

Overseas Partners Ltd.

2004 Annual Report

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Letter to Shareowners

It has been a little over three years since we decided to runoff our operations so that we could return capital to our shareowners on a timely basis. Since then we have distributed \$772 million (\$6.50 per share) of capital, including \$237.5 million (\$2 per share) during 2004. Following another successful year, we are in the process of seeking approval from our Bermuda regulators for a further distribution of \$237.5 million (\$2 per share). Although the final amount and timing is subject to approval from the regulators, we are hopeful that the distribution will be paid prior to June 30, 2005.

We are also pleased to report net income of \$61.0 million for the year ended December 31, 2004. This result reflects the following runoff activities:

1. We commuted or otherwise settled a number of reinsurance contracts, contributing to a reduction in reinsurance liabilities of approximately \$765 million in 2004 and generating net income of approximately \$73 million as a result of savings compared to carried reserves. The commutations also reduce our exposure to future adverse claims experience while also releasing capital for distribution to shareowners. Our remaining recorded reinsurance liabilities are now just less than \$220 million, compared to more than \$3 billion at the start of the runoff;
2. We realized approximately \$34 million of our aviation reinsurance recoverable asset through commutations with our reinsurers. Although we provided an early settlement discount of \$7.9 million to such reinsurers, we benefited from the positive cash flow and the elimination of the credit risk associated with such receivables, which allowed us to reduce our provision for bad debts by \$4 million. Our remaining asset is now approximately \$46 million;
3. We sold our United States reinsurance subsidiary, Overseas Partners US Reinsurance Company (“OPUS Re”), for cash proceeds of \$43 million. Although we recorded a loss of approximately \$26 million, the sale eliminates the risk of adverse claims experience on accrued losses and loss expense reserves of approximately \$143 million, saves the ongoing time and costs associated with its runoff and releases additional capital for distribution;
4. We completed the sale of our investments in four private equity funds for a gain on sale of \$3.7 million. The sale generated net cash proceeds of approximately \$30.4 million, and also eliminated the Company’s future capital commitments of approximately \$37 million.

The results of these activities are reflected in the accompanying Consolidated Financial Statements and discussed in more detail in the Management’s Discussion & Analysis section of this report.

Despite our significant progress over the last three years, it remains difficult to reliably predict the timing of OPL’s final liquidation and the return of our remaining capital. Indeed, there are still a number of challenges to be resolved and these will be the focus of our activities for 2005:

1. Our remaining reinsurance subsidiary, Overseas Partners Re Ltd (“OPRe”), has a number of large and complex reinsurance contracts that may involve loss payments for a further 20 years or more. In particular OPRé has exposure to \$180 million of losses arising from the reinsurance of potential lease income shortfalls on a defined portfolio of aircraft. We will continue to seek negotiated settlement of OPRé’s remaining liabilities, but recognize that some creditors may not be willing to agree commutation terms at all;
2. It could therefore take a number of years to fully settle the remaining reinsurance liabilities and allow OPRé to be liquidated. During that period, we will be required to retain capital to support the risks and will likely incur operating costs that exceed our revenues. An alternative exit strategy would be to sell OPRé, just as we did with OPUS Re during 2004. We have not actively pursued a sale of OPRé to date, as we believe that the price a buyer would be willing to pay would not match our valuation. Potential purchasers will likely value OPRé’s assets and liabilities at amounts different from their carrying values to reflect their own assessment of risks and uncertainties and the need to generate a return on their investment. However, assuming we can realize more of OPRé’s remaining assets and settle more of its liabilities during 2005, we believe that it is more likely that a buyer would be willing to pay a price that meets our own valuation;

3. We must also consider any contingent liabilities that may arise out of our previous United States real estate business. In particular, the statutes of limitations for the tax returns associated with the real estate business do not expire until March 2008 at the earliest. The Internal Revenue Service may audit these tax returns and may seek to impose additional taxes on OPL. Such actions may impact the timing of OPL's liquidation and future distributions.

As discussed earlier, we hope to make a further distribution in the next few months, and will notify you of the final amount and payment date once we have received approval from the Bermuda regulators. We will continue to provide you with updates on our progress whenever there are significant events to report.

Sincerely,



Robert J. Clanin
Chairman of the Board



Mark R. Bridges
President & Chief Executive Officer

Safe Harbor Disclosure

The Private Securities Litigation Reform Act of 1995 provides a "safe harbor" for forward-looking statements. Some of the statements contained in this Annual Report contain forward-looking information. Forward-looking statements are statements other than historical information or statements of current condition. Some forward looking statements can be identified by the use of such words as "expect," "believe," "goal," "plan," "intend," "estimate," "may" and "will" or similar words. These forward-looking statements relate to our plans and objectives for future operations including our growth and operating strategy, our implementation of new products and new reinsurance programs, trends in our industry and our policy on future dividends.

You should be aware that these statements are subject to risks, uncertainties and other factors, that could cause the actual results to differ materially from those suggested by the forward-looking statements. Accordingly, there can be no assurance that those indicated results will be realized. Among the important factors that could cause actual results to differ materially from those indicated by our forward-looking statements are:

- The uncertainties of the loss and loss expense reserving process;
- The uncertainties surrounding the estimates of losses incurred as a result of the terrorist attacks on the World Trade Center and the related events of September 11, 2001;
- Future losses on unexpired policies, including a residual value reinsurance program where the Company is exposed to losses until 2013 and has a maximum remaining exposure of \$180 million;
- Our ability to collect reinsurance recoverables, particularly given the increased credit risk following the terrorist attacks on the World Trade Center and the related events of September 11, 2001;
- Uncertainties relating to government and regulatory policies (such as subjecting us to taxation in certain jurisdictions);
- Losses due to interest rate fluctuations;
- Losses arising from the potential sale of OPRé;
- Volatility in U.S. financial markets which could affect our investment portfolio;
- Adverse outcomes from any current, pending or future state or federal tax audits; and
- The resolution of any current, pending or future litigation.

We do not undertake to update these forward-looking statements in any manner.

Five-Year Selected Financial Data

The following selected financial information should be read in conjunction with OPL's consolidated financial statements and "Management's Discussion and Analysis of Financial Condition and Results of Operations" which follow this section. In particular, the February 2002 decision to discontinue writing new reinsurance business and begin an orderly runoff of both the reinsurance and real estate & leasing segments will materially affect the comparability of the information and future trends. Following the sale of OPUS Re during the year ended December 31, 2004 the results of OPUS Re are no longer included in the results of continuing operations from the reinsurance segment. The summary financial information for prior periods has been restated on a consistent basis.

Five-Year Selected Financial Data (In thousands U.S.\$, except per share amounts)

Income Statement Data:

Years Ended December 31,
(in thousands U.S.\$)

	2004	2003	2002	2001	2000
Revenue:					
Gross reinsurance premiums written	\$3,616	\$(70,044)	\$208,965	\$522,290	\$561,233
Reinsurance premiums earned	9,399	38,126	220,410	497,176	585,894
Reinsurance commission income	1,667	(237)	5,799	12,125	5,621
Real estate and leasing	—	3,020	83,837	196,980	273,822
(Loss) gain on disposal of assets	—	(10,198)	139,902	41,767	49,496
Investment income (loss)	35,345	154,007	(113,134)	22,721	(36,145)
Total revenue	46,411	184,718	336,814	770,769	878,688
Net income (loss) from continuing operations	\$84,200	\$55,876	\$(201,662)	\$(252,131)	\$(558,334)
Basic and diluted net income (loss) per share from continuing operations	\$0.71	\$0.47	\$(1.70)	\$(2.12)	\$(4.54)
Cash dividends per share	—	—	—	\$0.70	\$1.20

Balance Sheet Data:

December 31,
(in thousands U.S.\$)

	2004	2003	2002	2001	2000
Cash and investments	\$669,185	\$1,525,914	\$2,233,824	\$2,318,665	\$2,592,122
Assets:					
Reinsurance	754,037	1,932,586	2,809,400	2,983,785	2,991,610
Subsidiary held for sale	—	255,541	362,341	450,012	287,228
Real estate and leasing	—	—	186,680	912,968	1,298,746
Total assets	754,037	2,188,127	3,358,421	4,346,765	4,577,584
Short-term debt	—	—	—	—	135,000
Long-term debt	—	—	100,322	556,099	761,943
Members' equity	\$515,390	\$700,963	\$1,208,065	\$1,318,921	\$1,778,005
Net book value per share	\$4.34	\$5.90	\$10.16	\$11.07	\$14.70

Management's Discussion and Analysis of Financial Condition and Results of Operations

This discussion and analysis of the Company's financial condition and results of operations should be read in conjunction with the audited Consolidated Financial Statements and Notes thereto presented under "Item 8 – Financial Statements and Supplementary Data".

Overview

Our financial condition, results of operations and cash flows are affected by a number of business factors and critical accounting policies as discussed further below.

BUSINESS FACTORS

The Company's historical operations were conducted through two segments – reinsurance and real estate & leasing. However, in February 2002, the Company announced its decision to discontinue writing new reinsurance business and begin an orderly runoff of both the reinsurance and real estate & leasing segments. The decision to go into runoff reflected the desire of many of our shareowners to have greater liquidity for their investment in OPL. The Company's primary objective at this time is to return capital to shareowners as and when it is prudent to do so, with due regard to our ongoing capital needs and regulatory restrictions.

As discussed further below, the decision to put the operations into runoff has significantly impacted our results of operations and associated cash flows and will continue to do so for the duration of the runoff.

a. Historic operations and sources of revenue, income and cash flow

Prior to the decision to begin an orderly runoff, the Company participated in a number of lines of reinsurance business including finite risk, accident & health, aviation & satellite, property, property catastrophe, auto liability, marine and workers' compensation business in Bermuda and working layer casualty in the United States through OPUS Re.

Our primary sources of reinsurance revenues were premiums from our reinsurance contracts and investment income earned from investing the premiums received and the capital allocated to the reinsurance segment. For some lines of business, such as workers' compensation and working layer casualty, the expected future investment income was a critical part of the underwriting process as there are significant lags between the dates that premiums are received and losses are paid. Claims on those lines of business may typically be paid over a period of time that extends beyond 20 years. The expenses incurred by the reinsurance segment were primarily: (i) costs associated with the acquisition of the underlying business, including fees paid to reinsurance agents and brokers that introduce the business to the Company, and commissions paid to the reinsured (referred to as "ceding companies") to reimburse them for a portion of their own acquisition costs; (ii) losses and loss adjustment expenses associated with underlying claims on the reinsured policies; and (iii) internal general and administrative expenses allocated to the reinsurance segment.

In addition, the Company earned real estate & leasing revenues by renting or leasing the hotel, office, retail and other properties that we acquired over time. The Company also expected to generate additional income from the appreciation in value of the properties during the period of ownership. Commencing in 2000, the Company started to dispose of its real estate properties on an opportunistic basis with a view to redeploying the capital to the reinsurance segment or making distributions to shareowners. Following the final property sale in late 2003, we no longer generate any real estate & leasing revenues.

b. Current operations and sources of revenue, income and cash flow

The Company's only operating segment is now reinsurance. The Company has not written any new reinsurance business since the decision to discontinue reinsurance operations. However losses will continue to be incurred and paid on business written prior to the decision to begin runoff. Some of our reinsurance contracts do not expire for several years and include a \$180 million residual value reinsurance program where the Company is exposed to losses until 2013 arising from potential lease income shortfalls on a portfolio of aircraft.

Our operational focus since going into runoff has been to: (i) preserve our capital base through various risk management initiatives; (ii) actively manage and negotiate early settlement of our reinsurance liabilities and real estate debt; (iii) seek opportunistic sales of our real estate assets and reinsurance subsidiaries; and (iv) prudently return capital to our shareowners over time.

Our primary risk management initiatives are aimed at reducing the risk of adverse development in the estimated ultimate cost of settling our accrued losses and loss expenses (see further discussion of these uncertainties in “Critical Accounting Policies” below). We have sought to commute our reinsurance contracts through negotiation with our ceding companies. A commutation involves our paying a single amount to the ceding company as a full and final settlement of our estimated ultimate obligations. Loss reserve commutations are recorded as an increase or decrease in incurred claims. Commutations of unexpired risks are recorded as a return (i.e. reduction) of original premiums written. Not all ceding companies may be willing to agree to commutation or we may be unable to agree a mutually acceptable settlement price. As such we may also seek to novate certain reinsurance contracts to a third party reinsurer. Novation involves our paying a single amount, with the ceding company’s consent, to another reinsurer who then assumes all of our risks and obligations under the original reinsurance contract. Novations are recorded as a return of the original premium income and any attendant claims and expenses that have been previously recorded.

An alternative to our commutation and novation strategy is to sell the reinsurance subsidiary itself. For example, on November 15, 2004, the Company completed the sale of its wholly owned subsidiary, OPUS Re, to OdysseyRe for \$43 million. Although the sale generated a loss of \$25.9 million it eliminated the risk of adverse claims experience on approximately \$143 million of accrued losses and loss expense reserves, enabled additional capital to be available for distribution to shareowners and will save the ongoing costs of runoff.

Before we can liquidate OPL we must sell or liquidate OPRe and settle OPL’s remaining contingent liabilities. To date, we have not actively pursued a sale of OPRe as we believe that the price that a buyer would be willing to pay would not match our valuation. Potential purchasers will likely value OPRe’s assets and liabilities at amounts different from their carrying values to reflect their own assessment of risks and uncertainties and the need to generate a return on their investment. Any loss on sale of OPRe will be recorded in the period that the terms of a proposed sale meet all of the criteria required for OPRe to be classified as held for sale in accordance with Statement of Financial Accounting Standards No. 144, “Accounting for the Impairment or Disposal of Long-Lived Assets”.

We believe that if we can negotiate the early settlement of our most volatile reinsurance contracts and collect the remaining recoveries relating to our aviation excess of loss reinsurance, then, subject to Bermuda Monetary Authority approval, we will be able to make a significant capital distribution from OPRe. Once we have reduced the capital in OPRe, and eliminated much of the potential for adverse loss development, we believe that it is more likely that a buyer would be willing to pay a price that would be in line with our valuation.

We have also sought resolution of other loss contingencies such as the class action litigations (see “Item 3 – Legal Proceedings”), while also reducing the risks inherent in our asset base, through the sale of our equity security portfolio (market risk), global fixed income portfolio (currency and interest rate risk) and a reduction in the duration of our remaining fixed income portfolio (interest rate risk).

Our ultimate objective is to liquidate OPL and distribute all of the capital to shareowners. The settlement of contingent and actual liabilities and other risk mitigation efforts described above will ultimately release capital for distribution to shareowners, although the amount and timing of such distributions to shareowners is also a function of regulatory approval in Bermuda, and position OPL for eventual liquidation. (See further discussion on Regulations in Note 11 of the Notes to the Consolidated Financial Statements included in “Item 8 – Financial Statements and Supplementary Data”.)

As of January 14, 2005 OPL has either liquidated or sold all of its United States based subsidiaries, so OPL no longer has any subsidiaries that are subject to United States income taxes. OPL’s management believes that OPL does not have any remaining United States income tax liabilities. However, the statutes of limitations for the tax returns filed by OPL’s wholly-owned subsidiary, OPCC, do not expire until at least the end of March 2008. The IRS may audit these tax returns and may seek to impose additional taxes on OPL. OPL received significant tax refunds due to losses incurred by OPCC in the year ended December 31, 2003. As the refunds were in excess of \$2 million, OPCC’s tax returns for the years ended December 31, 2003, 2002, 2001 and 2000 are subject to review by the Joint Committee on Taxation of the United States Congress which may involve an audit by the IRS. These matters may impact the timing of our final liquidation.

The decision to put the Company’s operations into runoff has significantly impacted our results of operations and associated cash flows. In particular: (i) our results have fluctuated, and will continue to fluctuate, materially from quarter to quarter as a result of, among other things, the number and size of negotiated settlements of reinsurance contracts, changes in estimates in accrued loss and loss expenses, and the changes in the size and composition of our investment portfolio; and (ii) the Company has become cash flow negative in its reinsurance operations and expects this to continue in the future as the cash received from premiums has declined following the non-renewal of business and the payment of accrued losses has accelerated through our efforts to negotiate the early settlement of our liabilities. We anticipate that the Company’s cash and investment portfolio will provide adequate liquidity to enable the Company to meet its obligations as they fall due.

Our primary source of revenue at this time is the investment income earned from our investment portfolio. Investment earnings will continue to decline in future periods as we use our funds to pay reinsurance claims, including the commutation and novation of contracts, to meet corporate overhead and to make distributions to shareowners.

Our most significant expenses relate primarily to (i) losses and loss adjustment expenses, including changes in estimates in our accrued losses and loss adjustment expense reserves and the effects of any commutation or novation agreements, and (ii) internal general and administrative expenses. Our general and administrative expenses currently comprise payroll, shareowner service fees, legal fees, investment management expenses and other office overhead. Expenses associated with the oversight of unexpired reinsurance policies and the handling of claims, commutations and novations are allocated to the reinsurance segment with the residual expense and other charges recorded as other operating expenses. We expect investment income to decline over the next few years as our asset base is reduced whereas our total general and administrative expenses are unlikely to decrease to the same extent. Consequently, it is possible that we will incur a net loss in future periods.

CRITICAL ACCOUNTING POLICIES

Our consolidated financial statements include amounts that, due to their nature, are inherently subjective, as their reported values are based on estimates that require complex assumptions and significant management judgment. We believe that the reserves for accrued losses and loss expenses involve the most highly subjective and complex estimates.

While we believe that the recorded reserves for accrued losses and loss expenses reflect our best estimates and assumptions, there could be a material adverse effect on the Company's results of operations and financial condition if actual events differ significantly from the underlying assumptions. As such we deem our accounting policies for the reserves for accrued losses and loss expenses to be of critical importance to our consolidated financial statements.

Following the sales of (i) OPUS Re; (ii) our investments in private equity funds; and (iii) our investment in affiliate, (a 22% investment in a Florida based workers' compensation insurance company), and the fact that our remaining investments are in high quality, short-duration bonds, we do not believe that our accounting policies for the identification of other-than-temporary impairments in the carrying value of certain assets are of critical importance to our consolidated financial statements. However, the estimates and assumptions used to identify other-than-temporary impairments would have impacted our net income for the years ended December 31, 2002 and 2003. Our accounting policies for the identification of other-than-temporary impairments are contained in Note 2 of the Notes to the Consolidated Financial Statements included in "Item 8 – Financial Statements and Supplementary Data".

The following discussion provides more information regarding the accounting policy and necessary estimates and assumptions required to arrive at the reserves for accrued losses and loss expenses. In addition, there are other significant accounting policies that are important to an understanding of the Company's Consolidated Financial Statements. See Note 2 of the Notes to the Consolidated Financial Statements included in "Item 8 – Financial Statements and Supplementary Data".

Reserves for accrued losses and loss expenses

Losses and loss expenses are charged to income as they are incurred. We establish loss and loss expense reserves for the unpaid portion of the estimated ultimate liability of all claims covered under the terms of our reinsurance contracts with ceding companies. These accrued losses and loss expense reserves include estimates for (i) unpaid reported losses and loss expenses; and (ii) losses that have been incurred but not reported ("IBNR"). The Company also establishes an estimate of the internal costs of processing and settling the claims based on projected future costs for legal and other loss adjustment fees, payroll and office overhead. At December 31, 2004, the Company's total reserves for accrued losses and loss expenses were \$188 million, which includes approximately \$137 million for IBNR reserves.

We are required to set such reserves for all business that we write, even though, at least initially, we do not have all the necessary information to know the total number of claims that may be covered or the ultimate cost to settle those claims. Unpaid reported losses and loss expenses are recorded based on estimates provided by the ceding companies and other information considered by management to be relevant to the estimation process. The estimate for IBNR reflects management's best estimate based on the recommendations of an independent actuary using common actuarial techniques used throughout the insurance and reinsurance industry.

The following outlines the nature of the significant judgments involved in establishing such estimates and certain industry and company specific factors that further add to the complexity and subjectivity of the reserving process:

- i. The independent actuary projects current values for paid and reported losses to their ultimate value using a number of alternative estimation methods that reflect historical paid and reported loss development experience and, for some methods, an expectation of underwriting profitability independent of actual loss experience. The historical paid and reported loss development data includes both company specific and industry loss experience for each line of business, recognizing that the Company has limited loss experience of its own to serve as a reliable basis for estimating ultimate losses. Such data will be adjusted from time to time to reflect the changing characteristics of the book of business written by the Company. Each estimation method may result in a materially different projection of ultimate losses compared to another estimation method. The weights assigned to each estimation method are judgmentally determined by the independent actuary and will vary over time, with greater weight initially assigned to methods incorporating industry data and initial expectations of underwriting profitability. Greater weight is placed on the Company's historical paid and reported loss experience over time as that data becomes more mature and reliable for making projections.
- ii. Short-tail lines describe lines of business where losses are usually known and paid shortly after the loss actually occurs. This would include, for example, most property, property catastrophe and accident & health lines of business. For these lines, most of the underlying claims would be settled by the insurance company within three to four years of the loss event, although some large or complex claims, such as those emanating from the events of September 11, 2001 may take much longer to settle. Long-tail business describes lines of business, such as workers' compensation and working layer casualty business, where specific losses may not be reported for a considerable period of time and the final settlement of the loss may take even longer, in some cases in excess of 20 years after the loss event. Other lines written by the company, such as marine, aviation and satellite, fall somewhere in between short-tail and long-tail, while the finite risk business can be long- or short-tail depending on each individual reinsurance contract.
- iii. Inherent in the estimates of ultimate losses are expected trends in claim severity and frequency and other factors, which could vary significantly as claims are settled. During these extended loss settlement periods described above, additional facts regarding claims become known and circumstances may change; for example, changing government regulations, newly identified toxins, newly reported claims, new theories of liability, new contract interpretations and other factors could significantly affect future loss emergence and the ultimate costs of settling claims. Accordingly, there is a much higher degree of variability in loss estimates for the longer-tail lines of business. As additional facts are reported and circumstances evolve, it may be necessary to increase or decrease the accrued losses and loss expenses reserves. The actual final liability may be significantly different from prior estimates.
- iv. While the reserving process is difficult and subjective for insurance companies, the inherent uncertainties of estimating such reserves are even greater for reinsurers such as the Company, due primarily to (1) the additional lag in reporting loss information by the insurance company to the reinsurers (and possibly by those reinsurers to their own reinsurers); (2) the necessary reliance on the ceding companies for information regarding reported claims; (3) differing reserving practices among ceding companies; and (4) the diversity of loss reporting and payment patterns among different types of reinsurance contracts or lines of business.
- v. The Company believes that it does not have any exposure to the environmental, asbestos and latent injury claims that have resulted in significant deterioration in loss reserves for other insurance and reinsurance companies. However, there are significant uncertainties over the estimates of ultimate losses associated with:
 - A \$180 million residual value reinsurance program where the Company is exposed to losses through 2013 arising from potential lease income shortfalls on a portfolio of aircraft. The company carries reserves for this program using actuarial projections that reflect the current performance of the fleet and projected future performance under a number of economic scenarios;
 - Our exposure to losses incurred, particularly in our aviation portfolio, as a result of the terrorist attacks on the World Trade Center and the related events of September 11, 2001. The unprecedented nature and magnitude of these events increases the level of uncertainty surrounding the estimates of losses incurred. At December 31, 2004 our total reserves for accrued losses pertaining to such events were approximately \$56 million gross and \$33 million net of losses and loss expenses recoverable from reinsurers; and
 - The Company is engaged in several ongoing disputes with ceding companies. The Company continues to reserve for losses and loss expenses on all disputed contracts without regard to any possibility of a favorable outcome. However, the uncertainty surrounding such estimates is increased by the fact that the Company may not have received current loss information from the ceding company during the period of the dispute and may not have had the opportunity to audit or otherwise review the reliability of such reported information.

While the Company has recorded its current 'best estimate' of its liabilities for unpaid losses and loss expenses, it is reasonably possible that these estimated liabilities may increase or decrease in the future and that the increase or decrease may be material to the results from operations, cash flows and financial position for future periods.

The Company considers a ‘best estimate’ to be one that has an equal likelihood of developing a redundancy or deficiency as the loss experience matures. The independent actuary also develops a range of estimated ultimate losses as well as a best estimate for each program or line of business and selects a low estimate and a high estimate for the total book of business after allowing for potential diversification effects across the Company’s various lines of business. The resulting low and high estimates were \$16 million below and \$53 million above the independent actuary’s ‘best estimates’. The range of estimated liabilities is provided in an attempt to quantify some of the uncertainty in estimating ultimate losses and does not present the bounds of all possible outcomes.

Results of Operations - Year Ended December 31, 2004 Compared to Year Ended December 31, 2003

Runoff Activities for 2004

The results for the year ended December 31, 2004 reflect a number of significant transactions that were effected in accordance with our runoff goals and objectives. In particular, the Company:

- Commuted or otherwise settled a number of reinsurance contracts, contributing to a reduction in reinsurance liabilities of approximately \$765 million and generating net income of approximately \$73 million as a result of savings compared to carried reserves. The commutations also reduce our exposure to future adverse claims experience while also releasing capital for distribution to shareowners;
- Commuted a portion of our aviation excess of loss reinsurance protection, resulting in the collection of approximately \$34 million of losses and loss expenses recoverable, after allowing the reinsurers a discount of \$7.9 million for early settlement. In addition to the positive cash flow, the commutations eliminated the credit risk associated with such receivables and thereby allowed us to reduce our provision for bad debts by \$4 million;
- Sold OPUS Re for cash proceeds of \$43 million generating a loss of approximately \$25.9 million. The sale eliminates the risk of adverse claims experience on accrued losses and loss expense reserves of approximately \$143 million, saves the ongoing costs associated with the run off and also enables additional capital to be released for distribution to shareowners;
- Completed the sale of our investments in four private equity funds for a gain on sale of \$3.7 million. The sale generated net cash proceeds of approximately \$30.4 million, and also eliminated the Company’s future capital commitments of approximately \$37 million;
- Sold our 22% investment in a Florida based workers’ compensation insurance company for \$5 million, equal to the carrying value of the investment; and
- Paid our third post-runoff distribution to shareowners on August 31, 2004 in the amount of \$237.5 million (equivalent to \$2 per share).

Summary of Results

(In thousands U.S.\$)	2004	2003
NET INCOME BEFORE TAXES		
Reinsurance segment	\$94,577	\$91,243
Real estate and leasing segment	—	(25,418)
Other operating expenses	(11,346)	(25,325)
Net income before taxes from continuing operations	83,231	40,500
Income taxes	969	15,376
Net income from continuing operations	84,200	55,876
Net loss from discontinued operations	(23,162)	(10,021)
Net income	\$61,038	\$45,855
Basic and diluted net income per share	\$ 0.51	\$ 0.39

Net income of \$61.0 million for the year ending December 31, 2004 was primarily due to net savings of approximately \$72.5 million generated through commutations and \$33.5 million of reinsurance investment income, partially offset by the loss on sale of OPUS Re and the internal costs of runoff.

During the fourth quarter of 2003 we sold our final remaining leased asset and the Company therefore did not earn any real estate or leasing revenue in 2004.

Other operating expenses for the year ended December 31, 2004 were \$11.3 million. The operating expenses consist of corporate expenses not allocated to operating segments including payroll, insurance, shareowner costs and rent.

For the year ended December 31, 2004 we recorded a net loss from discontinued operations of \$23.2 million, which relates to the operations and sale of OPUS Re. This amount includes OPUS Re's operating income of \$4.9 million, a tax charge of \$2.2 million primarily due to a valuation allowance against deferred tax assets, and the loss on sale of \$25.9 million.

Net income for the year ending December 31, 2003 was \$45.9 million. The main factors that contributed to the net income are discussed below in "Results of Operations - Year Ended December 31, 2003 Compared to Year Ended December 31, 2002".

Basic and diluted net income per share was \$0.51 for the year ended December 31, 2004 consisting of \$0.71 per share of income from continuing operations offset by a loss of \$0.20 per share from the discontinued operations of OPUS Re. For the year ended December 31, 2003 basic and diluted net income per share was \$0.39 consisting of \$0.47 per share of income from continuing operations offset by a loss of \$0.08 per share from discontinued operations.

A more detailed discussion of our operating results for 2004 and 2003 by segment is set out below.

Reinsurance Segment

(In thousands U.S.\$)	2004	2003
Gross premiums written	\$3,616	\$(70,044)
Premiums ceded	481	(3,012)
Net premiums written	4,097	(73,056)
Change in unearned premiums	5,302	111,182
Premiums earned	9,399	38,126
Commission and fee income	1,667	(237)
	11,066	37,889
Losses and loss expenses	61,552	(51,579)
Commissions, taxes and other expenses	(11,509)	(18,028)
	50,043	(69,607)
Underwriting income (loss)	61,109	(31,718)
Investment income, net of expenses	33,468	122,961
Reinsurance income	\$94,577	\$91,243

Underwriting

Gross premiums written for the year ended December 31, 2004 of \$3.6 million were due to changes in the estimates of ultimate written premium. Gross premiums written for the year ended December 31, 2003 of negative \$70.0 million were primarily due to the cancellation of one of the Company's finite reinsurance agreements where \$74.5 million of written and unearned premiums were returned.

Premiums ceded of \$3.0 million for the year ended December 31, 2003 were primarily related to additional premiums due on our aviation excess of loss protection. We commuted a portion of this reinsurance protection in 2004.

Premiums earned for the year ended December 31, 2004 decreased to \$9.4 million compared to \$38.1 million for the year ended December 31, 2003. This decrease is a result of the reinsurance operations of the Company being runoff. Premiums earned are expected to be negligible in future years.

For the year ended December 31, 2004, we generated net underwriting income of \$61.1 million, which is primarily due to net savings of approximately \$72.5 million generated through commutations of both our assumed loss reserves and portions of our aviation excess of loss reinsurance protection. The commutations included a workers' compensation contract, with recorded loss reserves of approximately \$198 million, where reinsurance had been provided to a reinsurer that had commenced arbitration to rescind its own reinsurance contract with the primary carrier. The commutation resulted in savings compared to booked reserves and eliminated the risk of further losses that may have arisen from an unfavorable arbitration decision in the underlying contract. The commutation savings were partially offset by loss adjustment expenses of \$8.9 million, consisting largely of legal fees, letter of credit fees and internal costs of runoff.

For the year ended December 31, 2003 we experienced a net underwriting loss of \$31.7 primarily due to:

- An increase in estimated ultimate losses of approximately \$15 million on two workers' compensation programs. The change in estimates followed an independent actuarial evaluation completed in the third quarter of 2003 and reflected adverse trending of medical expenses associated with workers' compensation claims in California. These contracts were subsequently commuted in 2004; and
- Runoff costs of \$11.0 million, comprising largely legal fees and internal costs.

Reinsurance Investment Income (Loss)

	(Loss) Income	Other Comprehensive (Loss) Income	Total Return	Income (Loss)	Other Comprehensive (Loss) Income	Total Return
(In thousands U.S.\$)	2004	2004	2004	2003	2003	2003
Equities						
Available-for-sale	(343)	(1,285)	(1,628)	46,134	(13,328)	32,806
Trading	15,053	—	15,053	62,035	—	62,035
Fixed income	15,859	(7,497)	8,362	19,312	(3,800)	15,512
Other	4,776	—	4,776	846	19	865
Expenses	(1,877)	—	(1,877)	(5,366)	—	(5,366)
	<u>\$33,468</u>	<u>\$(8,782)</u>	<u>\$24,686</u>	<u>\$122,961</u>	<u>\$(17,109)</u>	<u>\$ 105,852</u>

The Company's reinsurance investments are classified as either trading or available-for-sale. The trading portfolio is recorded at fair value with unrealized gains and losses recorded in net income. The available-for-sale portfolio is recorded at fair value with unrealized gains and losses recorded in members' equity as other comprehensive income. Despite the different accounting treatment of the trading and available-for-sale portfolios, we manage the Company's cash and investments in total and do not place much importance on whether the return is recognized in net income or as other comprehensive income. Therefore, this discussion will focus on the total investment return.

Our reinsurance portfolio generated a total return of \$24.7 million for the year ended December 31, 2004 compared to a total return of \$105.9 million for the year ended December 31, 2003. The comparative performance was primarily due to the net effect of:

- Our available-for-sale S&P 500 equity portfolio generating \$34.5 million of return in 2003 prior to its sale. The sale of this portfolio was in line with our strategy of reducing our exposure to equity price risk due to the runoff of our reinsurance operations;
- Our trading equities generating a positive return of \$15.1 million for the year ended December 31, 2004 compared to a positive return of \$62.0 million for the year ended December 31, 2003. Our trading equities, which were sold during the year ended December 31, 2004, were investments in a multi-manager fund that followed a combination of fixed income strategies. The fund earned 3.3% for the year ended December 31, 2004 compared with earning 12.5% for the year ended December 31, 2003. The variance was primarily due to the fund's high-yield bond portfolio and convertible securities components returning respectively 8.7% and 1.9% during the year ended December 31, 2004 compared to 20.5% and 25.3% for the year ended December 31, 2003;
- A downturn in the U.S. fixed income markets such that our debt securities generated a return of \$8.4 million for the year ended December 31, 2004 compared to a return of \$15.5 million for the year ended December 31, 2003;
- Our completion of the sale of our investments in four private equity funds that realized a \$3.7 million gain during the year ended December 31, 2004; and
- A reduction in investment balances of approximately \$880 million during the year ended December 31, 2004 due to net investment sales in order to fund commutations, novations and distributions to shareowners.

For the year ended December 31, 2004 investment expenses decreased to \$1.9 million from \$5.4 million for the year ended December 31, 2003. This was partially due to a reduction in assets invested, although investment expenses for the year ended December 31, 2003 included the write-off of previously capitalized management fees relating to our investment in private equity funds, reflecting an impairment in the carrying value of the funds.

Results of Operations - Year Ended December 31, 2003 Compared to Year Ended December 31, 2002

Runoff Activities for 2003

The results for the year ended December 31, 2003 reflect a number of significant transactions that were effected in accordance with our runoff goals and objectives. In particular, the Company:

- Commuted or otherwise settled a number of reinsurance contracts, contributing to a reduction in reinsurance liabilities of approximately \$850 million;
- Sold our remaining \$330 million of S&P 500 equity securities in a number of tranches throughout the year to take advantage of improved equity market conditions. These sales generated approximately \$51 million of realized gains and also reduced the amount of capital required to support future investment risks;
- Repurchased and cancelled the remaining \$75 million of long-term real estate debt. The debt was repurchased for an amount equivalent to the fair value of zero coupon securities we owned as collateral for the debt, resulting in a total repurchase premium of approximately \$36 million. This was offset by \$21 million of realized gains from the corresponding release and sale of the collateral securities;
- Sold our last real estate asset - a facility under finance lease with the Kmart Corporation. The sale of the asset generated a pre-tax loss of approximately \$10.8 million. The sale of the finance lease and the debt repurchase allowed us to recover approximately \$15 million of taxes previously paid on earlier real estate sales and facilitated the final liquidation of our real estate subsidiaries;
- Favorably resolved tax litigation and other tax issues with the IRS for 1999 and prior years, without cost;
- Reached a settlement of two class action lawsuits filed against the Company in late- 1999 and early- 2000. We accrued costs of \$10 million in connection with the settlement; and
- Paid our first post-runoff distribution to shareowners on April 9, 2003 in the amount of \$237 million (equivalent to \$2 per share) and declared a second distribution of \$297 million (equivalent to \$2.50 per share) on December 2, 2003 that was paid on January 5, 2004.

Summary of Results

(In thousands U.S.\$)	2003	2002
NET INCOME (LOSS) BEFORE TAXES		
Reinsurance segment	\$91,243	\$(253,913)
Real estate and leasing segment	(25,418)	103,315
Other operating expenses	(25,325)	(20,175)
Consolidated net income (loss) before taxes	40,500	(170,773)
Income taxes	15,376	(30,889)
Net income (loss) from continuing operations	55,876	(201,662)
Net loss from discontinued operations	(10,021)	(14,929)
Net income (loss)	\$45,855	\$(216,591)
Basic and diluted net income (loss) per share	\$ 0.39	\$ (1.82)

Net income of \$45.9 million for the year ending December 31, 2003 was largely due to the improved performance of the United States financial markets. The main factors that contributed to the net income were:

- Our reinsurance investments produced \$123.0 million of total income, primarily due to the \$50.7 million of realized gains from the exit of our S&P 500 equity portfolio as discussed above and income of \$62.0 million from our multi-manager funds. However the reinsurance segment also incurred a net underwriting loss of \$31.7 million, primarily due to \$15 million of adverse development in the estimate of accrued losses and loss expenses and \$11.0 million of internal runoff cost allocated to the reinsurance segment;
- The loss of \$25.4 million from our real estate and leasing segment reflected the liquidation of the real estate segment as discussed above, in particular the \$10.8 million loss on sale of the facility subject to the finance lease and the \$35.9 million premium paid to repurchase our remaining long-term debt offset by realized gains of \$20.9 million from the sale of securities held as collateral for the debt;
- Other operating expenses of \$25.3 million which are comprised of corporate expenses not allocated to operating segments and included the following one-time charges:
 - \$10.0 million of costs to settle the class action lawsuit; and
 - An asset impairment charge of \$5.6 million due to an other-than-temporary impairment in our investment in affiliate;

- A tax credit of \$15.4 million primarily due to the loss on the sale of the finance lease with the Kmart Corporation and the premium on the debt repurchase; and
- Losses from OPUS Re of \$10.0 million, including an asset impairment charge of \$5.8 million to write-down the capitalized cost of insurance licenses.

For the year ended December 31, 2002, we experienced a net loss of \$216.6 million. The main factors that contributed to the net loss were:

- Underwriting losses of \$88.3 million and investment losses of \$165.6 million in our reinsurance segment. The underwriting losses included losses incurred on a number of multi-year or unexpired programs written prior to the runoff announcement, adverse development in the estimate of accrued losses and loss expenses, the cost to commute some of our satellite programs, internal underwriting expenses incurred before the runoff, and subsequent runoff costs. The losses from our reinsurance investments were primarily due to an other-than-temporary impairment charge of \$177.5 million recorded in our equity portfolio;
- Income from our real estate and leasing segment of \$103.3 million due to the net effect of gains on sale of assets offset by a premium paid to repurchase long-term debt;
- Other operating expenses, which included additional costs as a result of the runoff announcement, such as severance payments;
- Income taxes of \$30.9 million relating to our real estate and leasing income; and
- Losses from OPUS Re of \$14.9 million, including the write-off of \$2.5 million of goodwill associated with OPUS Re's acquisition.

A more detailed discussion of our operating results for 2003 and 2002 by segment is set out below.

Reinsurance Segment

(In thousands U.S.\$)	2003	2002
Gross premiums written	\$(70,044)	\$208,965
Premiums ceded	(3,012)	(77,244)
Net premiums written	(73,056)	131,721
Change in unearned premiums	111,182	88,689
Premiums earned	38,126	220,410
Commission and fee income	(237)	5,799
	37,889	226,209
Losses and loss expenses	(51,579)	(232,567)
Commissions, taxes and other expenses	(18,028)	(81,977)
	(69,607)	(314,544)
Underwriting loss	(31,718)	(88,335)
Investment income (loss), net of expenses	122,961	(165,578)
Reinsurance income (loss)	\$91,243	\$(253,913)

Underwriting

During the year ended December 31, 2003 our gross written premium was negative \$70.0 million compared to \$209.0 million, written prior to the runoff announcement, for the year ended December 31, 2002. The negative gross written premium was primarily due to the cancellation of one of the Company's finite reinsurance agreements where \$74.5 million of written and unearned premiums were returned.

For the year ended December 31, 2003 premiums ceded decreased to \$3.0 million compared to \$77.2 million for the year ended December 31, 2002. Premium ceded for the year ended December 31, 2003 primarily related to additional premiums due on our aviation excess of loss protection. Premium ceded for the year ended December 31, 2002 primarily related to property catastrophe premiums ceded to Renaissance Reinsurance Ltd.

Premiums earned for the year ended December 31, 2003 decreased to \$38.1 million compared to \$220.4 million for the year ended December 31, 2002. This decrease is a result of the reinsurance operations of the Company being runoff.

Commission and fee income decreased to negative \$0.2 million for the year ended December 31, 2003 compared with \$5.8 million for the year ended December 31, 2002. This decrease is due to a decrease in fees earned on our finite risk contracts that were not accounted for as reinsurance as they did not satisfy the risk transfer criteria of Statement of Financial Accounting Standards No. 113. These fees decreased due to the effects of commutations and novations following the decision to put our reinsurance operations into runoff.

Commissions, taxes and other expenses for the year ended December 31, 2003 decreased to \$18.0 million from \$82.0 million for the year ended December 31, 2002. This decrease was primarily related to the decrease in premiums earned and changes in the mix of premiums earned. In addition, \$4.9 million of the decrease was due to a reduction in internal expenses, primarily as a result of the decision to put our reinsurance operations into runoff.

For the year ended December 31, 2003 we experienced a net underwriting loss of \$31.7 million compared to a net underwriting loss of \$88.3 million for the year ended December 31, 2002. For the year ended December 31, 2003 the net underwriting loss was primarily due to:

- An increase in estimated ultimate losses of approximately \$15 million on two workers' compensation programs. The change in estimates follows an independent actuarial evaluation completed in the third quarter of 2003 and reflects adverse trending of medical expenses associated with workers' compensation claims in California; and
- Runoff costs of \$11.0 million, comprising largely legal fees and internal costs.

For the year ended December 31, 2002 the net underwriting loss was primarily due to:

- Incurred losses of \$46.5 million as a result of credit default events on two multi-year financial lines programs;
- Incurred losses of \$10.8 million reflecting the cost of commutations of three of our satellite programs;
- Internal underwriting expenses and runoff costs of \$15.9 million; and
- Adverse development in the estimate of ultimate losses on a number of programs, primarily a marine contract and two multi-year contracts in our property and accident & health lines of business, respectively.

Reinsurance Investment Income (Loss)

(In thousands U.S.\$)	Income (Loss) 2003	Other Comprehensive (Loss) Income 2003	Total Return 2003	(Loss) Income 2002	Other Comprehensive Income (Loss) 2002	Total Return 2002
Equities						
Available-for-sale	\$ 46,134	\$(13,328)	\$ 32,806	\$(201,608)	\$ 84,442	\$(117,166)
Trading	62,035	—	62,035	14,916	—	14,916
Fixed income	19,312	(3,800)	15,512	19,422	19,232	38,654
Other	846	19	865	5,359	(39)	5,320
Expenses	(5,366)	—	(5,366)	(3,667)	—	(3,667)
	\$122,961	\$(17,109)	\$105,852	\$(165,578)	\$103,635	\$ (61,943)

Despite a reduction in the assets available for investment our reinsurance portfolio generated a total return of \$105.9 million for the year ended December 31, 2003 compared to a negative total return of \$61.9 million for the year ended December 31, 2002. The improved performance in 2003 was primarily due to:

- An upturn in U.S equity markets such that our S&P 500 based equity portfolio returned \$34.5 million for the year ended December 31, 2003 compared to a negative return of \$75.9 million for the year ended December 31, 2002;
- Our investment in a Bermuda based life reinsurer generating a negative return of \$1.7 million for the year ended December 31, 2003 compared to a negative return of \$41.3 million for the year ended December 31, 2002; and
- Our trading equities generating a return of \$62.0 million for the year ended December 31, 2003 compared to a return of \$14.9 million for the year ended December 31, 2002. Our trading equities are investments in multi-manager funds that follow primarily a combination of fixed income strategies. The improved performance was primarily due to increases in the value of the strategic income fund's high-yield bond portfolio and convertible bond portfolio.

These results included the effects of the write-down in the cost basis of equity investments classified as available-for-sale where the decline in value was considered other than temporary. In accordance with Statement of Financial Accounting Standards No. 115, "Accounting for Certain Investments in Debt and Equity Securities", such a write-down is recognized as a realized loss in the income statement, even though there were no sales of the securities. For the years ended December 31, 2003 and 2002, the amount of the write-down was \$8.0 million and \$177.5 million, respectively.

For the year ended December 31, 2003 investment expenses increased by \$1.7 million to \$5.4 million from \$3.7 million for the year ended December 31, 2002. This increase was due to the write-off of previously capitalized management fees relating to our investment in private equity funds.

Real Estate and Leasing

(In thousands U.S.\$)	2003	2002
REVENUE:		
Office buildings	\$ —	\$ 39,605
Hotel	—	37,222
Leasing	3,020	7,010
(Loss) gain on sale of real estate assets	(10,198)	139,902
	(7,178)	223,739
EXPENSES:		
Operating expenses	(814)	(51,522)
Interest expense	(7,495)	(28,615)
Premium on debt repurchase	(35,611)	(78,001)
Depreciation expense	—	(9,038)
Minority interest in earnings	—	(2,025)
	(43,920)	(169,201)
Operating (loss) income	(51,098)	54,538
Investment income:		
Amortization of zero-coupon notes	4,547	11,824
Gain on sale of zero-coupon notes	20,861	34,803
Other	272	2,150
Investment income	25,680	48,777
Real estate and leasing (loss) income	\$(25,418)	\$103,315

During the fourth quarter of 2003 we sold our final remaining leased asset and the Company is therefore no longer engaged in the real estate and leasing business.

The reduction in office, hotel and leasing revenues and operating expenses was due to:

- The sale of our two-thirds partnership interest in the Copley Place retail center and office complex, located in Boston, on July 19, 2002. The sale resulted in a pre-tax gain of \$35.0 million;
- The sale of the Marriott Copley Hotel on June 13, 2002 that resulted in a pre-tax gain of \$58.8 million; and
- The sale of the data processing facility and the land on which the facility is located to UPS and the termination of the lease by UPS in January 2002. The sale resulted in a total pre-tax gain of \$47.1 million.

The \$3.0 million leasing revenue for the year ended December 31, 2003 relates to the lease of a distribution facility to the Kmart Corporation. On November 25, 2003, the facility was sold to Kmart Corporation for net cash proceeds of \$6.8 million resulting in a pre-tax loss of \$10.8 million. The Kmart Corporation assumed the associated existing debt of \$23.4 million.

The Company had previously purchased five Boeing 757 air package freighters and a data processing facility, which were leased to UPS under separate operating leases. The Series A Bonds and the Series B Bonds financed the acquisition of the aircraft and the facility. The Series A Bonds, in the principal amount of \$171.6 million, were due in 2012; the Series B Bonds, in the principal amount of \$73.4 million, were due in 2019. The related operating leases originally collateralized the bonds. Following the sale of the aircraft and the data processing facility we purchased zero-coupon bonds from the sale proceeds to collateralize the remaining interest payments on the bonds. Zero-coupon treasury notes that had a maturity value equal to the par value of the bonds collateralized the principal of the bonds.

During June 2002 we obtained the consent of all the bondholders to amend the Trust Indenture for the Series A Bonds and Series B Bonds to permit the repurchase and cancellation of the bonds. The terms of the repurchase and cancellation required the Company to pay an amount equivalent to the fair value of the collateral securities (relating to both principal and interest) to the bondholders along with a corresponding release of security. On June 27, 2002 we completed the repurchase and cancellation of \$111.6 million of our Series A Bonds and \$58.4 million of our Series B Bonds for a total premium of \$76.9 million. The corresponding release of security resulted in the sale of zero-coupon notes with an amortized cost of \$211.5 million generating a \$34.8 million gain on sale.

On October 6, 2003 we completed the repurchase and cancellation of the remaining \$60.0 million of Series A Bonds and \$15.0 million of Series B Bonds for a total premium of \$35.9 million. The corresponding release of security resulted in the sale of zero-coupon notes with an amortized cost of \$91.5 million, generating a \$20.9 million gain on sale.

LIQUIDITY AND CAPITAL RESOURCES

Sources of capital and liquidity

Liquidity is a measure of a company's ability to generate sufficient cash flows to meet the short-term and long-term cash requirements of its business operations. Prior to going into runoff, our reinsurance operations had historically provided significant liquidity in that premiums were received in advance, generally substantially in advance, of the time claims were paid. However, since placing our reinsurance operations into runoff, claim payments have significantly exceeded premium receipts and this is likely to continue in future periods. The Company will continue to accelerate loss payments through commutations and novations of the remaining reinsurance contracts and this will result in continued negative cash flow. There is significant uncertainty regarding the timing of cash payments due to the uncertain number and timing of commutations and novations. Without the completion of commutations and novations, loss payments could continue for the next twenty years.

Following OPL's decision to cease writing new business and to runoff our reinsurance operations, the banks required that our letter of credit facilities be fully secured by a portion of the Company's investment portfolio of at least equivalent value. At December 31, 2003 the Company had \$448.2 million of cash and investments collateralizing our \$441.3 million letter of credit facilities. In the normal course of reinsurance business, OPL's bankers had issued letters of credit totaling \$261.0 million as of December 31, 2003 to collateralize the Company's accrued losses and unearned premium obligations to certain reinsureds. As OPL's letter of credit facilities expired on December 31, 2004 the Company no longer has investments collateralizing these facilities. Where necessary, the Company has issued replacement collateral in the form of deposits with the reinsureds.

At December 31, 2004 the reinsurance segment had \$669 million of cash and highly liquid investments. We believe that our current cash holdings and future sales and maturities of investments are adequate sources of liquidity for the future payment of claims and operating expenses. See Note 4 to the Consolidated Financial Statements included in "Item 8 – Financial Statements and Supplementary Data" for further information on the composition, value and scheduled maturities of our investment portfolio.

Following the Board of Directors February 13, 2002 announcement about its decision to restructure OPL and cause its operations to begin an orderly runoff, the Company is seeking to provide shareowners with both near term and longer-term liquidity. However, due to the regulated nature of the reinsurance business and other business reasons, it could take many years to complete the runoff of OPL's businesses and fully return share capital to shareowners.

As a holding company, a substantial proportion of OPL's assets relate to its investments in subsidiaries. As such, OPL's ability to make future distributions to shareowners is largely dependent upon it receiving distributions from its subsidiaries. Insurance regulation in Bermuda requires that OPL, OPre and OPAL each maintain minimum capital and liquidity requirements and also prohibits such entities from distributing more than 15% of their prior year's statutory capital unless specific approval is obtained from the Bermuda Monetary Authority. In addition to existing regulatory requirements, the Bermuda Monetary Authority has requested that it pre-approve all distributions from OPAL, OPre and OPL. See Note 11 to the Consolidated Financial Statements included in "Item 8 – Financial Statements and Supplementary Data" for further information on the restrictions on distributions and "Item 1 – Business" for a further discussion of regulations impacting our reinsurance segment.

Since going into runoff OPL has made three liquidating distributions to shareowners totaling \$6.50 per share. Distributions of \$237.7 million, \$296.9 million and \$237.5 million were paid on April 9, 2003, January 5, 2004 and August 31, 2004, respectively. All liquidating distributions were pre-approved by the Bermuda Monetary Authority.

Cash Flows

Cash and cash equivalents increased (decreased) due to the following:

(In thousands U.S.\$)	2004	2003
CASH FLOWS		
Operating activities	\$80,229	\$(332,551)
Investing activities	523,646	467,648
Financing activities	(534,464)	(350,969)
Discontinued operations	49,041	—
Net increase (decrease) in cash and cash equivalents	\$118,452	\$ (215,872)

Operating activities

Since OPL's reinsurance operations went into runoff in February 2002 no new reinsurance contracts have been written and there has therefore been a significant reduction in the cash generated from reinsurance operations. Claim payments have exceeded premium receipts and this is likely to continue in future periods. The Company will continue to attempt to accelerate loss payments through commutations and novations of the remaining reinsurance contracts and this will continue the negative cash flow.

During the year ended December 31, 2004 reinsurance balances receivable, funds withheld, accrued losses and loss expenses and reinsurance balances payable decreased by \$12.7 million, \$224.7 million, \$725.6 million and \$31.9 million, respectively. These decreases were primarily a result of the commutation and novation of several reinsurance contracts. We anticipate that these balances will continue to decrease as the runoff of OPL's reinsurance operations progresses.

Reinsurance underwriting operations used \$422.6 million of cash for the year ended December 31, 2004 compared to using \$454.7 million of cash for the year ended December 31, 2003. These cash outflows were primarily due to commutation and novation payments.

During the year ended December 31, 2004, the Company received approximately \$20.0 million of tax refunds relating to our real estate and leasing operations. Real estate operations used \$8.4 million of cash for the year ended December 31, 2003. The net cash outflow was primarily due to payments of tax and interest payments on the debt that was subsequently repurchased in October 2003. The Company no longer has any real estate operations or obligations.

We received \$25.4 million of interest and dividends during the year ended December 31, 2004 compared to \$30.1 million for the year ended December 31, 2003. During the year ended December 31, 2004 we generated \$478.6 million through the sale of investments in our trading portfolio, primarily the Oxford Strategic Income Fund, compared to \$109.9 million in the year ended December 31, 2003.

During the year ended December 31, 2004 we used \$21.3 million for the payment of other operating expenses compared to using \$9.5 million for the year ended December 31, 2003. The increase was primarily due to the payment of \$10 million as final settlement of the class action lawsuit. See "Item 3 – Legal Proceedings".

Investing activities

Following our decision to go into runoff, our investment objective has been and will continue to be more focused on capital preservation and short- to medium-term liquidity, as opposed to long-term return. Consequently, we have been reducing the duration of our investment portfolio and increasing our short-term investment positions to ensure that we will have sufficient cash available to meet claims obligations as they fall due and to mitigate our exposure to investment losses in the event of interest rate increases. We will continue to review our asset allocation as our runoff progresses. Despite these actions there may still be periods in which the Company records an investment loss as a result of the continued volatility in bond markets.

During the year ended December 31, 2004 we purchased \$719.1 million and sold \$1,117.1 million of available-for-sale investments compared to \$959.8 million and \$1,255.8 million, respectively for the year ended December 31, 2003. During the year ended December 31, 2004 sales from our available-for-sale investment portfolios exceeded purchases by \$398.0 million. This was in order to fund the Company's distributions to shareowners and commutation and novation payments. During 2003 the Company sold its remaining S&P 500 portfolios in order to reduce the Company's exposure to equity price risk.

During the year ended December 31, 2004, we received proceeds of \$30.4 million from the sale of our investments in private equity funds.

During the year ended December 31, 2003 our real estate investing activities generated net cash flow of \$6.8 million due to the sale of the distribution facility to Kmart Corporation. On October 6, 2003 the Company completed the repurchase and cancellation of \$60.0 million of Series A Bonds and \$15.0 million of Series B Bonds. The corresponding release of security resulted in the sale of zero-coupon notes for \$112.4 million.

Following the sale of our final remaining leased asset in the fourth quarter of 2003 the Company no longer has any real estate investing activities and will therefore no longer generate any cash from real estate.

Financing activities

During the year ended December 31, 2003, the Company paid \$112.6 million to repay and repurchase debt, primarily due to the repurchase and cancellation of the Series A and B bonds.

During the year ended December 31, 2003 the Company repurchased \$0.7 million of shares. These shares were purchased from employees who had exercised a put-option to sell their shares upon termination of their employment with the Company, following our decision to go into runoff.

As a result of the decision to restructure OPL and cause its operations to begin an orderly runoff, we amended our dividend policy. It is unlikely that the Company will pay ordinary dividends in the future. We expect that all future returns of capital to our shareowners will be in the form of liquidating distributions, giving due consideration to the Company's required capital levels to support the runoff of our accrued loss and loss expense liabilities, our contingent liabilities, regulatory requirements and availability of unrestricted liquid assets.

Since going into runoff OPL has made three liquidating distributions to shareowners totaling \$6.50 per share. Distributions of \$237.7 million, \$296.9 million and \$237.5 million were paid on April 9, 2003, January 5, 2004 and August 31, 2004, respectively. All liquidating distributions were pre-approved by the Bermuda Monetary Authority. The timing and amount of any future distributions is dependent on OPL's ability to obtain specific approval from the Bermuda Monetary Authority.

Contractual Obligations

The Company's contractual obligations are as follows:

(In thousands U.S.\$)	Tot:	Less than 1 year		More than 5 years
Operating lease obligations	2,15	787	1,36	—
Total	2,15	787	1,36	—

The above table excludes estimated future cash flows for losses and loss expenses, as there is typically no minimum contractual commitment associated with reinsurance contracts and also the amount and timing of the cash outflows are uncertain. The amount and timing of the cash outflows will also be affected by the Company's strategy of attempting to accelerate loss payments through commutations and novations of the remaining reinsurance contracts.

The Company doesn't have any other contractual obligations as of December 31, 2004.

CREDIT RISK

Credit risk represents the loss that would occur if a counterparty or issuer failed to perform its contractual obligations. Certain policies and procedures have been established to protect the Company against such losses from its investments or receivables. Controlling duration of the investment portfolio by limiting tracking error to known benchmarks, placing limits on exposure to any one counterparty and mandating minimum credit ratings all serve to manage the credit exposure associated with the Company's financial instruments.

The Company is also exposed to credit risk on losses recoverable from reinsurers and premiums receivable from cedants. The Company mitigated this risk by diversifying its assumed and ceded business with a number of different counterparties and mandating minimum credit ratings for each reinsurer at the time of placement and contractual features that permit the right of offset. The Company continues to monitor financial stability of its reinsurers and cedants on a regular basis.

Following the terrorist attacks of September 11, 2001 OPL's management conducted a thorough review of the claims paying ability of the Company's reinsurers and subsequently made a provision for non-collectable reinsurance receivables of \$10 million. During the year ended December 31, 2004 OPL's management reduced the provision by \$4 million to reflect the reduced credit risk following the collection of approximately \$34 million of losses and loss expenses recoverable due on our aviation excess of loss reinsurance protection.

INFLATION

Inflation, including damage awards and costs, can substantially increase the ultimate cost of claims in certain types of insurance. This is because the actual payment of claims may take place a number of years after the provisions for losses are reflected in the financial statements. We will, however, earn income on the funds retained for a period of time until eventual payment of a claim. Our investments are not significantly affected by inflation as the liquidity of our portfolio permits us to respond quickly to changing market conditions.

Quantitative and Qualitative Disclosures About Market Risk

The Company is subject to market risk arising from the potential change in the value of its various financial instruments. These changes may be due to fluctuations in interest rates, equity prices and foreign currency rates. The Company does not use derivatives to hedge market risk.

The Company's financial instruments that are exposed to market risks as of December 31, 2004 and December 31, 2003 are:

(In thousands U.S.\$)	FAIR VALUE	
	2004	2003
Trading portfolio:	2004	2003
Investment in equity securities:		
Emerging markets	\$ —	\$ 101
Multi-manager funds	—	472,197
	—	472,298
Available-for-sale portfolio:		
Investment in equity securities	807	2,447
Investment in fixed income securities	285,162	691,197
	285,969	693,644
Cash and cash equivalents	383,216	264,764
Restricted cash and cash equivalents	—	95,208
	383,216	359,972
Total cash and investments	\$669,185	\$1,525,914

These invested assets are classified in trading and available-for-sale portfolios, comprising both fixed income and equity securities. The Company records its trading securities at fair value with unrealized gains or losses reported in the Consolidated Statements of Income. The Company records its available-for-sale securities at fair value with unrealized gains or losses reported in the Consolidated Statements of Comprehensive Income.

Despite the different accounting treatment of the trading and available-for-sale portfolios, we manage the Company's cash and investments in total and make asset allocation decisions primarily on a consolidated basis but with due regard to the individual needs and regulatory requirements of each subsidiary.

The available-for-sale portfolio comprises both equity and fixed income securities as follows:

- Available for sale equities consist of an investment in a Bermuda based life reinsurer.
- The fixed income investments include securities issued by the U.S. governments and government agencies. The Company's fixed income portfolio correlates closely with the Merrill Lynch U.S. Corporate and Government Bond Index (1-3 years, A rated and above).

Prior to going into runoff the Company used financial modeling and asset allocation techniques to optimize risk and return over the long term (typically up to 10 years). Individual asset classes were selected based on characteristics such as yield, credit quality, currency, liquidity, duration, historical volatility and correlation with other asset classes. Independent investment managers were appointed to execute management-approved investment guidelines. This focus on long-term risk and return resulted in the Company having significant investments in equity and global bond portfolios.

Our risk tolerance has decreased as a result of the decision to put the Company's reinsurance operations into runoff. Following our decision to go into runoff, our investment objective has been more focused on capital preservation and short- to medium-term liquidity to pay claims when they fall due, as opposed to long-term return. As a result, our allocation to equity securities has decreased significantly. However, there may still be periods in which the Company records an investment loss as a result of the volatility in worldwide bond markets.

The asset allocation for the combined reinsurance trading and available-for-sale portfolios as of December 31, 2004, 2003 and 2002 was as follows:

Asset Class	2004	2003	2002
U.S. equities	0%	0%	13%
Multi-manager funds	0%	31%	23%
Total equities	0%	31%	36%
Cash	57%	24%	35%
Fixed income securities	43%	45%	29%
	100%	100%	100%

The following paragraphs address the significant market risks associated with the Company's trading and available-for-sale portfolios as of December 31, 2004 and 2003.

Interest Rate Risk

The primary exposure to interest rate risk in the available-for-sale portfolio relates to fixed income investments. Changes in market interest rates directly impact the market value of such securities. The Company's primary risk exposures are interest rates on fixed rate short-term instruments in the United States. Additionally, the creditworthiness of the issuer, relative values of alternative investments, liquidity and general market and economic conditions may affect fair values of interest rate sensitive instruments.

The Company's general strategy with respect to fixed income securities is to invest in high quality securities while maintaining diversification to avoid significant concentrations to individual issuers and industry segments. Interest rate risk is managed by maintaining a short duration band. The Company's fixed income securities have an average duration of approximately one year. This duration reflects the Company's need to fund loss payments, including commutations, and distributions to shareowners.

Since the decision to put the reinsurance operations into runoff the Company has been accelerating loss payments through commutations and novations of the remaining reinsurance contracts and therefore needs to maintain a significant proportion of its assets in relatively short duration investments. There is significant uncertainty regarding the timing of cash payments due to the uncertain number and timing of commutations and novations.

Equity Price Risk

OPL invested in equity securities to diversify its exposure to interest rate risk and to enhance total return. Fluctuations in the market price of a security may result from perceived changes in the underlying economic characteristics of the investee or its country of operation, liquidity, the relative price of alternative investments or general market conditions.

In general, equity securities have more year-to-year price volatility than intermediate high-grade fixed income securities. However, equity returns over longer time frames have been consistently higher than fixed income returns. As an ongoing entity OPL was not necessarily concerned with short-term price volatility, so long as the portfolio remained well-diversified and overall risk remained within our tolerance, as the Company had adequate capital to absorb short-term equity price volatility. However, following the decision to put OPL's operations into runoff, we realigned our portfolio to reflect the shorter-term objectives of the Company and have now sold all of our equity investments, with the exception of our equity investment in a Bermuda based life reinsurer.

Foreign Currency Risk

OPL's reinsurance operations have some exposure to foreign currency rates, particularly the United Kingdom pound sterling and the euro. This exposure has been significantly reduced due to the completion of commutations and novations.

OPL and its reinsurance subsidiaries are exempt from Bermuda's currency exchange controls. Our assets are located and our operations are conducted in countries in which, in management's opinion, the risks of expropriation are not substantial.

Value-at-Risk

Potential gains or losses from changes in market conditions can be estimated through statistical models that attempt to predict, within a specified confidence level, the maximum loss that could occur over a defined period of time. For example: for an investment portfolio with a Value-at-Risk ("VaR") of \$10 million for a one-year time horizon and a 95% probability, there is a 5% chance that the portfolio will lose more than \$10 million over a one year period.

The Company has performed a VaR analysis to estimate the maximum amount of potential loss in fair value of the Company's cash and investments over a one-year time horizon and at a 95% confidence level. The estimate has been prepared separately for each of the Company's market risk exposures in the trading and available-for-sale portfolios.

The estimates of VaR were calculated using the variance-covariance (delta normal) methodology. The model uses historical interest and equity prices for the 60 months ended December 31, 2004 to estimate the volatility and correlation of each of these rates and prices. The model allocates each investment into a number of security groupings and assigns a benchmark index to each security grouping as a proxy for risk measurement. Mean assumptions include no change in annual interest and no return assumptions. VaR is a statistical estimate and should not be viewed as predictive of the Company's future financial performance. There can be no assurance that the Company's actual losses in a particular year will not exceed the VaR amounts indicated in the following table or that such losses will not occur more than once in 20 years.

Limitations in the analysis include:

- The market risk information is limited by the assumptions and parameters established in creating the related models;
- The analysis is based on historical data;
- The analysis is limited to the Company's cash and trading and available-for-sale investments and excludes other significant assets and liabilities; and
- The model assumes that the composition of the Company's assets and liabilities remains unchanged throughout the year.

Therefore such models are tools and do not substitute for the experience and judgment of management.

The VaR for each component of the Company's market risk in the combined trading and available-for-sale portfolios as of December 31, 2004 and December 31, 2003 was:

Total portfolio (in millions U.S.\$) :	2004	2003
Interest rate risk	\$ 10.6	\$ 61.8
Equity price risk	0.4	21.0
Credit risk	4.2	5.6
Diversification benefit	(2.8)	(25.4)
	\$ 12.4	\$ 63.0

The portfolios total VaR includes a diversification benefit since interest rate, equity and credit risks are only partially correlated.

The significant decrease in VaR of the portfolio at December 31, 2004 compared to December 31, 2003 reflects the sale of our shares in the Oxford Strategic Income Fund and the significant reduction in the size of the fixed income portfolio. Since going into runoff, the Company has taken actions to reduce the overall risk of the total portfolio by virtually eliminating the exposure to global equity securities, eliminating the exposure to foreign currency risk and significantly reducing the exposure to interest rate risk.

The distribution of VaR for each component of the Company's market risk in the combined trading and available-for-sale portfolio for the year ended December 31, 2004 was:

Total portfolio (in millions U.S.\$) :	March 31	June 30	September 30	December 31
Interest rate risk	\$ 61.0	\$ 57.8	\$ 46.4	\$ 10.6
Equity price risk	21.2	20.9	13.8	0.4
Credit risk	3.0	3.1	2.7	4.2
Diversification benefit	(24.1)	(22.8)	(16.2)	(2.8)
	\$ 61.1	\$ 59.0	\$ 46.7	\$ 12.4

The above VaR analysis relates solely to the Company's cash and trading and available-for-sale investments.

Management's Report on Internal Control Over Financial Reporting

Management is responsible for establishing and maintaining effective internal control over financial reporting of the Company.

The Company's internal control system is designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles. There are inherent limitations in the effectiveness of any internal control, including the possibility of human error and the circumvention or overriding of controls. Accordingly, even effective internal controls can provide only reasonable assurance with respect to financial statement preparation and presentation. Further, because of changes in conditions, the effectiveness of internal controls may vary over time.

Management assessed the effectiveness of the Company's internal control over financial reporting as of December 31, 2004. This assessment was based on the criteria established in Internal Control – Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO). Based on our assessment, management believes that the Company maintained effective internal control over financial reporting as of December 31, 2004.

Deloitte & Touche have audited the financial statements included in the 2004 Annual Report and have issued an attestation report on management's assessment of the Company's internal control over financial reporting.

Report of Independent Registered Public Accounting Firm

To the Board of Directors and Members of Overseas Partners Ltd. Hamilton, Bermuda

We have audited management's assessment, included in the accompanying Management's Report on Internal Control Over Financial Reporting, that Overseas Partners Ltd. and subsidiaries, (the "Company") maintained effective internal control over financial reporting as of December 31, 2004, based on criteria established in Internal Control—Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission. The Company's management is responsible for maintaining effective internal control over financial reporting and for its assessment of the effectiveness of internal control over financial reporting. Our responsibility is to express an opinion on management's assessment and an opinion on the effectiveness of the Company's internal control over financial reporting based on our audit.

We conducted our audit in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether effective internal control over financial reporting was maintained in all material respects. Our audit included obtaining an understanding of internal control over financial reporting, evaluating management's assessment, testing and evaluating the design and operating effectiveness of internal control, and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinions.

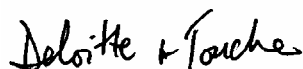
A company's internal control over financial reporting is a process designed by, or under the supervision of, the company's principal executive and principal financial officers, or persons performing similar functions, and effected by the company's board of directors, management, and other personnel to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles. A company's internal control over financial reporting includes those policies and procedures that (1) pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of the assets of the company; (2) provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with generally accepted accounting principles, and that receipts and expenditures of the company are being made only in accordance with authorizations of management and directors of the company; and (3) provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use, or disposition of the company's assets that could have a material effect on the financial statements.

Because of the inherent limitations of internal control over financial reporting, including the possibility of collusion or improper management override of controls, material misstatements due to error or fraud may not be prevented or detected on a timely basis. Also, projections of any evaluation of the effectiveness of the internal control over financial reporting to future periods are subject to the risk that the controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

In our opinion, management's assessment that the Company maintained effective internal control over financial reporting as of December 31, 2004, is fairly stated, in all material respects, based on the criteria established in Internal Control—Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission. Also in our opinion, the Company maintained, in all material respects, effective internal control over financial reporting as of December 31, 2004, based on the criteria established in Internal Control—Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission.

We have also audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), the consolidated financial statements as of and for the year ended December 31, 2004 of the Company and our report dated March 6, 2005 expressed an unqualified opinion on those financial statements.

DELOITTE & TOUCHE



Hamilton, Bermuda
March 6, 2005

Report of Independent Registered Public Accounting Firm

To the Board of Directors and Members of Overseas Partners Ltd. Hamilton, Bermuda

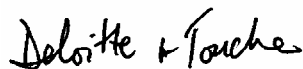
We have audited the accompanying consolidated balance sheets of Overseas Partners Ltd. and subsidiaries (the “Company”) as of December 31, 2004 and 2003, and the related consolidated statements of income, comprehensive income, members’ equity, and cash flows for each of the three years in the period ended December 31, 2004. These financial statements are the responsibility of the Company’s management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with the standards of the Public Company Accounting Oversight Board (United States). 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, such consolidated financial statements present fairly, in all material respects, the financial position of Overseas Partners Ltd. and subsidiaries as of December 31, 2004 and 2003, and the results of their operations and their cash flows for each of the three years in the period ended December 31, 2004, in conformity with accounting principles generally accepted in the United States of America.

We have also audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), the effectiveness of the Company’s internal control over financial reporting as of December 31, 2004, based on the criteria established in Internal Control—Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission and our report dated March 6, 2005 expressed an unqualified opinion on management’s assessment of the effectiveness of the Company’s internal control over financial reporting and an unqualified opinion on the effectiveness of the Company’s internal control over financial reporting.

DELOITTE & TOUCHE

The image shows a handwritten signature in black ink that reads "Deloitte & Touche". The signature is written in a cursive, flowing style.

Hamilton, Bermuda
March 6, 2005

OVERSEAS PARTNERS LTD. AND SUBSIDIARIES**Consolidated Balance Sheets****December 31, 2004 and 2003****(In thousands U.S.\$, except share and per share amounts)**

ASSETS:	<u>2004</u>	<u>2003</u>
Investments:		
Trading, at fair value-		
Equity securities (cost 2004 – \$nil, 2003 – \$357,759)	\$ —	\$ 472,298
Available-for-sale, at fair value-		
Debt securities (amortized cost 2004 – \$285,708, 2003 – \$234,650)	285,162	234,645
Restricted debt securities (amortized cost 2004 – \$nil, 2003 – \$449,546)	—	456,552
Equity securities (cost 2004 – \$709, 2003 – \$1,064)	807	2,447
	<u>285,969</u>	<u>1,165,942</u>
Cash and cash equivalents	383,216	264,764
Restricted cash and cash equivalents	—	95,208
Reinsurance balances receivable	3,776	16,487
Funds withheld	17,978	242,635
Paid losses recoverable from reinsurers	21,383	26,279
Unpaid losses and loss expenses recoverable from reinsurers	24,621	63,598
Deferred acquisition costs	4	106
Assets relating to subsidiary held for sale	—	255,541
Other assets:		
Investment in private equity funds, at cost	—	22,628
Investment in affiliate	—	5,000
Other	17,090	29,939
Total assets	<u>\$754,037</u>	<u>\$2,188,127</u>
LIABILITIES AND MEMBERS' EQUITY:		
Liabilities:		
Accrued losses and loss expenses	\$188,155	\$913,711
Unearned premiums	1,349	8,782
Reinsurance balances payable	28,060	59,933
Accounts payable and other liabilities	21,083	25,659
Liabilities relating to subsidiary held for sale	—	182,155
Distribution payable	—	296,924
Total liabilities	<u>\$238,647</u>	<u>\$1,487,164</u>
Commitments and contingencies	—	—
Preference Stock, par value \$0.10 per share; authorized 200 million shares; none issued	—	—
Members' equity:		
Common Stock, par value, \$0.10 per share; authorized 900 million shares; issued 127.5 million; outstanding 118,769,846 shares (2003: 118,769,846 shares)	12,750	12,750
Contributed surplus	37,650	37,650
Retained earnings	624,193	800,695
Treasury stock (2004 – 8,730,154 shares, 2003 – 8,730,154 shares), at cost	(158,755)	(158,755)
Deferred compensation	—	(34)
Accumulated other comprehensive (loss) income	(448)	8,657
Total members' equity	<u>515,390</u>	<u>700,963</u>
Total liabilities and members' equity	<u>\$754,037</u>	<u>\$2,188,127</u>
Net book value per share	<u>\$ 4.34</u>	<u>\$ 5.90</u>

See notes to consolidated financial statements.

OVERSEAS PARTNERS LTD. AND SUBSIDIARIES
Consolidated Statements of Income
Years Ended December 31, 2004, 2003 and 2002
(In thousands U.S.\$, except share and per share amounts. Number of shares in thousands.)

{PRIVATE }	<u>2004</u>	<u>2003</u>	<u>2002</u>
Revenues:			
Gross reinsurance premiums written	\$ 3,616	\$(70,044)	\$208,965
Reinsurance premiums ceded	481	(3,012)	(77,244)
Net reinsurance premiums written	4,097	(73,056)	131,721
Change in unearned premiums	5,302	111,182	88,689
Reinsurance premiums earned	9,399	38,126	220,410
Commission and fee income	1,667	(237)	5,799
Operating lease with UPS	—	—	3,645
Finance lease	—	3,020	3,365
Hotel	—	—	37,222
Office building	—	—	39,605
(Loss) gain on sale of real estate assets	—	(10,198)	139,902
Interest	22,688	32,410	37,704
Realized gain (loss) on available-for-sale securities and private equity	6,045	66,138	(174,776)
Net holding gain on trading securities	11,807	57,396	11,985
Amortization of fixed income securities	(5,416)	(4,163)	7,484
Dividends	221	2,226	4,469
	<u>46,411</u>	<u>184,718</u>	<u>336,814</u>
Expenses:			
Reinsurance losses and loss expenses	(61,552)	51,579	232,567
Reinsurance commissions, taxes and other expenses	11,509	18,028	81,977
Depreciation expense	—	—	9,038
Real estate and leasing operating expenses	—	814	51,522
Interest expense	—	43,106	106,616
Minority interest in earnings	—	—	2,025
Investment expenses	1,877	5,366	3,667
Impairment expense	—	5,593	—
Other operating expenses	11,346	19,732	20,175
	<u>(36,820)</u>	<u>144,218</u>	<u>507,587</u>
Income (loss) from continuing operations before income taxes	83,231	40,500	(170,773)
Income taxes - current benefit (expense)	969	15,351	(41,861)
- deferred benefit	—	25	10,972
	<u>969</u>	<u>15,376</u>	<u>(30,889)</u>
Net income (loss) from continuing operations	84,200	55,876	(201,662)
Discontinued operations:			
Net loss from disposed subsidiary, net of taxes	(23,162)	(10,021)	(14,929)
Net income (loss)	\$ 61,038	\$ 45,855	\$(216,591)
EARNINGS PER SHARE			
Income (loss) from continuing operations	\$ 0.71	\$ 0.47	\$ (1.70)
Loss from discontinued operations	(0.20)	(0.08)	(0.13)
Basic and diluted net income (loss) per share	\$ 0.51	\$ 0.39	\$ (1.82)
Weighted average number of shares outstanding	118,770	118,825	118,967

See notes to consolidated financial statements.

OVERSEAS PARTNERS LTD. AND SUBSIDIARIES**Consolidated Statements of Comprehensive Income****Years Ended December 31, 2004, 2003 and 2002****(In thousands U.S.\$)**

	<u>2004</u>	<u>2003</u>	<u>2002</u>
Net income (loss)	\$61,038	\$45,855	\$(216,591)
Other comprehensive (loss) income:			
Net unrealized holding (losses) gains on available-for-sale securities	(6,481)	48,968	(71,081)
Less: reclassification adjustment for (gains) losses included in net income	<u>(2,301)</u>	<u>(66,138)</u>	<u>174,776</u>
Other comprehensive (loss) income of continuing operations	(8,782)	(17,170)	103,695
Net unrealized holding (losses) gains on available-for-sale securities of disposed subsidiary, net of tax	<u>(323)</u>	<u>(720)</u>	<u>1,876</u>
Other comprehensive (loss) income	(9,105)	(17,890)	105,571
Comprehensive income (loss)	<u>\$51,933</u>	<u>\$27,965</u>	<u>\$(111,020)</u>

See notes to consolidated financial statements.

OVERSEAS PARTNERS LTD. AND SUBSIDIARIES
Consolidated Statements of Members' Equity
Years Ended December 31, 2004, 2003 and 2002
(In thousands U.S.\$, except share and per share amounts. Number of shares in thousands.)

{PRIVATE }

	Common Stock		Treasury Stock		Deferred	Contributed	Retained	Accumulated	Total
	Shares	Amount	Shares	Amount	Compensation	Surplus	Earnings	Other Comprehensive Income (Loss)	Members' Equity
Balance, January 1, 2002	127,50	\$12,750	(8,406)	\$(155,406)	\$ (3,115)	\$ 37,650	\$1,506,066	\$ (79,024)	\$1,318,921
Net loss	—	—	—	—	—	—	(216,591)	—	(216,591)
Net unrealized gain on available-for-sale securities, net of tax	—	—	—	—	—	—	—	105,571	105,571
Restricted shares forfeited	—	—	(1)	(19)	19	—	—	—	—
Purchase of treasury stock	—	—	(238)	(2,622)	—	—	—	—	(2,622)
Amortization of restricted common stock compensation	—	—	—	—	2,786	—	—	—	2,786
Balance, December 31, 2002	127,50	\$12,750	(8,645)	\$(158,047)	\$ (310)	\$ 37,650	\$1,289,475	\$ 26,547	\$1,208,065
Net income	—	—	—	—	—	—	45,855	—	45,855
Net unrealized loss on available-for-sale securities, net of tax	—	—	—	—	—	—	—	(17,890)	(17,890)
Liquidating distributions (\$4.50 per share)	—	—	—	—	—	—	(534,635)	—	(534,635)
Purchase of treasury stock	—	—	(85)	(708)	—	—	—	—	(708)
Amortization of restricted common stock compensation	—	—	—	—	276	—	—	—	276
Balance, December 31, 2003	127,50	\$12,750	(8,730)	\$(158,755)	\$ (34)	\$ 37,650	\$800,695	\$ 8,657	\$700,963
Net income	—	—	—	—	—	—	61,038	—	61,038
Net unrealized loss on available-for-sale securities, net of tax	—	—	—	—	—	—	—	(9,105)	(9,105)
Liquidating distributions (\$2.00 per share)	—	—	—	—	—	—	(237,540)	—	(237,540)
Amortization of restricted common stock compensation	—	—	—	—	34	—	—	—	34
Balance, December 31, 2004	127,50	\$12,750	(8,730)	\$(158,755)	\$ —	\$ 37,650	\$624,193	\$ (448)	\$515,390

See notes to consolidated financial statements.

OVERSEAS PARTNERS LTD. AND SUBSIDIARIES**Consolidated Statements of Cash Flows****Years Ended December 31, 2004, 2003 and 2002****(In thousands U.S.\$)**

	<u>2004</u>	<u>2003</u>	<u>2002</u>
CASH FLOW FROM OPERATING ACTIVITIES:			
Net income (loss)	\$61,038	\$45,855	\$(216,591)
Adjustments to reconcile net income (loss) to net cash provided (expended) by operating activities:			
Net loss from subsidiary held for sale	23,162	10,021	14,929
Deferred income taxes	—	—	(10,972)
Depreciation and impairment expense	—	5,593	9,038
Minority interest in earnings	—	—	2,025
Realized (gain) loss on available-for-sale securities and private equity	(6,045)	(66,138)	174,776
Net holding gain on trading securities	(11,807)	(57,396)	(11,985)
Amortization of fixed income securities	5,416	4,163	(7,484)
Amortization of restricted common stock compensation	34	276	2,786
Loss (gain) on sale of real estate assets	—	10,198	(139,902)
Premium on debt repurchase	—	35,611	78,001
Other	(1,374)	(130)	(2,177)
Changes in assets and liabilities:			
Reinsurance balances receivable	12,711	197,314	135,765
Losses and loss expenses recoverable from reinsurers	43,873	23,734	77,234
Funds withheld	224,657	85,457	(73,043)
Deferred acquisition costs	102	6,220	40,949
Unearned premiums ceded	—	1,856	(66,713)
Other assets	19,265	(5,976)	24,145
Accrued losses and loss expenses	(725,556)	(473,219)	(361,862)
Unearned premiums	(7,433)	(116,149)	(23,223)
Reinsurance balances payable	(31,873)	(163,241)	59,708
Accounts payable and other liabilities	(4,576)	13,548	(25,764)
Proceeds from sales of trading investments	478,635	109,852	4,115
Purchase of trading investments	—	—	(1,346)
Net cash flow provided (expended) by operating activities	80,229	(332,551)	(317,591)
CASH FLOW FROM INVESTING ACTIVITIES:			
Proceeds from sales and maturities of available-for-sale investments	1,117,101	1,255,806	1,393,362
Purchase of available-for-sale investments	(719,090)	(959,835)	(939,463)
Proceeds from maturities of held-to-maturity investments	—	—	13,297
Purchase of held-to-maturity investments	—	—	(84,192)
Proceeds from sale of private equity funds	30,427	—	—
Net movement in restricted cash and cash equivalents	95,208	164,894	(260,103)
Net cash outflow from sale of Overseas Partners Cat Ltd.	—	—	(38,632)
Net proceeds from sales of real estate assets	—	6,783	372,567
Additions to real estate and leasing assets	—	—	(11,517)
Net cash flow provided by investing activities	523,646	467,648	445,319
CASH FLOW FROM FINANCING ACTIVITIES:			
Purchases of treasury stock	—	(708)	(2,622)
Repayment and repurchase of debt	—	(112,550)	(252,473)
Distributions to minority interest	—	—	(2,215)
Liquidating distributions	(534,464)	(237,711)	—
Net cash flow expended by financing activities	(534,464)	(350,969)	(257,310)
CASH FLOW FROM DISCONTINUED OPERATIONS:			
Proceeds from sale of subsidiary	42,029	—	—
Distribution from subsidiary held for sale	7,012	—	198,500
Net cash flow provided by discontinued operations	49,041	—	198,500
Net increase (decrease) in cash and cash equivalents	118,452	(215,872)	68,918
Cash and cash equivalents:			
Beginning of year	264,764	480,636	411,718
End of year	\$383,216	\$264,764	\$480,636

See notes to consolidated financial statements.

OVERSEAS PARTNERS LTD. AND SUBSIDIARIES

Notes to Consolidated Financial Statements Years Ended December 31, 2004, 2003 and 2002

1. ORGANIZATION

The accompanying consolidated financial statements include the accounts of Overseas Partners Ltd. and its subsidiaries (collectively OPL or the Company). OPL was engaged in the property and casualty reinsurance business and in the real estate and leasing business. On February 13, 2002 the Board of Directors of OPL announced its decision to restructure OPL and cause its operations to begin an orderly runoff. OPL and its reinsurance subsidiaries have discontinued writing new business. OPL has disposed of its real estate assets and is no longer engaged in the real estate and leasing business.

The decision to put the reinsurance operations into runoff has significantly changed the ongoing results of OPL's operations and the associated cash flows and will continue to do so. There has been no new business written, therefore the cash received from premiums has significantly decreased. The commutation and novation of reinsurance programs has significantly accelerated loss payments and will continue to result in negative cash flows in the future. Nevertheless, OPL management believes that the Company's current cash holdings and future sales and maturities of investments are adequate sources of liquidity for the future payment of claims and operating expenses.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The consolidated financial statements have been prepared in accordance with accounting principles generally accepted in the United States of America. All activity is recorded in U.S. dollars. The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amount of assets and liabilities, disclosure of contingent assets and liabilities at the date of the financial statements, and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates. The following are the significant accounting policies adopted by the Company.

Intercompany balances and transactions have been eliminated in consolidation.

Premiums written and ceded are recorded based on estimates of ultimate amounts at inception of the contract. Such estimates are regularly reviewed with adjustments, if any, recorded in the period in which they are determined. Premiums written and ceded are recognized as earned on a pro-rata basis over the period the coverage is provided. Unearned premiums and acquisition costs, primarily commissions and taxes, applicable to the unexpired periods of the policies in force, are deferred. The deferral of acquisition expenses is limited to their realizable value by giving consideration to losses and expenses expected to be incurred as premiums are earned and to the future anticipated investment income related to such premiums. After limiting the deferral of acquisition expenses, any additional premium deficiency is recorded as part of incurred losses and loss expenses. The deferral of acquisition expenses is reviewed on a program-by-program basis.

Following the decision to place the reinsurance operations into runoff, the Company has completed the early commutation (i.e. negotiated settlement and cancellation) and novation (i.e. transfer of the Company's rights and obligations to another reinsurer) of several reinsurance programs. Loss reserve settlements that are structured as commutations are recorded as an increase or decrease in incurred claims whereas the commutation of unexpired risks and novations are recorded as a return of the original premium income and attendant claims and expenses.

OVERSEAS PARTNERS LTD. AND SUBSIDIARIES

Notes to Consolidated Financial Statements Years Ended December 31, 2004, 2003 and 2002

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

The reserves for accrued losses and loss expenses include an estimate of outstanding losses and an estimate for losses incurred but not reported. Outstanding losses are estimated based on ceding company reports and other data considered relevant to the estimation process. The liability for losses incurred but not reported reflects management's best estimates based on the recommendations of an independent actuary using the past loss experience of the Company and industry data. The reserves as established by management are reviewed periodically and adjustments are made in the period in which they become known. Although management believes the reserves are adequate, based on all available information, there can be no assurance that actual losses will not differ significantly from the amounts provided. Inherent in the estimates of ultimate losses are expected trends in claim severity and frequency and other factors, which could vary significantly as claims, are settled. In particular, there are significant uncertainties over the estimates of ultimate losses associated with the following: (a) a \$180 million residual value reinsurance program where the Company is exposed to losses through 2013 arising from potential lease income shortfalls on a portfolio of aircraft. The Company carries reserves for this program using actuarial projections that reflect the current performance of the fleet and projected future performance under a number of economic scenarios; (b) the Company is engaged in several ongoing disputes with ceding companies. The Company continues to reserve for losses and loss expenses on all disputed contracts without regard to any possibility of a favorable outcome. However, the uncertainty surrounding such estimates is increased by the fact that the Company may not have received current loss information from the ceding company during the period of the dispute and may not have had the opportunity to audit or otherwise review the reliability of such reported information.

The Company recognizes reinsurance recoveries when the associated loss is incurred. The Company remains liable to the extent that the reinsurance companies fail to meet their obligations and consequently allowances are established for amounts deemed uncollectible. The Company regularly evaluates the financial condition of its reinsurers and monitors concentrations of credit risk to minimize its exposure to significant losses from reinsurer insolvencies.

All highly liquid debt instruments with maturities of three months or less at the date of acquisition are considered cash equivalents.

Financial instruments, which potentially subject the Company to credit risk, consist principally of cash, cash equivalents, investments, reinsurance balances receivable, funds withheld and losses and loss expenses recoverable from our reinsurers.

Trading securities are carried at fair value with any unrealized gains and losses included in net income. Available-for-sale securities are carried at fair value with any unrealized gains and losses included in other comprehensive income. The cost of securities sold is calculated using the specific identification method. Private equity funds, for which there were no readily determinable market values, were recorded at cost.

Investments are reviewed periodically to determine if they have sustained an impairment of value that is considered to be other than temporary. The identification of potentially impaired investments, the assessment of whether any decline in value is other than temporary, and, in some cases, the estimation of fair value involve significant management judgment. If trading and available-for-sale investments are determined to be impaired, the cost basis of the investment is written down to fair value at the balance sheet date and a corresponding realized loss is charged to the income statement in the period in which it is determined. If unquoted investments held at cost, primarily the private equity funds, or the investment in affiliate are determined to be impaired, the carrying value of the investment is written down to estimated fair value at the balance sheet date and a corresponding impairment expense is charged to the income statement in the period in which it is determined.

Estimated fair value of trading and available-for-sale investments is based on market quotations. The carrying values of other financial instruments approximate their fair values due to the short-term nature of the balances.

Basic earnings per share is calculated by dividing net income by the weighted average number of common shares outstanding. The computation of diluted earnings per share adjusts net income and the weighted average number of common shares outstanding for the exercise of all dilutive stock options. The computation of diluted earnings per share does not assume exercise of stock options that would have an antidilutive effect on earnings per share.

OVERSEAS PARTNERS LTD. AND SUBSIDIARIES

Notes to Consolidated Financial Statements Years Ended December 31, 2004, 2003 and 2002

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

During the second quarter of 2003, the Company elected to adopt the fair value based employee stock-based compensation expense recognition provisions of Statement of Financial Accounting Standards No. 123, Accounting for Stock-Based Compensation ("SFAS 123") prospectively. The Company previously applied the intrinsic value based expense recognition provisions set forth in APB Opinion No. 25, Accounting for Stock Issued to Employees. SFAS 123 states that the adoption of the fair value based method is a change to a preferable method of accounting. The adoption of the fair value based method had no effect on net income for the years ended December 31, 2003 and December 31, 2004 as no stock-based compensation awards were made in 2003 or 2004. The adoption of SFAS 123 was applied only to awards granted subsequent to January 1, 2003. As a result of OPL's decision to runoff its operations, it is unlikely that any further stock-based compensation awards will be made.

In December 2003, the Financial Accounting Standards Board ("FASB") revised Interpretation 46, "Consolidation of Variable Interest Entities" ("FIN 46R"). FIN 46R requires the primary beneficiary of a variable interest entity ("VIE") to include the assets, liabilities and results of the activities of the VIE in its consolidated financial statements, as well as disclosure of information about the assets and liabilities, and the nature, purpose and activities of consolidated VIEs. In addition, FIN 46R requires disclosure of information about the nature, purpose and activities on unconsolidated VIEs in which the Company holds a significant variable interest. For the purposes of FIN 46R, OPL is a nonpublic entity and therefore FIN 46R is effective immediately for any interests in VIEs acquired after December 31, 2003 and effective January 1, 2005 for all VIEs acquired before December 31, 2003. OPL does not have any VIE's as of December 31, 2004 and therefore the implementation of FIN 46R will not have any impact on our financial position, results of operations or financial reporting.

In March 2004, the Emerging Issues Task Force ("EITF") reached consensus on the guidance provided in EITF Issue No. 03-1, "The Meaning of Other-Than-Temporary Impairment and its Application to Certain Investments" ("EITF 03-1") as applicable to debt and equity securities that are within the scope of Statement of Financial Accounting Standards No. 115, "Accounting for Certain Investments in Debt and Equity Securities". This new guidance for determining whether impairment is other-than-temporary was originally effective for the period beginning July 1, 2004. However, on September 30, 2004, the FASB issued FASB Staff Position EITF 03-1-1 delaying the effective date for the accounting and measurement provisions of EITF 03-1 until further clarification can be provided. Adoption of this standard is not anticipated to have a significant impact on our financial position, results of operations or financial reporting.

Certain of the 2003 and 2002 amounts have been reclassified to conform to the presentation adopted in 2004.

3. SALE OF SUBSIDIARIES

In July 2004 OPL and Odyssey Re Holdings Corp. ("OdysseyRe") entered into a definitive stock purchase agreement, pursuant to which OdysseyRe would purchase 100% of the outstanding shares of Overseas Partners US Reinsurance Company ("OPUS Re"). The closing of the transaction occurred on November 15, 2004. The purchase price was \$43.0 million and the loss on sale was \$25.9 million.

In accordance with SFAS 144, the net operating results of OPUS Re have been recorded as discontinued operations in the statement of income. The financial statements for prior periods presented have been restated on a consistent basis. All assets pertaining to OPUS Re as of December 31, 2003, have been recorded as a single line item "Assets relating to subsidiary held for sale" and similarly all liabilities have been recorded as a single line item "Liabilities relating to subsidiary held for sale".

OVERSEAS PARTNERS LTD. AND SUBSIDIARIES**Notes to Consolidated Financial Statements
Years Ended December 31, 2004, 2003 and 2002****3. SALE OF SUBSIDIARIES (continued)**

Summary financial information about the Company's discontinued operations is presented in the following tables:

(In thousands)	2004	2003	2002
REVENUES			
Premiums earned	\$15,190	\$80,020	\$236,908
Investment income	2,478	4,005	17,578
	\$17,668	\$84,025	\$254,486
NET INCOME (LOSS)			
Income (loss) from subsidiary held for sale	\$4,930	\$(11,645)	\$(17,595)
Income taxes relating to subsidiary held for sale	(2,153)	1,624	2,666
Loss on sale of subsidiary	(25,939)	—	—
Net loss from disposed subsidiary	\$(23,162)	\$(10,021)	\$(14,929)

On May 10, 2002 OPL sold its wholly owned subsidiary Overseas Partners Cat Ltd. ("OPCat") to RenaissanceRe Holdings Ltd for \$25 million, equal to OPCat's net book value at the date of sale. Prior to, and in anticipation of, the sale, OPCat returned approximately \$420 million of capital. At the date of sale OPCat's assets included \$63.6 million of cash, therefore the sale resulted in a net cash outflow of \$38.6 million. OPL remains liable for adverse development on losses incurred prior to February 13, 2002 and, conversely, is entitled to a profit commission for any favorable development.

4. INVESTMENTS

Amortized cost and fair value of investments in trading and available-for-sale securities are as follows:

(In thousands U.S.\$) December 31, 2004:	AMORTIZED COST	UNREALIZED GAINS	UNREALIZED LOSSES	FAIR VALUE
Available-for-sale debt:				
U.S. government bonds	\$ 65,153	\$127	\$ (268)	\$ 65,012
Corporate and other bonds	127,650	452	(345)	127,757
Mortgage-backed securities	92,905	35	(547)	92,393
	285,708	614	(1,160)	285,162
Available-for-sale equities:				
Equities	709	98	—	807
	\$286,417	\$712	\$(1,160)	\$285,969

OVERSEAS PARTNERS LTD. AND SUBSIDIARIES**Notes to Consolidated Financial Statements****Years Ended December 31, 2004, 2003 and 2002****4. INVESTMENTS (continued)**

(In thousands U.S.\$) December 31, 2003:	AMORTIZED COST	UNREALIZED GAINS	UNREALIZED LOSSES	FAIR VALUE
Trading equities:				
Emerging markets	\$ 101	\$ —	\$ —	\$ 101
Multi-manager fund	357,658	114,539	—	472,197
	357,759	114,539	—	472,298
Available-for-sale debt:				
U.S. government bonds	229,992	2,137	(115)	232,014
Corporate and other bonds	212,121	4,404	(37)	216,488
Mortgage-backed securities	242,083	822	(210)	242,695
	684,196	7,363	(362)	691,197
Available-for-sale equities:				
Equities	1,064	1,383	—	2,447
	\$1,043,019	\$ 123,285	\$ (362)	\$1,165,942

The multi-manager fund was listed on the Irish and Cayman Islands Stock Exchanges. The fund was a strategic income multi-manager fund with underlying securities including high grade bonds, floating rate loans, convertible securities and high yield bonds. The underlying securities were all issued in the U.S. with the average credit quality of the fund not falling below investment grade. The Company's shares in this fund were sold during the year ended December 31, 2004 and the fund was subsequently liquidated.

The amount of unrealized losses and the related fair value of investments with unrealized losses are as follows:

(In thousands U.S.\$) December 31, 2004:	FAIR VALUE	UNREALIZED LOSSES
Available-for-sale debt:		
U.S. government bonds	\$ 28,412	\$ (268)
Corporate and other bonds	40,451	(345)
Mortgage-backed securities	55,474	(547)
	\$124,337	\$(1,160)

All of the investments with unrealized losses have been in a continuous unrealized-loss position for less than 12 months. Management believes that the impairments are temporary and are primarily caused by fluctuations in interest rates.

The amortized cost and estimated fair value of debt securities, by contractual maturities, are shown in the following table. Mortgage-backed securities generally are more likely to be prepaid than other fixed maturities. As the stated maturity of such securities may not be indicative of actual maturities, the total for mortgage-backed securities is shown separately.

(In thousands U.S.\$)	2004	
	AMORTIZED COST	FAIR VALUE
Available-for-sale securities:		
Within 1 year	\$ 62,412	\$ 62,412
After 1 year through 5 years	130,391	130,357
Mortgage-backed securities	92,905	92,393
	\$285,708	\$285,162

OVERSEAS PARTNERS LTD. AND SUBSIDIARIES**Notes to Consolidated Financial Statements
Years Ended December 31, 2004, 2003 and 2002****4. INVESTMENTS (continued)**

The components of realized gains and losses were as follows:

(In thousands U.S.\$)	2004	2003	2002
Available-for-sale:			
Equities	\$ (343)	\$ 44,267	\$(205,468)
Fixed income	2,644	1,010	(3,486)
Zero-coupon notes	—	20,861	34,803
Other	—	—	(625)
	2,301	66,138	(174,776)
Private equity	3,744	—	—
	\$ 6,045	\$ 66,138	\$(174,776)

Investment income for 2004 includes gross realized gains from the sales of available-for-sale securities of \$4.7 million and gross realized losses of \$2.4 million. Investment income for 2003 includes gross realized gains from the sales of available-for-sale securities of \$78.9 million and gross realized losses of \$12.8 million. Investment income for 2002 includes gross realized gains from the sales of available-for-sale securities of \$51.5 million and gross realized losses of \$226.3 million.

These results included the effects of write downs in the cost basis of OPL's investment in a Bermuda based life reinsurer and, for the years ended December 31, 2003 and December 31, 2002, the effects of the write down in the cost basis of OPL's equity investments in certain stocks in the S&P 500 portfolio, where the decline in value was considered other than temporary. In accordance with Statement of Financial Accounting Standards No. 115, "Accounting for Certain Investments in Debt and Equity Securities", such write-downs are recognized as realized losses in the income statement, even though there were no sales of the securities. For the years ended December 31, 2004, December 31, 2003 and December 31, 2002 the total amount of the write down was \$0.4 million, \$8.0 million and \$177.5 million respectively.

OVERSEAS PARTNERS LTD. AND SUBSIDIARIES**Notes to Consolidated Financial Statements
Years Ended December 31, 2004, 2003 and 2002****5. ACCRUED LOSSES AND LOSS EXPENSES**

Activity in accrued losses and loss expenses is summarized as follows:

(In thousands U.S.\$)	2004	2003	2002
Gross balance as of January 1,	\$913,711	\$1,370,110	\$1,798,044
Less reinsurance recoverable	(63,598)	(112,612)	(190,845)
Net balance as of January 1,	850,113	1,257,498	1,607,199
Incurred related to:			
Current year	2,128	37,760	216,802
Prior years	(63,680)	13,819	15,765
Total incurred	(61,552)	51,579	232,567
Paid related to:			
Current year	(988)	(7,038)	(85,675)
Prior years	(624,039)	(451,926)	(463,013)
Total paid	(625,027)	(458,964)	(548,688)
Transfer of loss reserves on sale of OP Cat	—	—	(33,580)
Net balance as of December 31,	163,534	850,113	1,257,498
Plus reinsurance recoverable	24,621	63,598	112,612
Gross balance as of December 31,	\$188,155	\$913,711	\$1,370,110

The reduction in incurred losses from prior years of \$63.7 million for the year ended December 31, 2004 reflects the settlement of liabilities through commutations and novations at amounts less than carried reserves and a reduction in the provision for non-collectible reinsurance of \$4 million. The commutations included a workers' compensation contract, with recorded loss reserves of approximately \$198 million, where reinsurance had been provided to a reinsurer that had commenced arbitration to rescind its own reinsurance contract with the primary carrier. The commutation allowed the Company to generate savings compared to carried reserves and eliminated the risk of further losses that may have arisen from an unfavorable arbitration decision in the underlying contract.

As a result of the change in estimates of insured events in prior years, the provision for losses and loss expenses increased by \$13.8 million and \$15.8 million in 2003 and 2002, respectively. The 2002 increase related to an increase in estimated ultimate losses on a number of programs, primarily a marine contract and two multi-year contracts in our property and accident & health lines of business, respectively. These contracts have now been commuted. The 2003 increase related primarily to an increase in estimated ultimate losses of approximately \$15 million on two workers' compensation programs. The change in estimates followed an independent actuarial evaluation completed in the third quarter of 2003 and reflected adverse trending of medical expenses associated with workers' compensation claims in California. These contracts were subsequently commuted in 2004.

Losses recoverable are primarily due from five different reinsurers including three Lloyds of London syndicates. Following the terrorist attacks of September 11, 2001 OPL's management conducted a thorough review of the claims paying ability of the Company's reinsurers and subsequently made a provision for non-collectible reinsurance receivables of \$10 million. During the year-ended December 31, 2004 OPL's management reviewed the provision and reduced it to \$6 million to reflect the collection of a significant portion of the assets through commutation with the Company's reinsurers. Losses incurred are net of \$(0.2) million, \$4.3 million and \$(49.7) million of losses recoverable from reinsurers for the years ended December 31, 2004, 2003 and 2002 respectively.

As of December 31, 2004 and 2003, there were no amounts due from any individual reinsurer in excess of 10% of OPL's members' equity.

OVERSEAS PARTNERS LTD. AND SUBSIDIARIES

Notes to Consolidated Financial Statements Years Ended December 31, 2004, 2003 and 2002

6. COMMITMENTS

Following OPL's decision to cease writing new business and to runoff our reinsurance operations, the banks required that our letter of credit facilities be fully secured by a portion of the Company's investment portfolio of at least equivalent value. At December 31, 2003 the Company had \$448.2 million of cash and investments collateralizing our \$441.3 million letter of credit facilities. In the normal course of reinsurance business, OPL's bankers had issued letters of credit totaling \$261.0 million as of December 31, 2003 to collateralize the Company's accrued losses and unearned premium obligations to certain reinsureds. As OPL's letter of credit facilities expired on December 31, 2004 the Company no longer has investments collateralizing these facilities. Where necessary, the Company has issued replacement collateral in the form of deposits with the reinsureds.

7. REAL ESTATE AND LEASING ACTIVITIES

On November 25, 2003 the Company disposed of its only remaining real estate asset, a distribution facility that was leased to the Kmart Corporation. The facility was sold to the Kmart Corporation for net cash proceeds of \$6.8 million resulting in a pre-tax loss of \$10.8 million. The purchaser of the property assumed the associated existing debt of \$23.4 million.

During 2002 the Company sold its data processing facility, hotel and one remaining office building, a two-thirds partnership interest in the Copley Place retail center and office complex. On January 31, 2002 United Parcel Service of America, Inc. (UPS) purchased the data processing facility for \$127.9 million and the land on which the facility is located for \$13.6 million resulting in a total pre-tax gain on sale of \$47.1 million. The Copley Marriott Hotel was sold on June 13, 2002 for net cash proceeds of \$111.6 million resulting in a pre-tax gain on sale of \$58.8 million. The purchaser of the property assumed the associated existing debt of \$96.7 million. Copley Place was sold on July 19, 2002 for net cash proceeds of \$119.6 million resulting in a pre-tax gain on sale of \$35.0 million. The purchaser of the property assumed the associated existing debt of \$184.6 million.

In 1989 a subsidiary of OPCC acquired five 757 aircraft and a data processing facility, which were subsequently leased to UPS under separate operating leases. The acquisition of the aircraft and the facility were financed by two series of privately placed, fixed rate, non-callable bonds issued by OPL Funding, incorporated in Delaware as a single purpose subsidiary of Overseas Capital Co. The Series A Bonds, in the principal amount of \$171.6 million, were due in 2012; the Series B Bonds, in the principal amount of \$73.4 million, were due in 2019.

The aircraft were sold in July 1998 and the data processing facility was sold in January 2002. OPL Funding invested \$186.6 million of the proceeds from the sale of the aircraft into United States zero-coupon treasury notes and corporate bonds as substitute collateral for the interest obligations associated with the Series A Bonds. Following the sale of the data processing facility, OPL Funding invested \$84.2 million of the proceeds from the sale into United States zero-coupon treasury notes as substitute collateral for the interest obligations associated with the Series B Bonds. These investments were sufficient to defease all remaining interest payments due on the bonds.

Following the February 2002 decision to put OPL's operations into runoff the Company sought to accelerate the settlement of reinsurance and real estate liabilities. During June 2002 OPL Funding approached and obtained the consent of all the bondholders to amend the Trust Indenture to permit the repurchase and cancellation of the Series A Bonds and Series B Bonds. The terms of the repurchase and cancellation required the Company to pay an amount equivalent to the fair value of the collateral securities (relating to both principal and interest) to the bondholders. On June 27, 2002 OPL Funding completed the repurchase and cancellation of \$111.6 million of the Series A Bonds and \$58.4 million of the Series B Bonds for a total premium of \$78.0 million recorded in interest expense. The corresponding sale of the collateral securities with an amortized cost of \$211.5 million resulted in an offsetting \$34.8 million gain on sale.

On October 6, 2003 OPL Funding completed the repurchase and cancellation of the remaining \$60.0 million of the Series A Bonds and \$15.0 million of the Series B Bonds for a total premium of \$35.6 million recorded in interest expense. The corresponding sale of the collateral securities with an amortized cost of \$91.5 million resulted in an offsetting \$20.9 million gain on sale.

OVERSEAS PARTNERS LTD. AND SUBSIDIARIES**Notes to Consolidated Financial Statements****Years Ended December 31, 2004, 2003 and 2002****8. TAXES**

OPL and its remaining subsidiaries are incorporated under the laws of the Islands of Bermuda. OPL believes that neither it nor its Bermuda subsidiaries carries on business through a permanent establishment in the United States. Therefore, it does not expect itself or its Bermuda subsidiaries to be subject to United States income taxes. Under current Bermuda law, OPL and its Bermuda subsidiaries are not obligated to pay any tax in Bermuda based upon income or capital gains.

Certain of OPL's subsidiaries were incorporated in the United States. These subsidiaries were subject to United States income taxes. As of January 14, 2005 OPL has either liquidated or sold all of its United States based subsidiaries, so OPL no longer has any subsidiaries that are directly subject to United States income taxes. OPL's management believes that OPL does not have any remaining United States income tax liabilities. However, the statutes of limitations for the tax returns filed by the former U.S. subsidiaries have not expired and the Internal Revenue Service ("IRS") may audit these tax returns and may seek to impose additional taxes. OPL received significant tax refunds due to losses incurred by OPCC in the year ended December 31, 2003. As the refunds were in excess of \$2 million, OPCC's tax returns for the years ended December 31, 2003, 2002, 2001 and 2000 are subject to review by the Joint Committee on Taxation of the United States Congress. In addition, the IRS is currently auditing the federal income tax returns for Overseas Partners US Holding Co. ("OPUS Holding") and its subsidiary for the years ended December 31, 2002 and 2003. Although the buyer of OPUS Holding's only subsidiary is generally responsible for any tax assessments arising out of the IRS audit, OPL has provided an indemnification with respect to withholding taxes attributable to distributions made by OPUS Holding to OPL. OPL's management does not believe that any withholding taxes are due relating to these distributions.

The components of income tax (benefit) expense related to earnings for those subsidiaries engaged in business in the United States, as indicated above, were as follows:

(In thousands U.S.\$)	2004	2003	2002
Current:			
Federal	\$(184)	\$(14,931)	\$32,146
State	(785)	(420)	9,715
	(969)	(15,351)	41,861
Deferred:			
Federal	—	—	(9,143)
State	—	(25)	(1,829)
	—	(25)	(10,972)
Income tax (benefit) expense	\$(969)	\$(15,376)	\$30,889

A reconciliation of income tax (benefit) expense provided at the United States Federal statutory rate (35% in 2004, 2003 and 2002) to income tax (benefit) expense follows:

	2004	2003	2002
Income tax expense (benefit) at U.S. Federal statutory rate	\$29,131	\$ 14,175	\$(59,771)
State taxes	(785)	(445)	7,886
Bermuda operations not subject to U.S. taxation	(29,258)	(28,730)	88,932
Other	(57)	(376)	(6,158)
Income tax (benefit) expense	\$ (969)	\$(15,376)	\$ 30,889

OVERSEAS PARTNERS LTD. AND SUBSIDIARIES**Notes to Consolidated Financial Statements****Years Ended December 31, 2004, 2003 and 2002****9. STOCK INCENTIVE PLAN**

Under the 2000 OPL Incentive Compensation Plan (the "Plan") the Company may issue, among others, Restricted Stock Grants ("RSG's"), Incentive Stock Options ("ISO's") and Non-statutory Stock Options ("NQSO's"). Under the plan there were originally 5,000,000 Ordinary Shares of the Company available for issuance. The number of shares currently available for grants reserved for issuance to participants under the Plan at December 31, 2004 was 4,664,378. As a result of OPL's decision to runoff its operations, it is unlikely that any further awards of RSG's, ISO's or NQSO's will be made.

Options under the plan may be exercised for Common Shares of the Company upon vesting. The Options generally vest three years after the award date. Under the plan the Options expire seven years after vesting. Below is a summary of Options activity:

	2004		2003		2002	
	NUMBER OF OPTIONS	AVERAGE EXERCISE PRICE	NUMBER OF OPTIONS	AVERAGE EXERCISE PRICE	NUMBER OF OPTIONS	AVERAGE EXERCISE PRICE
Outstanding balance at January 1	229,521	\$ 14.50	417,729	\$ 14.50	1,474,831	\$ 14.50
Forfeited	(16,000)	\$ 14.50	(188,208)	\$ 14.50	(1,057,102)	\$ 14.50
Outstanding balance at December 31	213,521	\$ 14.50	229,521	\$ 14.50	417,729	\$ 14.50
Options exercisable at December 31	213,521	\$ 14.50	—	—	—	—

At December 31, 2004 the weighted-average remaining contractual life of options outstanding was 6.25 years. As a result of OPL's decision to runoff its operations, it is unlikely that these Stock Options will have any value in the future and therefore it is unlikely that any of these Stock Options will be exercised.

Total stock based compensation expensed for the years ended December 31, 2004, 2003 and 2002 was \$0.0 million, \$0.3 million and \$2.8 million, respectively. The stock based compensation expense related to the RSG's issued to certain Company employees during the year ended December 31, 2001. These grants vested over a three-year period and a compensation expense equal to the fair market value of the RSG's on the date of the grant was amortized over the period that the service was provided.

If the Company had adopted the fair value based method of accounting for options granted in prior years, as per the provisions of SFAS 123, compensation costs would have been determined based on the estimated fair value of the stock options awards at the time of the grant. The effect on net income and earnings per share for the years ended December 31, 2004, 2003 and 2002 would have been immaterial.

OVERSEAS PARTNERS LTD. AND SUBSIDIARIES**Notes to Consolidated Financial Statements
Years Ended December 31, 2004, 2003 and 2002****10. BUSINESS SEGMENTS**

In the past, the Company's operations have been conducted through two segments - reinsurance and real estate and leasing. The reinsurance segment is managed from the Bermuda office and includes the runoff of accident & health, aviation, property, workers' compensation and finite risk business. Previously the reinsurance segment also included the operations of OPUS Re. Real estate and leasing activities were owned and managed through United States subsidiaries of OPCC. During the fourth quarter of 2003 the Company sold its final remaining leased asset and the Company is therefore no longer engaged in the real estate and leasing business. On December 31, 2003 OPCC was dissolved and all remaining assets and liabilities distributed to OPL. There were no inter-segment revenues earned for the years ended December 31, 2004, 2003 and 2002. Inter-segment expenses, such as corporate overhead, were allocated based on estimated utilization for the years ended December 31, 2004, 2003 and 2002.

The accounting policies of the segments are the same as those described in the summary of significant accounting policies. Income before income taxes by segment consists of revenues less expenses related to the respective segment's operations. The reinsurance segment maintains a portfolio of cash and liquid investments to support its reserves for accrued losses and loss expenses and unearned premiums as well as its capital requirements.

Summary financial information about the Company's segments is presented in the following table:

(In thousands U.S.\$)	2004	2003	2002
REVENUES			
Reinsurance:			
Premiums earned	\$ 9,399	\$ 38,126	\$ 220,410
Commission and fee income	1,667	(237)	5,799
Investment income (loss)	35,345	128,327	(161,911)
	46,411	166,216	64,298
Real estate and leasing:			
Rentals	—	3,020	83,837
(Loss) gain on sale of assets	—	(10,198)	139,902
Investment income	—	25,680	48,777
	—	18,502	272,516
Consolidated	\$ —	\$ 184,718	\$ 336,814
NET INCOME (LOSS) FROM CONTINUING OPERATIONS BEFORE TAXES			
Reinsurance	\$ 94,577	\$ 91,243	\$ (253,913)
Real estate and leasing	—	(25,418)	103,315
Other operating expenses	(11,346)	(25,325)	(20,175)
Consolidated	\$ 83,231	\$ 40,500	\$ (170,773)
ASSETS			
Reinsurance:			
Cash and investments	\$ 669,185	\$ 1,525,914	\$ 2,090,679
Other	84,852	662,213	1,081,062
	754,037	2,188,127	3,171,741
Real estate and leasing:			
Cash and investments	—	—	143,145
Other	—	—	43,535
	—	—	186,680
Consolidated	\$ 754,037	\$ 2,188,127	\$ 3,358,421

OVERSEAS PARTNERS LTD. AND SUBSIDIARIES

Notes to Consolidated Financial Statements Years Ended December 31, 2004, 2003 and 2002

10. BUSINESS SEGMENTS (continued)

Substantially all of the Company's long-lived assets, interest expense, depreciation expense and continuing operations income tax expense were related to the Company's real estate and leasing operations. All of the Company's leasing and real estate revenues were generated in the United States. For 2004, 2003 and 2002, all of the Company's long-lived assets were located in the United States.

11. STATUTORY FINANCIAL INFORMATION

OPL's ability to repurchase shares, pay dividends, or make other distributions to shareowners is subject to certain regulatory restrictions including the following:

1. In Bermuda, the Bermuda Insurance Act of 1978, amendments thereto and related Regulations (the "Act") requires OPL and its Bermuda based reinsurance subsidiaries to each maintain a minimum solvency margin determined as the greater of 15% of accrued losses and loss expenses (net of reinsurance recoverables), or a given fraction of net premiums written. At December 31, 2004 the minimum statutory capital and surplus requirements for OPL, OPRé and OPAL were approximately \$1 million, \$24 million and \$120,000, respectively. Each company was in compliance with these requirements for the years ended December 31, 2004 and 2003.
2. The Act also requires OPL and its Bermuda based reinsurance subsidiaries to each maintain a minimum liquidity ratio whereby the value of their relevant assets, (mainly cash, investments, receivables and other liquid assets), are not less than 75% of the amount of their relevant liabilities, (mainly accrued losses and loss expenses, unearned premiums, reinsurance balances payable and other accounts payable). Investments in and advances to subsidiaries are not included in the definition of relevant assets for purposes of this test. OPL, OPRé and OPAL met these requirements for the years ended December 31, 2004 and 2003.
3. As a holding company, a significant proportion of OPL's assets relate to its investments in subsidiaries. As such, OPL's ability to make future distributions is heavily dependent upon it receiving distributions from its subsidiaries. The Act prohibits OPL, OPRé and OPAL from distributing more than 15% of the prior year's statutory capital unless specific approval is obtained from the Bermuda Monetary Authority. In addition to the requirements of the Act the Bermuda Monetary Authority has requested that all distributions from OPL, OPRé and OPAL be pre-approved by themselves. In addition to the regulatory restrictions, each subsidiary needs to consider, inter alia, the potential for future adverse development in the settlement of reinsurance liabilities, ongoing operating expenses and the potential for contingent liabilities, prior to making such distributions. Since going into runoff OPL has made three liquidating distributions to shareowners totaling \$6.50 per share. Distributions of \$237.7 million, \$296.9 million and \$237.5 million were paid on April 9, 2003, January 5, 2004 and August 31, 2004, respectively. All liquidating distributions were pre-approved by the Bermuda Monetary Authority.

12. SUPPLEMENTARY INFORMATION

Reinsurance commissions, taxes and other expenses for 2004, 2003 and 2002 include amortization of acquisition expenses of \$2.6 million, \$7.0 million and \$66.1 million and underwriting and claims related expenses of \$8.9 million, \$11.0 million and \$15.9 million, respectively.

Supplemental disclosures of cash flow information:	2004	2003	2002
Amount of cash paid during the year for:			
U.S. income taxes	\$ —	\$ 3,608	\$ 38,378
Interest	\$ —	\$ 7,488	\$ 28,733
Assignment of debt in partial consideration for sale of fixed assets	\$ —	\$23,383	\$281,304

OVERSEAS PARTNERS LTD. AND SUBSIDIARIES

Notes to Consolidated Financial Statements Years Ended December 31, 2004, 2003 and 2002

13. CONTINGENCIES

On November 19, 1999 and January 27, 2000 OPL was named as a defendant in two class action lawsuits, filed on behalf of customers of UPS, in Montgomery County, Ohio Court and Butler County, Ohio Court, respectively. The lawsuits alleged, among other things, that UPS told its customers that they were purchasing insurance for coverage of loss or damage to goods shipped by UPS. The lawsuits further alleged that UPS wrongfully enriched itself with the monies paid by its customers to purchase such insurance. The November 19, 1999 and January 27, 2000 actions were removed to federal court and thereafter transferred to the United States District Court for the Southern District of New York (the "Court") and consolidated in a multi-district litigation for pretrial discovery purposes with other actions asserting claims against UPS. Plaintiffs subsequently amended those claims against all defendants to join a Racketeer Influenced and Corrupt Organizations ("RICO") claim as well. On August 7, 2000, the Company and its wholly owned subsidiary, OPCC, were added as defendants in a third class action lawsuit, also consolidated in the multi-district litigation, which alleged violations of United States antitrust laws, and state unfair trade practice and consumer protection laws. The allegations in the lawsuits were drawn from an opinion by the United States Tax Court that found that the insurance program, as offered through UPS, by domestic insurance companies, and ultimately reinsured by OPL, should not be recognized for federal income tax purposes. In June 2001, the Tax Court opinion was reversed by the United States Court of Appeals for the Eleventh Circuit.

The Company filed or joined in motions to dismiss all of the consolidated actions on a number of grounds, including that the antitrust claim failed to state a claim upon which relief can be granted, and that the remaining claims were preempted by federal law. In orders dated July 30, 2002, the Court granted in part and denied in part the motions to dismiss. Pursuant to the Court's orders, the claims remaining against the Company were RICO, antitrust, and common law interference with contract claims. On November 8, 2002, the parties presented to the Court a stipulation and proposed order certifying a nationwide class with respect to certain of the claims brought by the plaintiffs, including the RICO and interference with contract claims against the Company. The Court approved the stipulation and proposed order. The stipulation did not certify the antitrust claims brought against the Company.

During October 2003 the parties reached a tentative settlement with respect to all claims brought by the various plaintiffs. The settlement agreement was executed on December 31, 2003 and on July 30, 2004 the Court approved the settlement. The final judgment and order approving the settlement and dismissing the claims with prejudice was entered on August 6, 2004 and the settlement was deemed effective on September 8, 2004. During September 2004 the Company paid \$10 million in connection with the settlement. This amount was accrued in the financial statements during the year ended December 31, 2003.

Certain of OPL's subsidiaries are party to legal proceedings in the investigation and defense of claims arising out of their reinsurance business and / or their former ownership of real estate. OPL's management do not believe that the eventual outcome of any such proceedings will have a material effect on OPL's business.

OVERSEAS PARTNERS LTD. AND SUBSIDIARIES**Notes to Consolidated Financial Statements
Years Ended December 31, 2004, 2003 and 2002****14. UNAUDITED QUARTERLY FINANCIAL DATA****2004**

(In thousands U.S.\$)	FIRST QUARTER	SECOND QUARTER	THIRD QUARTER	FOURTH QUARTER
Reinsurance:				
Net premiums earned	\$ 6,690	\$(2,811)	\$ 5,833	\$(313)
Commission and fee income	(2)	—	1,327	342
Investment income	15,484	889	11,584	7,388
Total revenues	22,172	(1,922)	18,744	7,417
Income from continuing operations before income taxes	18,866	31,655	17,060	15,650
Net income from continuing operations	18,942	31,762	17,060	16,436
Net income (loss) from subsidiary held for sale	442	(24,514)	872	38
Net income (loss)	\$19,384	\$ 7,248	\$17,932	\$16,474
Net income per share from continuing operations	\$ 0.16	\$ 0.27	\$ 0.14	\$ 0.14
Net income (loss) per share from subsidiary held for sale	0.00	(0.21)	0.01	0.00
Basic and diluted net income per share	\$ 0.16	\$ 0.06	\$ 0.15	\$ 0.14

2003

(In thousands U.S.\$)	FIRST QUARTER	SECOND QUARTER	THIRD QUARTER	FOURTH QUARTER
Reinsurance:				
Net premiums earned	\$ 9,458	\$ 4,401	\$ 18,630	\$ 5,637
Commission and fee income	238	7	(410)	(72)
Investment income	7,928	56,254	12,934	51,211
	17,624	60,662	31,154	56,776
Real estate and leasing:				
Rentals	830	825	821	544
Loss on sale of assets	—	—	—	(10,198)
Investment income	1,661	1,479	1,608	20,932
	2,491	2,304	2,429	11,278
Total revenues	20,115	62,966	33,583	68,054
(Loss) income from continuing operations before income taxes	(1,674)	45,595	(18,785)	15,364
Net (loss) income from continuing operations	(2,937)	45,945	(15,694)	28,562
Net (loss) income from subsidiary held for sale	(383)	(9,952)	378	(64)
Net (loss) income	\$(3,320)	\$35,993	\$(15,316)	\$28,498
Net (loss) income per share from continuing operations	\$ (0.02)	\$ 0.38	\$ (0.13)	\$ 0.24
Net (loss) income per share from subsidiary held for sale	0.00	(0.08)	0.00	0.00
Basic and diluted net (loss) income per share	\$ (0.02)	\$ 0.30	\$ (0.13)	\$ 0.24

Directors, Officers, Shareowner Information and Corporate Information

OPL Directors and Officers

OPL's directors and officers direct and manage the affairs of OPL and its subsidiaries. OPL's day-to-day administration is conducted by its staff subject to the direction and oversight of the Board of Directors and officers of the Company.

Board of Directors

Robert J. Clanin
Chairman, Retired UPS Executive 1,2,3,4

Mark R. Bridges
President, Chief Executive Officer & Chief Financial Officer 1

Mark B. Cloutier
President & Chief Executive Officer, OP Re

D. Scott Davis
Chief Financial Officer, UPS 1,2,3

Joseph M. Pyne
Retired UPS Executive 4

Cyril E. Rance, M.B.E.
Retired Insurance Executive 2,3,4

1 = Executive Committee 2 = Nominating Committee
3 = Compensation Committee 4 = Audit Committee

Officers

Mark R. Bridges
President, Chief Executive Officer & Chief
Financial Officer

Mark B. Cloutier
President & Chief Executive Officer, OP Re

Philip Birkby
VP, Cedant Management

Lynda Davidson-Leader
SVP, Operations & Investor Relations

Chris Fleming
VP, Chief Accounting Officer

Shareowner Information

OPL's Common Stock is not listed on a securities exchange and is not traded in the organized over-the-counter markets. OPL shares have been historically purchased primarily by employees of OPL and UPS with cash realized from compensation awards and from direct purchases by such employees. OPL Common Stock is currently held by approximately 98,000 shareowners primarily located in the United States.

Shareowner Services

If you have any questions regarding your OPL Common Stock or have a change of address, please contact:

Wachovia Bank

Employee Shareholder Services

Corporate Trust Department

P.O. Box 41784, 123 South Broad Street

Philadelphia, PA 19101-1784

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Please visit our website at www.overseaspartners.com to view our latest financial information, shareowner letters and SEC filings.