the ultimate cost of all losses incurred but not paid as of the balance sheet date. Inherent in the estimates of losses are expected trends of frequency, severity and other factors which could vary significantly as claims are settled. Accordingly, ultimate losses could vary from the liability recorded in these consolidated financial statements. These estimates are regularly reviewed and any adjustments to the estimates are recorded in the period they are determined.

Life and Annuity

The development of policy reserves requires management to make estimates and assumptions regarding mortality, morbidity, lapse, expense and investment experience. Such estimates are primarily based on historical experience and information provided by ceding companies. Actual results could differ materially from these estimates. Management monitors actual experience and, where circumstances warrant, will revise its assumptions and the related reserve estimates. These revisions are recorded in the period they are determined.

Experience refunds

The liability for experience refunds represents estimates of the ultimate liability incurred under profit sharing provisions of various contracts. These estimates are regularly reviewed and any adjustments to the estimates are recorded in the period they are determined. Since this liability is based on estimates, the ultimate settlement of experience refunds may vary from the amount provided.

(g) Acquisition costs

Acquisition costs consist of commissions and fees paid to brokers and consultants and ceding commissions paid to the Company's clients. Deferred acquisition costs are amortized over the period in which the related premiums are earned or, for annuities, as a percentage of estimated gross profit. Deferred acquisition costs are regularly reviewed to determine if they are recoverable from future income, including investment income, by evaluating whether a loss is probable on policies in force. A premium deficiency loss is recognized when it is probable that expected future claims will exceed anticipated future premiums, reinsurance recoveries and anticipated investment income. If such costs are estimated to be unrecoverable as a result of a premium deficiency loss, they are expensed.

(h) Deferred charges – reinsurance assumed

The excess of estimated liabilities for claims and claim costs over the consideration received with respect to retroactive property and casualty reinsurance contracts that provide for indemnification of insurance risk is established as a deferred charge at inception of such contracts. The deferred charges are subsequently amortized using the interest method over the expected liability settlement periods of the contracts. The periodic amortization charges are recorded in losses, benefits and experience refunds.

(i) Translation of foreign currencies

Assets and liabilities of foreign operations whose functional currency is not the U.S. dollar are translated at year end exchange rates. Revenue and expenses of such foreign operations are translated at average exchange rates during the year. The effect of the translation adjustments for foreign operations, is included in accumulated other comprehensive income.

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

(j) Offering costs

Direct offering costs incurred in connection with the Company's initial public offering ("the Offering"), including certain amounts payable for investment banking, legal services and printing were deducted from the gross proceeds of the Offering.

(k) Cash and cash equivalents

The Company considers all time deposits and money market instruments with an original maturity of ninety days or less as equivalent to cash.

(l) Earnings per share

Basic earnings per share is based on weighted average common shares outstanding and excludes any dilutive effects of warrants, options and convertible securities. Diluted earnings per share assumes the conversion of dilutive convertible securities and the exercise of all dilutive stock options and warrants using the treasury stock method.

3. Investments

(a) The fair values and amortized costs of fixed maturities at December 31, 2003 and 2002 were as follows:

	Amortized Cost	Unrealized Gain	Unrealized Loss	Fair Value
2003				
US Government and Agencies	\$ 402,520	\$ 8,973	\$ (2,066)	\$ 409,427
US Corporate Securities	541,193	16,504	(1,104)	556,593
Other Corporate Securities	13,656	–	(348)	13,308
Asset and Mortgage Backed Securities	598,264	5,477	(697)	603,044
Collateralized Mortgage Obligations	21,673	385	–	22,058
	\$1,577,306	\$ 31,339	\$ (4,215)	\$1,604,430

	Amortized Cost	Unrealized Gain	Unrealized Loss	Fair Value
2002				
US Government and Agencies	\$ 497,897	\$ 35,391	\$ –	\$ 533,288
US Corporate Securities	351,011	14,274	(344)	364,941
Other Corporate Securities	17,641	229	(2)	17,868
Asset and Mortgage Backed Securities	275,577	5,142	(281)	280,438
Collateralized Mortgage Obligations	80,311	2,741	(23)	83,029
	\$1,222,437	\$ 57,777	\$ (650)	\$1,279,564

The following table sets forth certain information regarding the investment ratings (provided by major rating agencies) of fixed maturities at December 31, 2003 and 2002.

	2003		2002	
	Fair Value	%	Fair Value	%
US Government and Agencies ⁽¹⁾	\$ 821,198	51.2	\$ 575,095	44.9
AAA	262,150	16.3	331,655	26.0
AA	90,865	5.7	136,672	10.7
A	422,607	26.3	231,022	18.0
BBB	7,610	0.5	5,120	0.4
	\$1,604,430	100.0	\$1,279,564	100.0

⁽¹⁾Included within US Government and Agencies are Agency Mortgage Backed Securities with a fair value of \$411,771 (2002 - \$41,807).

(b) The maturity distribution for fixed maturities held at December 31, 2003 was as follows:

	Amortized Cost	Fair Value
Within one year	\$ 40,074	\$ 39,634
From one to five years	498,723	511,997
From five to ten years	371,411	378,601
More than ten years	667,098	674,198
	\$ 1,577,306	\$ 1,604,430

Expected maturities could differ from contractual maturities because borrowers may have the right to call or prepay obligations, with or without call or prepayment penalties.

(c) Investment income earned for the years ended December 31, 2003, 2002 and 2001 was as follows:

	2003	2002	2001
Interest earned on fixed maturities, cash and short term investments	\$ 67,440	\$ 53,398	\$ 36,658
Interest earned on funds withheld	(238)	13,155	6,740
Amortization of discount on fixed maturities	(5,987)	(1,378)	1,015
Investment expenses	(1,083)	(822)	(543)
	\$ 60,132	\$ 64,353	\$ 43,870

(d) The net realized gains and the change in net unrealized appreciation on fixed maturities for the years ended December 31, 2003, 2002 and 2001 was as follows:

	2003	2002	2001
Net realized gains:			
Gross realized gains	\$ 29,314	\$ 5,879	\$ 2,777
Gross realized losses	(10,055)	(489)	(265)
Net realized gains	19,259	5,390	2,512
Change in unrealized appreciation	(27,673)	41,552	8,140
Less: allocation to minority interest	6,504	(5,919)	(1,466)
Net change in unrealized appreciation	(21,169)	35,633	6,674
Total net realized gains and change in unrealized appreciation on fixed maturities	\$ (1,910)	\$ 41,023	\$ 9,186

(e) The Company endeavors to match the timing of its loss payments with the maturities of its fixed maturity portfolio. Due to fluctuations in interest rates, it is likely that over the period a fixed maturity security is held there will be periods, greater than twelve months, when the investment's fair value is less than its cost resulting in unrealized losses. As the Company expects to hold the investment for a longer period, the security's fair value and amortized cost will tend to converge over time reducing the size of any unrealized gains or losses. Therefore the Company does not intend to recognize these temporary differences that relate to interest rate fluctuations in the Statement of Income as the security will ultimately reach the maturity value and interest payments are current. The only time the Company would expect to realize an other than temporary difference on a fixed maturity security is if there were concern about receiving the interest payments on and the maturity value of the investment. Of the total holding of 511 securities, 108 had unrealized losses at December 31, 2003. Fixed maturities with unrealized losses and the duration such conditions have existed at December 31, 2003 were as follows:

	Less than 12 months		12 months or longer		Total	
	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses
US Government and Agencies	\$ 129,685	\$ 2,066	\$ -	\$ -	\$ 129,685	\$ 2,066
US Corporate Securities	139,312	1,104	-	-	139,312	1,104
Other Corporate Securities	6,000	348	-	-	6,000	348
Asset and Mortgages						
Backed Securities	101,271	697	-	-	101,271	697
Collateralized						
Mortgage Obligations	-	-	-	-	-	-
	\$ 376,268	\$ 4,215	\$ -	\$ -	\$ 376,268	\$ 4,215

(f) The majority of the Company's alternative investments at December 31, 2003 comprise a fund of funds portfolio owned by Max Re Diversified and managed by Moore Capital Management, LLC ("the Manager"), a company owned by certain of the Company's shareholders. The funds are primarily engaged in global macro, long/short equity, fixed income arbitrage, convertible arbitrage, diversified arbitrage, distressed investing, event driven arbitrage, commodity trading, emerging market and opportunistic investment strategies. Certain funds in the portfolio are managed by the Manager. For the year ended December 31, 2003 the Company paid the Manager \$5,489 (2002 - \$3,101; 2001 - \$7,639) for investment management services. In addition, as the trading manager of Max Re Diversified, the Manager earned \$8,102 for the year ended December 31, 2003 (2002 - \$nil; 2001 - \$nil).

All investment fees incurred on the alternative investments are included in net gains on alternative investments in the accompanying consolidated statements of income and comprehensive income.

(g) In May 2001, the Company made an equity investment of \$15,000 for 7.5% of the ordinary shares of Grand Central Re Limited ("Grand Central Re"), a Bermuda domiciled reinsurance company. The investment in Grand Central Re is recorded using the equity method of accounting and is classified as an alternative investment in the accompanying consolidated balance sheets.

Max Re Managers Ltd. provides Grand Central Re with insurance management services under an insurance management agreement. Fees for such services for the year ended December 31, 2003 were approximately \$4,300 (2002 - \$2,800; 2001 - \$2,600) and are included in other income in the accompanying consolidated statements of income and comprehensive income.

Max Re entered into a quota share retrocession agreement with Grand Central Re, effective January 1, 2002, amending the quota share arrangement with Grand Central Re that commenced January 1, 2001. The 2002 quota share reinsurance agreement with Grand Central Re requires each of the Company and Grand Central Re to retrocede a portion of their respective gross premiums written from certain transactions to the other party in order to participate on a quota share basis. Max Re also entered into an aggregate stop loss contract with Grand Central Re, effective January 1, 2003, whereby Grand Central Re provided aggregate reinsurance protection to Max Re on one of its underlying reinsurance contracts. The accompanying consolidated balance sheets and consolidated statements of income and comprehensive income include, or are net of, the following amounts related to the quota share retrocession and aggregate stop loss agreements with Grand Central Re:

	2003	2002	2001
Prepaid reinsurance premiums	\$ 17,596	\$ 24,045	\$ 16,644
Losses recoverable from reinsurers	169,088	129,308	97,700
Funds withheld from reinsurers	155,843	108,704	79,108
Deposit liabilities	49,515	22,543	14,016
Reinsurance balances payable	28,063	14,043	13,579
Reinsurance premiums ceded	71,874	52,089	106,535
Earned premiums ceded	74,279	44,688	89,890
Losses, benefits and experience refunds	80,762	42,864	98,671

During 2003, Max Re credited Grand Central Re with interest of \$6,180 (2002 - \$7,703; 2001 - \$1,573) on the funds withheld by Max Re at a negotiated rate of 3.07% (2002 - 8.59%; 2001 - 8.55%).

The Company believes that the terms of the insurance management, quota share retrocession and aggregate stop loss agreements are comparable to terms that the Company would expect to negotiate in similar transactions with unrelated parties.

(h) In December 2001, the Company made an equity investment of \$50,000 in Class D shares of DaVinci Re Holdings Ltd., and its operating subsidiary DaVinci Reinsurance Ltd. ("DaVinci"), representing 12.5% of its share capital. DaVinci is a Bermuda-based property catastrophe reinsurer, managed by Renaissance Underwriting Managers, Ltd. The investment in DaVinci is recorded using the equity method of accounting and is classified as an alternative investment in the accompanying consolidated balance sheets.

4. Property and casualty losses and loss adjustment expenses

The summary of changes in outstanding property and casualty losses at December 31, 2003, 2002 and 2001 is as follows:

	2003	2002	2001
Gross balance at January 1	\$ 778,069	\$ 596,377	\$ 136,338
Less: Reinsurance recoverables, deferred charges and experience refunds	(215,330)	(210,824)	(47,625)
Net balance at January 1	562,739	385,553	88,713
Reclassification to deposit liability	(117,136)	—	—
Incurred losses related to:			
Current year	443,617	261,836	292,743
Prior year	25,268	49,912	18,181
Total incurred	468,885	311,748	310,924
Paid losses related to:			
Current year	(54,823)	(20,784)	(7,930)
Prior year	(104,924)	(113,778)	(6,154)
Total paid	(159,747)	(134,562)	(14,084)
Net balance at December 31	754,741	562,739	385,553
Plus: Reinsurance recoverables, deferred charges and experience refunds	236,946	215,330	210,824
Gross balance at December 31	\$ 991,687	\$ 778,069	\$ 596,377

The reclassification to deposit liability relates to an amendment, effective January 1, 2003, to the terms of a property and casualty contract written in a prior year. The amendment was a material change to the contract, causing the Company to record the amended contract as a deposit arrangement, thereby reducing the net reserve for property and casualty losses by \$117,136.

Prior year incurred losses of \$25,268 for the year ended December 31, 2003 relate to a current year change in estimate of expected losses of \$26,363 on certain reinsurance contracts written in prior years and the current year amortization of deferred charges of \$3,995 with respect to retroactive reinsurance contracts written in prior years, and is net of \$5,090 in realized profits from contracts terminated during the current year that were written in prior years. The change in estimates results from the receipt of new information or notification from the ceding companies during the current year. One contract accounted for \$19,118 of the prior year incurred losses amount. For certain contracts, these losses triggered additional premium of \$30,763 and acquisition costs of \$11,526, which were earned and/or incurred in the current year.

Prior year incurred losses of \$49,912 for the year ended December 31, 2002 relate to a change in estimate of expected losses of \$53,825 on certain reinsurance contracts written in prior years and the amortization of deferred charges of \$6,280 with respect to retroactive reinsurance contracts written in prior years, and is net of \$10,193 in realized profits from contracts terminated during 2002 that were written in prior years. The change in estimate results from the receipt of information or notification from the ceding companies during 2002. One contract accounted for \$41,156 of the prior year incurred losses amount. For certain contracts, these losses triggered additional premium of \$40,892, interest on premium of \$9,797 and acquisition costs of \$12,915, which were earned and/or incurred in the year ended December 31, 2002.

Prior year incurred losses of \$18,181 for the year ended December 31, 2001 relate principally to a change in estimate of expected losses of \$11,820 on two reinsurance contracts written during the year ended December 31, 2000, the Company's first year of operations, and amortization of deferred charges of \$6,361 with respect to retroactive reinsurance contracts written during the year ended December 31, 2000.

For the year ended December 31, 2003, the change in estimate of expected loss results primarily from contracts covering whole account covers. For the years ended December 31, 2002 and 2001, the change in estimate of expected loss results from contracts covering primarily workers compensation claims.

While the Company believes that it has made a reasonable estimate of ultimate property and casualty losses, subsequent claims experience may exceed loss reserves and have a significant effect on the Company's results of operations.

Included in deposit liabilities is \$203,898 (2002 - \$48,490) related to reinsurance contracts that do not transfer sufficient risk to be accounted for as reinsurance.

5. Life and annuity benefits

Life and annuity benefits at December 31, 2003 and 2002 was as follows:

	2003	2002
Life	\$ 150,982	\$ 47,371
Annuities	95,629	97,882
Accident and health	233,488	259,755
	\$ 480,099	\$ 405,008

Losses recoverable relating to life and annuity contracts of \$49,565 in 2003 (2002 - \$30,172) are included in losses recoverable from reinsurers in the accompanying consolidated balance sheets.

All annuities included in life and annuity benefits in the accompanying consolidated balance sheets are not subject to discretionary withdrawal. Included in deposit liabilities at December 31, 2003 are annuities of \$6,082 (2002 - \$8,645) which are subject to discretionary withdrawal. Deposit liabilities also include \$57,370 (2002 - \$58,378) representing the account value of a universal life reinsurance contract as prescribed under FAS 97.

6. Reinsurance

The Company utilizes reinsurance and retrocession agreements principally to increase aggregate capacity and to reduce the risk of loss on business assumed. The Company's reinsurance and retrocession agreements provide for recovery of a portion of losses and loss adjustment expenses from reinsurers. Losses recoverable from reinsurers are recorded as assets. Losses, benefits and experience refunds are net of losses recoverable of \$102,339 in 2003 (2002 - \$49,835; 2001 - \$167,692) under these agreements. 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. The Company regularly evaluates the financial condition of its reinsurers. Two retrocessionaires account for 61.8% and 28.7% of the Company's losses recoverable from reinsurers as of December 31, 2003. The retrocessionaires have financial strength ratings of "A-" and "A", respectively, by A.M. Best at December 31, 2003.

The effect of reinsurance and retrocessional activity on premiums written and earned for the years ended December 31, 2003, 2002 and 2001 was as follows:

	Premiums written			Premiums earned		
Property and casualty	2003	2002	2001	2003	2002	2001
Direct	\$ 163,213	\$ –	\$ –	\$ 66,083	\$ –	\$ –
Assumed	738,316	632,734	496,452	661,116	420,025	385,892
Ceded	(132,924)	(52,481)	(83,974)	(86,595)	(44,446)	(66,601)
Net	\$ 768,605	\$ 580,253	\$ 412,478	\$ 640,604	\$ 375,579	\$ 319,291

	Premiums written			Premiums earned		
Life and annuity	2003	2002	2001	2003	2002	2001
Amounts assessed against policyholders	\$ –	\$ –	\$ –	\$ –	\$ –	\$ –
Assumed	108,250	14,656	214,099	108,250	14,656	214,099
Ceded	(21,650)	(2,198)	(32,443)	(21,650)	(2,198)	(32,443)
Net	\$ 86,600	\$ 12,458	\$ 181,656	\$ 86,600	\$ 12,458	\$ 181,656
Total	\$ 855,205	\$ 592,711	\$ 594,134	\$ 727,204	\$ 388,037	\$ 500,947

7. Bank loan

In March 2002, the Company completed a \$100,000 sale of shares of Max Re Diversified to a third party financial institution. Simultaneous with the sale, the Company entered into a total return swap with the purchaser of these shares whereby the Company received the return earned on the Max Re Diversified shares in exchange for a variable rate of interest based on LIBOR plus a spread. Under GAAP, these transactions were viewed on a combined basis and accounted for as a financing transaction, which resulted in the recording of a \$100,000 bank loan.

On February 18, 2003, the Company and the third party financial institution mutually terminated the swap transaction described above and, immediately following the termination, the Company completed a \$150,000 sale of shares of Max Re Diversified to the same third party financial institution and entered into a total return swap with the purchaser on similar terms as the terminated transaction. Max Re Diversified shares owned by Max Re with a fair value of \$86,196 at December 31, 2003 were pledged as collateral to which the Company is exposed to credit risk. Under GAAP, these transactions are viewed on a combined basis and accounted for as a financing transaction, which resulted in the recording of a \$150,000 bank loan. The swap termination date is February 2005, with provision for earlier termination at the Company's option or in the event that the Company fails to comply with certain covenants, including maintaining a minimum financial strength rating and a minimum Max Re Diversified net asset value. At termination, the purchaser has the option to sell the Max Re Diversified shares to the Company at a price equal to the fair value of the Max Re Diversified shares on the date of repurchase.

8. Pension and deferred compensation plans

The Company provides pension benefits to certain employees as required by the Bermuda National Pension Scheme Act, 1998 through a defined contribution plan. The Company also provides pension benefits to employees of the Irish subsidiary companies under a separately administered defined contribution pension scheme. Company contributions are subject to vesting provisions. Pension expenses totaled \$184 for the year ended December 31, 2003 (2002 - \$65; 2001 - \$59).

The Company sponsors a deferred compensation plan in which employee salary deferrals are supplemented by matching contributions. The Company's contribution is subject to a defined amount and is subject to vesting provisions. Deferred compensation expense totaled \$734 for the year ended December 31, 2003 (2002 - \$543; 2001 - \$468).

December 31, 2003, 2002 and 2001 (Expressed in thousands of U.S. Dollars, except per share and share amounts)

9. Loans receivable from common share sales

As of December 31, 2003, the Company has full recourse loans outstanding provided to certain members of management of \$11,965 (2002 - \$12,575; 2001 - \$12,575) in connection with their investment in the Company pursuant to the terms of their employment agreements. The loans have maturity dates ranging from March 2005 to August 2006 and are secured by the shares issued. Interest is charged at applicable federal rates which are published by the U.S. Internal Revenue Service and is payable annually in arrears. Interest earned on the loans amounted to \$198 for the year ended December 31, 2003 (2002 - \$343; 2001 - \$461) and is included in other assets in the accompanying consolidated balance sheets, and net investment income in the accompanying consolidated statements of income and comprehensive income.

10. Shareholders' equity

Common Shares

The holders of common shares are entitled to one vote per paid up share subject to a maximum of 9.5% of total voting rights per shareholder unless waived by the Board of Directors. The Board of Directors has waived these provisions with respect to one shareholder, Western General Insurance Ltd.

On July 30, 2003, the holders of non-voting common shares of Max Re and warrants to acquire non-voting common shares of Max Re exchanged such shares and warrants for common shares of the Company and warrants to acquire common shares of the Company. The effect of this exchange results in the elimination of minority interest and an increase in shareholders' equity of equal amounts as of the date of the exchange. This exchange did not have a dilutive effect on equity.

Warrants

In connection with the issuance of certain shares, the Company has issued warrants to purchase the Company's common shares exchangeable on a one-for-one basis. The warrants may be exercised at any time up to their expiration dates, which range from December 22, 2009 to August 17, 2011. Warrants are issued with exercise prices approximating their fair value on the date of issuance.

Warrant related activity is as follows:

	Warrants Outstanding	Warrants Exercisable	Weighted Average Exercise Price	Weighted Average Fair Value	Range of Exercise Prices
Balance, December 31, 2000	6,783,827	6,644,587	\$ 15.00		
Warrants granted	2,590,036		\$ 16.13	\$ 5.72	\$16.00-\$18.00
Balance, December 31, 2001	9,373,863	8,999,366	\$ 15.31		
Warrants forfeited	(4,500)		\$ 15.00		
Balance, December 31, 2002	9,369,363	8,999,366	\$ 15.31		
Warrant activity	—		\$ —		
Balance, December 31, 2003	9,369,363	8,999,366	\$ 15.31	\$ 5.76	\$15.00-\$18.00

11. Stock incentive plan

In June 2000, the shareholders of the Company approved the adoption of a Stock Incentive Plan ("the Plan") under which it may award, subject to certain restrictions, Incentive Stock Options ("ISOs"), Non-Qualified Stock Options ("NQSOs"), restricted stock, share awards or other awards. In May 2002, the shareholders of the Company approved the adoption of an amendment to the Plan to increase the maximum aggregate number of common shares available for awards under the Plan to 5,000,000. Only eligible employees of the Company are entitled to ISOs, while NQSOs may be awarded to eligible employees, non-employee Directors and consultants. The Plan is administered by the Compensation Committee of the Board of Directors ("the Committee").

Stock options issued under the Plan have terms set by the Committee. The maximum option period is ten years. The minimum exercise price of ISOs is equal to the fair value of the Company's common shares at the date of grant. Options contain restrictions relating to, among other things, vesting, forfeiture in the event of termination of employment, and transferability.

Restricted stock issued under the Plan have terms set by the Committee. These shares contain certain restrictions relating to, among other things, vesting, forfeiture in the event of termination of employment, and transferability. At the time of grant the fair value of the shares awarded is recorded as unearned stock grant compensation and is presented as a separate component of shareholders' equity. The unearned compensation is charged to income over the vesting period. Total compensation cost recognized in income for stock-based compensation awards was \$2,365 for the year ended December 31, 2003 (2002 - \$1,209; 2001 - \$1,024).

Eligible non-employee Directors were granted NQSOs to purchase 10,000 common shares on the date of their directorship and 2,000 common shares each year thereafter. The NQSOs have an exercise price equal to the fair value of the Company's common shares at the date of grant and become exercisable and vest over three years.

Effective January 1, 2003, the Company began to account for stock-based employee compensation in accordance with the fair value method prescribed by FAS No. 123 – Accounting for Stock-Based Compensation ("FAS No. 123"), as amended by FAS No. 148 – Accounting for Stock-Based Compensation – Transition and Disclosure, using the prospective adoption method. Under the prospective adoption method, compensation expense is recognized over the relevant service period based on the fair value of stock options granted after January 1, 2003.

In accordance with FAS 123, the fair value of options granted is estimated on the date of grant using the Black-Scholes option pricing method with the following weighted average assumptions:

	2003	2002	2001
Option valuation assumptions:			
Expected option life	7 years	7 years	7 years
Expected dividend yield	0.63%	0.52%	0.13%
Expected volatility	21.00%	22.00%	20.00%
Risk-free interest rate	4.00%	4.62%	5.11%

If the Company were to recognize compensation expense over the relevant service period under the fair value method of FAS No. 123 with respect to stock options granted for the year ended December 31, 2002 and all prior years, net income would have decreased in each period from the amount reported, resulting in pro forma net income and earnings per share as follows:

	2003	2002	2001
Net income (loss), as reported	\$ 120,567	\$ (5,754)	\$ 2,531
Add: Stock-based employee compensation expense included in reported net income	342	–	–
Deduct: Stock-based employee compensation expense determined under fair value method for all awards	(2,531)	(1,990)	(913)
Pro forma net income (loss)	\$ 118,378	\$ (7,744)	\$ 1,618
Earnings per share, as reported			
Basic	\$ 2.91	\$ (0.15)	\$ 0.08
Diluted	\$ 2.84	\$ (0.20)	\$ 0.05
Earnings per share, pro forma			
Basic	\$ 2.88	\$ (0.15)	\$ 0.06
Diluted	\$ 2.79	\$ (0.20)	\$ 0.04

A summary of Plan related activity follows:

	Awards Available for Grant	Options Outstanding	Options Exercisable	Weighted Average Exercise Price	Weighted Average Fair Value of Options	Range of Exercise Prices
Balance, December 31, 2000	975,521	(176,479)	151,183	\$ 15.06		
Increase in shares available	800,000					
Options granted	(841,000)	(841,000)		\$ 16.01	\$ 5.75	\$14.78-\$18.00
Restricted stock issued	(205,500)					
Balance, December 31, 2001	729,021	(1,017,479)	657,117	\$ 15.84		
Increase in shares available	3,000,000					
Options granted	(718,500)	(718,500)		\$ 15.51	\$ 5.19	\$10.26-\$15.66
Restricted stock issued	(62,000)					
Balance, December 31, 2002	2,948,521	(1,735,979)	944,518	\$ 15.71		
Increase in shares available	—					
Options granted	(452,500)	(452,500)		\$ 13.02	\$ 3.77	\$10.95-\$15.84
Stock grants	(36,000)					
Restricted stock issued	(335,100)					
Balance, December 31, 2003	2,124,921	(2,188,479)	985,918	\$ 15.15	\$ 5.13	\$10.26-\$18.00

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 and Max Re have each received an assurance from the Bermuda Minister of Finance under the Exempted Undertaking Tax Protection Act, 1966 of Bermuda that if there is enacted in Bermuda any legislation imposing tax computed on profits or income, or computed on any capital asset, gain or appreciation, then the imposition of any such tax will not be applicable until March 2016.

The Company and its Bermuda subsidiaries plan to operate in a manner so that they will not generally be subject to tax in other jurisdictions except for withholding taxes on certain kinds of investment income, excise taxes and other taxes attributable to marketing activities in certain jurisdictions.

The Company's Irish subsidiaries will be subject to Irish corporate taxes and premium taxes in jurisdictions where business is conducted.

13. Statutory requirements and dividend restrictions

Under the Bermuda Insurance Act, 1978 and related regulations Max Re is required to maintain certain levels of solvency and liquidity. The minimum statutory capital and surplus required at December 31, 2003 was \$382,823 and actual statutory capital and surplus was \$697,966. The principle differences between statutory capital and surplus and shareholders' equity presented in accordance with accounting principles generally accepted in the United States of America are deferred acquisition costs, deferred charges and prepaid reinsurance premiums.

Max Re is also required by its Class 4 licence to maintain a minimum liquidity ratio whereby the value of its relevant assets is not less than 75% of the amount of its relevant liabilities for general business. Relevant assets include cash and cash equivalents, fixed maturities, accrued interest income, premiums receivable, losses recoverable from reinsurers and funds withheld. Max Re has received approval from the Minister of Finance to include all of its alternative investments as relevant assets. The relevant liabilities are total general business insurance reserves and total other liabilities, less sundry liabilities. As of December 31, 2003, the Company met the minimum liquidity ratio requirement.

December 31, 2003, 2002 and 2001 (Expressed in thousands of U.S. Dollars, except per share and share amounts)

Under the Irish Insurance Acts 1909 to 2000, regulations made under those Acts, and regulations relating to insurance business made under the European Communities Act, 1972 and directions issued under those regulations, Max Insurance Europe Limited is required to maintain technical reserves and a minimum solvency margin. As of December 31, 2003 Max Insurance Europe Limited met the minimum solvency margin requirement.

The Company's ability to pay dividends is subject to certain regulatory restrictions on the payment of dividends by its subsidiaries. The payment of such dividends is limited by applicable regulations and statutory requirements of Bermuda and Ireland. Max Re and Max Insurance Europe Limited are prohibited from declaring or paying a dividend if such payment would reduce their statutory surplus below the required minimum. Max Re is also subject to certain restrictions under its letter of credit facilities that affect its ability to pay dividends to the Company. The Company paid dividends and capital distributions of \$0.09 per share during 2003, compared to \$0.08 per share in 2002.

14. Earnings per share

The following table sets forth the computation of basic and diluted earnings per share for the years ended December 31, 2003, 2002 and 2001.

	2003	2002	2001
Basic earnings (loss) per share:			
Net income (loss)	\$ 120,567	\$ (5,754)	\$ 2,531
Weighted average common shares outstanding	41,094,393	39,097,059	32,710,380
Basic earnings (loss) per share	\$ 2.91	\$ (0.15)	\$ 0.08
Diluted earnings (loss) per share:			
Net income (loss)	\$ 120,567	\$ (5,754)	\$ 2,531
Add back minority interest share of income (loss)	10,325	(1,346)	93
Adjusted net income (loss)	\$ 130,892	\$ (7,100)	\$ 2,624
Weighted average ordinary shares outstanding - basic	41,094,393	39,097,059	32,710,380
Weighted average non-voting shares outstanding	4,135,064	7,163,716	7,319,332
Conversion of warrants	179,333	—	164,027
Conversion of non-voting warrants	422,103	—	372,993
Conversion of options	164,722	—	31,032
Weighted average ordinary shares outstanding - diluted	45,995,615	46,260,775	40,597,764
Diluted earnings (loss) per share	\$ 2.84	\$ (0.15)	\$ 0.06

15. Commitments and contingencies

(a) Concentrations of credit risk

The Company's portfolio of fixed maturities is managed following prudent standards of diversification. Specific provisions limit the allowable holdings of a single issue and issuers. The Company believes that there are no significant concentrations of credit risk associated with its portfolio of fixed maturities.

The Company's portfolio of alternative investments is managed pursuant to guidelines that emphasize diversification and liquidity. Pursuant to these guidelines, the Max Re Diversified Manager is responsible for managing and monitoring risk across a variety of investment funds and vehicles, markets and counterparties. The Company believes that there are no significant concentrations of credit risk associated with its alternative investments.

(b) Lease commitments

The Company and its subsidiaries lease office space in the countries in which they operate under operating leases, which expire at various dates through 2012. Total rent expense for the year ended December 31, 2003 was \$1,289. In 2003, the Company entered into a ten year lease agreement to lease a building in Bermuda. The rent and maintenance expense for the next four years will be approximately \$1,113 annually and the expense for the remaining five years will not exceed approximately \$1,252 annually.

December 31, 2003, 2002 and 2001 (Expressed in thousands of U.S. Dollars, except per share and share amounts)

(c) Letter of credit facilities

The Company has three letter of credit facilities as of December 31, 2003. The Company's primary letter of credit facility is with a syndicate of commercial banks, one of which is affiliated with a director of Max Re Capital. In June 2003, the Company amended the terms of this facility principally to lower the cost of the facility and reduce the capacity of the facility from \$375,000 to \$270,000. In accordance with the facility agreement, the syndicate will issue letters of credit that may total up to \$243,000 secured by fixed maturities and up to \$27,000 secured by alternative investments. The Company believes that the terms of this letter of credit facility are comparable to the terms that the Company would expect to negotiate with an unrelated party. At December 31, 2003 and December 31, 2002, letters of credit totaling \$249,898 and \$284,557, respectively, were issued and outstanding under this facility. Fixed maturities and cash equivalents with a fair value of \$285,916 and Max Re Diversified shares with a fair value of \$74,336 at December 31, 2003 were pledged as collateral for these letters of credit.

The Company also has a \$100,000 letter of credit facility with the New York branch of Bayerische Hypo- und Vereinsbank AG ("HVB"), a shareholder of the Company and an affiliate of a director of Max Re Capital. HVB is the majority shareholder of Grand Central Re, which is managed by Max Re Managers and in which the Company has 7.5% equity interest. The Company believes that the terms of this letter of credit facility are comparable to the terms that the Company would expect to negotiate at arms' length with an unrelated party. At December 31, 2003 and December 31, 2002, letters of credit totaling \$21,138 and \$58,472, respectively, were issued by HVB under this facility. All letters of credit issued under this facility are collateralized by a portion of the Company's invested assets. Fixed maturities and cash equivalents with a fair value of \$21,095 and Max Re Diversified shares with a fair value of \$81,094 at December 31, 2003 were pledged as collateral for these letters of credit. With effect from January 1, 2004 the letter of credit facility with HVB was reduced to \$50,000.

In September 2003, the Company entered into a \$100,000 letter of credit facility with Fleet National Bank ("Fleet"). At December 31, 2003, there were no letters of credit issued under this letter of credit facility. Fixed maturities and cash equivalents with a fair value of \$nil were pledged as collateral for these letters of credit.

Each of the letter of credit facilities requires that the Company and/or certain of its subsidiaries comply with certain covenants, including a minimum consolidated tangible net worth and restrictions on the payment of dividends. The Company was in compliance with all the covenants of each of its letter of credit facilities at December 31, 2003.

16. Segment information

The Company operates in the reinsurance and insurance business serving two segments: the property and casualty segment and the life and annuity segment, which includes disability products. Within the property and casualty segment, the Company offers four products: structured risk transfer reinsurance, traditional risk transfer reinsurance, alternative risk transfer reinsurance and insurance, and traditional risk transfer insurance. The Company differentiates its property and casualty products in several ways, including by the amount of aggregate loss cap and/or occurrence limits incorporated into the underlying contract, with its structured risk transfer products having the lowest aggregate loss cap and occurrence limits and its traditional risk transfer products having the highest, relative to premium received. Within the life and annuity segment, the Company currently offers reinsurance products focusing on existing blocks of business, which take the form of co-insurance transactions. In co-insurance transactions, risks are reinsured on the same basis as that of the original policies. The Company also has a corporate segment that includes its investments and financing functions. The Company does not allocate assets by segment.

A summary of operations by segment for the years ended December 31, 2003, 2002 and 2001 were as follows:

	Property & Casualty					Life & Annuity	Corporate	Consolidated
2003	Structured	Traditional Reinsurance	Alternative Risk	Traditional Insurance	Total			
Revenues								
Gross premiums written	\$ 236,173	\$ 318,624	\$ 183,519	\$ 163,213	\$ 901,529	\$ 108,250	\$ –	\$ 1,009,779
Reinsurance premiums ceded	(41,294)	(17,538)	(17,100)	(56,992)	(132,924)	(21,650)	–	(154,574)
Net premiums written	\$ 194,879	\$ 301,086	\$ 166,419	\$ 106,221	\$ 768,605	\$ 86,600	\$ –	\$ 855,205
Earned premiums	\$ 266,748	\$ 204,098	\$ 190,270	\$ 66,083	\$ 727,199	\$ 108,250	\$ –	\$ 835,449
Earned premiums ceded	(44,645)	(8,074)	(13,678)	(20,198)	(86,595)	(21,650)	–	(108,245)
Net premiums earned	222,103	196,024	176,592	45,885	640,604	86,600	–	727,204
Net investment income	–	–	–	–	–	–	60,132	60,132
Net gains on alternative investments	–	–	–	–	–	–	124,036	124,036
Net realized gains on sale of fixed maturities	–	–	–	–	–	–	19,259	19,259
Other income	6,401	–	–	–	6,401	–	4,342	10,743
Total revenues	228,504	196,024	176,592	45,885	647,005	86,600	207,769	941,374
Losses and expenses								
Losses, benefits and experience refunds	190,645	125,312	126,787	34,591	477,335	114,939	–	592,274
Acquisition costs	66,996	41,296	36,277	3,098	147,667	1,867	–	149,534
Interest expense	–	–	–	–	–	–	28,829	28,829
General and administrative expenses	3,540	3,226	2,630	4,907	14,303	4,486	21,056	39,845
Total losses and expenses	261,181	169,834	165,694	42,596	639,305	121,292	49,885	810,482
Net income (loss) before minority interest	\$ (32,677)	\$ 26,190	\$ 10,898	\$ 3,289	\$ 7,700	\$ (34,692)	\$ 157,884	\$ 130,892
Loss ratio	85.8%	63.9%	71.8%	75.4%	74.5%			
Combined ratio	117.6%	86.6%	93.8%	92.8%	99.8%			

The loss ratio is calculated by dividing losses, benefits and experience refunds by net premiums earned.
The combined ratio is calculated by dividing total losses and expenses by net premiums earned.

	Property & Casualty					Life & Annuity	Corporate	Consolidated
2002	Structured	Traditional Reinsurance	Alternative Risk	Traditional Insurance	Total			
Revenues								
Gross premiums written	\$ 308,615	\$ 137,919	\$ 186,200	\$ –	\$ 632,734	\$ 14,656	\$ –	\$ 647,390
Reinsurance premiums ceded	(43,593)	–	(8,888)	–	(52,481)	(2,198)	–	(54,679)
Net premiums written	\$ 265,022	\$ 137,919	\$ 177,312	\$ –	\$ 580,253	\$ 12,458	\$ –	\$ 592,711
 Earned premiums	 \$ 283,963	 \$ 38,910	 \$ 97,152	 \$ –	 \$ 420,025	 \$ 14,656	 \$ –	 \$ 434,681
Earned premiums ceded	(39,261)	–	(5,185)	–	(44,446)	(2,198)	–	(46,644)
 Net premiums earned	 244,702	 38,910	 91,967	 –	 375,579	 12,458	 –	 388,037
 Net investment income	 –	 –	 –	 –	 –	 –	 64,353	 64,353
Net gains on alternative investments	–	–	–	–	–	–	32,127	32,127
Net realized gains on sale of fixed maturities	–	–	–	–	–	–	5,390	5,390
Other income	2,763	–	638	–	3,401	–	2,780	6,181
Total revenues	247,465	38,910	92,605	–	378,980	12,458	104,650	496,088
 Losses and expenses								
Losses, benefits and experience refunds	221,352	28,152	63,533	–	313,037	47,945	–	360,982
Acquisition costs	67,515	9,218	21,210	–	97,943	(205)	–	97,738
Interest expense	–	–	–	–	–	–	23,131	23,131
General and administrative expenses	3,313	1,441	1,945	–	6,699	6,050	8,588	21,337
Total losses and expenses	292,180	38,811	86,688	–	417,679	53,790	31,719	503,188
Net income (loss) before minority interest	\$ (44,715)	\$ 99	\$ 5,917	\$ –	\$ (38,699)	\$ (41,332)	\$ 72,931	\$ (7,100)
 Loss ratio	 90.5%	 72.4%	 69.1%	 –	 83.3%			
Combined ratio	119.4%	99.7%	94.3%	–	111.2%			

	Property & Casualty					Life & Annuity	Corporate	Consolidated
2001	Structured	Traditional Reinsurance	Alternative Risk	Traditional Insurance	Total			
Revenues								
Gross premiums written	\$ 496,452	\$ –	\$ –	\$ –	\$ 496,452	\$ 214,099	\$ –	\$ 710,551
Reinsurance premiums ceded	(83,974)	–	–	–	(83,974)	(32,443)	–	(116,417)
Net premiums written	\$ 412,478	\$ –	\$ –	\$ –	\$ 412,478	\$ 181,656	\$ –	\$ 594,134
Earned premiums	\$ 385,892	\$ –	\$ –	\$ –	\$ 385,892	\$ 214,099	\$ –	\$ 599,991
Earned premiums ceded	(66,601)	–	–	–	(66,601)	(32,443)	–	(99,044)
Net premiums earned	319,291	–	–	–	319,291	181,656	–	500,947
Net investment income	–	–	–	–	–	–	43,870	43,870
Net gains on alternative investments	–	–	–	–	–	–	29,784	29,784
Net realized gains on sale of fixed maturities	–	–	–	–	–	–	2,512	2,512
Other income	1,289	–	–	–	1,289	–	2,568	3,857
Total revenues	320,580	–	–	–	320,580	181,656	78,734	580,970
Losses and expenses								
Losses, benefits and experience refunds	312,952	–	–	–	312,952	201,371	–	514,323
Acquisition costs	29,254	–	–	–	29,254	1,606	–	30,860
Interest expense	–	–	–	–	–	–	12,121	12,121
General and administrative expenses	6,296	–	–	–	6,296	6,849	7,897	21,042
Total losses and expenses	348,502	–	–	–	348,502	209,826	20,018	578,346
Net income (loss) before minority interest	\$ (27,922)	\$ –	\$ –	\$ –	\$ (27,922)	\$ (28,170)	\$ 58,716	\$ 2,624
Loss ratio	98.0%	–	–	–	98.0%			
Combined ratio	109.1%	–	–	–	109.1%			

The Company currently operates in two geographic segments: North America, which represents North American based risks written by North American based reinsureds, and Europe, which principally represents the United Kingdom and Continental Europe.

Financial information relating to gross premiums written and reinsurance premiums ceded by geographic region for the years ended December 31, 2003, 2002 and 2001 was as follows:

	2003	2002	2001
North America	\$ 634,795	\$ 412,373	\$ 514,551
Europe	374,984	235,017	196,000
Reinsurance ceded – North America	(90,882)	(27,914)	(106,535)
Reinsurance ceded – Europe	(63,692)	(26,765)	(9,882)
	\$ 855,205	\$ 592,711	\$ 594,134

Three customers accounted for 14.8%, 14.8% and 11.4%, respectively, of the Company's gross premiums written during the year ended December 31, 2003. Three customers accounted for 20.7%, 17.2% and 14.2%, respectively, of the Company's gross premiums written during the year ended December 31, 2002. Five customers accounted for 22.1%, 16.2%, 14.5%, 14.1% and 11.4%, respectively, of the Company's gross premiums written during the year ended December 31, 2001.

17. Quarterly financial results (unaudited)

2003	Quarter Ended			
	March 31	June 30	September 30	December 31
Revenues				
Gross premiums written	\$ 430,545	\$ 165,767	\$ 188,608	\$ 224,859
Net premiums earned	\$ 143,728	\$ 143,305	\$ 178,746	\$ 261,425
Net interest income	14,507	15,061	13,899	16,665
Net gain on alternative investments	21,802	45,212	28,148	28,874
Net realized gains on sale of fixed maturities	2,490	509	11,548	4,712
Other income	2,002	2,212	1,122	5,407
Total revenues	184,529	206,299	233,463	317,083
Losses and expenses				
Losses, benefits and experience refunds	114,463	114,371	139,655	223,785
Acquisition costs	38,737	35,690	36,696	38,411
Interest expense	5,981	8,953	5,382	8,513
General and administrative expenses	8,196	10,785	10,896	9,968
Total losses and expenses	167,377	169,799	192,629	280,677
Income before minority interest	\$ 17,152	\$ 36,500	\$ 40,834	\$ 36,406
Net income	\$ 14,562	\$ 30,849	\$ 38,750	\$ 36,406
Basic earnings per share	\$ 0.38	\$ 0.81	\$ 0.91	\$ 0.81
Diluted earnings per share	\$ 0.38	\$ 0.81	\$ 0.89	\$ 0.76

December 31, 2003, 2002 and 2001 (Expressed in thousands of U.S. Dollars, except per share and share amounts)

	Quarter Ended			
	March 31	June 30	September 30	December 31
2002				
Revenues				
Gross premiums written	\$ 343,894	\$ 121,538	\$ 65,664	\$ 116,294
Net premiums earned	\$ 85,473	\$ 65,299	\$ 96,874	\$ 140,391
Net interest income	12,415	13,389	13,772	24,777
Net gain on alternative investments	2,666	2,905	1,095	25,461
Net realized gains on sale of fixed maturities	149	2,439	663	2,139
Other income	1,895	2,144	1,114	1,028
Total revenues	102,598	86,176	113,518	193,796
Losses and expenses				
Losses, benefits and experience refunds	69,632	71,717	102,647	135,284
Acquisition costs	24,191	14,818	22,743	35,986
Interest expense	(148)	911	315	3,755
General and administrative expenses	5,875	4,723	4,856	5,883
Total losses and expenses	99,550	92,169	130,561	180,908
Income (loss) before minority interest	\$ 3,048	\$ (5,993)	\$ (17,043)	\$ 12,888
Net income (loss)	\$ 2,604	\$ (5,003)	\$ (14,338)	\$ 10,983
Basic earnings (loss) per share	\$ 0.07	\$ (0.13)	\$ (0.37)	\$ 0.29
Diluted earnings (loss) per share	\$ 0.06	\$ (0.13)	\$ (0.37)	\$ 0.28

	Quarter Ended			
	March 31	June 30	September 30	December 31
2001				
Revenues				
Gross premiums written	\$ 276,200	\$ 152,508	\$ 42,395	\$ 239,448
Net premiums earned	\$ 55,230	\$ 146,521	\$ 55,539	\$ 243,657
Net interest income	8,773	9,981	13,244	11,872
Net gain on alternative investments	14,791	5,326	(4,734)	14,401
Net realized gains on sale of fixed maturities	767	19	183	1,543
Other income	45	1,397	1,056	1,359
Total revenues	79,606	163,244	65,288	272,832
Losses and expenses				
Losses, benefits and experience refunds	60,668	158,915	59,626	245,156
Acquisition costs	7,192	5,257	8,813	9,598
Interest expense	—	—	2,846	(767)
General and administrative expenses	5,074	4,537	5,009	6,422
Total losses and expenses	72,934	168,709	76,294	260,409
Income (loss) before minority interest	\$ 6,672	\$ (5,465)	\$ (11,006)	\$ 12,423
Net income (loss)	\$ 5,192	\$ (4,119)	\$ (8,691)	\$ 10,149
Basic earnings (loss) per share	\$ 0.19	\$ (0.15)	\$ (0.25)	\$ 0.26
Diluted earnings (loss) per share	\$ 0.19	\$ (0.15)	\$ (0.26)	\$ 0.26

December 31, 2003, 2002 and 2001 (Expressed in thousands of U.S. Dollars, except per share and share amounts)

The Board of Directors and Shareholders
Max Re Capital Ltd.

We have audited the accompanying consolidated balance sheets of Max Re Capital Ltd. and subsidiaries as of December 31, 2003 and 2002 and the related consolidated statements of income and comprehensive income, changes in shareholders' equity and cash flows for each of the years in the three-year period ended December 31, 2003. These consolidated 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 financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of Max Re Capital Ltd. and subsidiaries as of December 31, 2003 and 2002, and the results of their operations and their cash flows for each of the years in the three-year period ended December 31, 2003, in conformity with accounting principles generally accepted in the United States of America.



Chartered Accountants
Hamilton, Bermuda
January 26, 2004

Management is responsible for preparing the Company's financial statements and the other information that appears in this annual report. Management believes that the financial statements fairly reflect the form and substance of transactions and reasonably present the Company's financial condition and results of the operations in conformity with generally accepted accounting principles. Management has included in the Company's financial statements amounts that are based on estimates and judgments, which it believes are reasonable under the circumstances.

The Company maintains a system of internal accounting policies, procedures and controls intended to provide reasonable assurance, at appropriate cost, that transactions are executed in accordance with the Company authorization and are properly recorded and reported in the financial statements, and that assets are adequately safeguarded.

The Board of Directors of Max Re Capital Ltd. has an Audit and Risk Management Committee composed of independent Directors. The Audit and Risk Management Committee has engaged KPMG as independent auditors to audit the consolidated financial statements and express an opinion thereon. Their audits include a consideration of the Company's internal controls and systems, the testing of the accounting records and the procedures to the extent considered necessary to support their opinion. KPMG has the right of full access to all records and members of management in conducting their audits.

The Audit and Risk Management Committee meets with financial management, risk management and the Company's independent auditors to review internal accounting controls, accounting policies, auditing issues and financial reporting matters.



KEITH S. HYNES
Executive Vice President and Chief Financial Officer

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AND MAX RE LTD.

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Assistant Vice President
Administration

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Assistant Company Secretary

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HOLDINGS LIMITED

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Chairman

JOHN BOYLAN

KEITH S. HYNES

ADAM MULLAN

WALKER RAINEY
Managing Director

PAT TOLAN

OFFICERS

WALKER RAINEY
Senior Vice President &
Chief Financial Officer

MICHELLE SAVAGE
Assistant Vice President &
Financial Controller

MAX RE EUROPE LIMITED

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ADAM MULLAN
Managing Director

WALKER RAINEY

PAT TOLAN

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WALKER RAINEY
Senior Vice President &
Chief Financial Officer

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ADAM MULLAN

WALKER RAINEY

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Executive Vice President

JOEY O'DEA
Senior Vice President

WALKER RAINEY
Senior Vice President &
Chief Financial Officer

COLIN SHAW
Senior Vice President

GRÁINNE HEAVEY
Assistant Vice President

NASDAQ: MXRE
BSX: MXRE BH

Price Range of Ordinary Shares and Dividend

2003 PRICE

	High	Low	Dividend
First Quarter	\$13.15	\$ 9.96	\$0.02
Second Quarter	\$15.70	\$12.58	\$0.02
Third Quarter	\$17.60	\$14.45	\$0.02
Fourth Quarter	\$22.50	\$16.99	\$0.03

Closing Price at December 31, 2003: \$22.50
Beneficial holders on December 31, 2003: approximately 2,300
NASDAQ Listing Date: August 14, 2001

SHAREHOLDER INQUIRIES

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This Annual Report contains remarks about future expectations, plans and prospects for the Company that are forward-looking statements for purposes of the safe harbor provisions of the Private Securities Litigation Reform Act of 1995. Such statements are subject to certain risks and uncertainties that could cause actual results to differ materially from those suggested by such statements. For further information regarding cautionary statements and factors affecting future results, please refer to the Company's most recent Annual Report on Form 10-K and other documents filed with the Securities and Exchange Commission. The Company undertakes no obligation to publicly update or revise any forward-looking statement whether as a result of new information, future developments or otherwise.

A copy of the Company's annual report on Form 10-K, including the financial statements and financial statement schedules, may be obtained without charge by writing to the Company at the following address: Sheila Gringley, Max Re Capital Ltd., PO Box HM 2565, Hamilton HM KX, Bermuda, or by email to sheilag@maxre.bm. The information can also be accessed on the Company's website: www.maxre.bm

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