PXRE GROUP LTD
Form 10-Q
July 29, 2005

# SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

## FORM 10-Q

[ √ ] **QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15 (d) OF THE SECURITIES EXCHANGE ACT OF 1934**

**For the quarterly period ended June 30, 2005**

**OR**

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

For the transition period from ________________to ______________

**Commission File Number 1-15259**

# PXRE GROUP LTD.

**(Exact name of registrant as specified in its charter)**

| | |
|---|---|
| **Bermuda**<br>**(State or other jurisdiction of incorporation or organization)** | **98-0214719**<br>**(IRS Employer Identification Number)** |
| **PXRE House**<br>**110 Pitts Bay Road**<br>**Pembroke HM08**<br>**Bermuda**<br>**(Address, including zip code, of principal executive offices)** | **P.O. Box HM 1282**<br>**Hamilton HM FX**<br>**Bermuda**<br>**(Mailing address)** |

**(441) 296-5858**

**(Registrant's telephone number, including area code)**

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes _√_ No___

Indicate by check mark whether the Registrant is an accelerated filer (as defined in Rule 12b-2 of the Exchange Act). Yes _√_ No___

As of July 26, 2005, 28,826,605 common shares, $1.00 par value per share, of the Registrant were outstanding.

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**PXRE GROUP LTD.**

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***PXRE Group Ltd.***

## Consolidated Balance Sheets

(Dollars in thousands, except par value per share)

| | | June 30, 2005 | December 31, 2004 |
|---|---|---|---|
| | | (Unaudited) | |
| ***Assets*** | Investments: | | |
| | Fixed maturities: | | |
| | Available-for-sale (amortized cost $882,055 and $705,204, respectively) | $ 877,601 | $ 701,798 |
| | Trading (cost $28,134 and $13,725, respectively) | 27,456 | 15,483 |
| | Short-term investments | 170,776 | 296,318 |
| | Hedge funds (cost $130,377 and $86,549, respectively) | 140,260 | 129,118 |
| | Other invested assets (cost $4,730 and $5,663, respectively) | 5,210 | 6,823 |
| | Total investments | 1,221,303 | 1,149,540 |
| | Cash | 16,369 | 15,668 |
| | Accrued investment income | 7,850 | 8,054 |
| | Premiums receivable, net | 90,926 | 93,116 |
| | Other receivables | 29,563 | 35,315 |
| | Reinsurance recoverable on paid losses | 7,228 | 8,003 |
| | Reinsurance recoverable on unpaid losses | 55,599 | 61,215 |
| | Ceded unearned premiums | 3,272 | 3,500 |
| | Deferred acquisition costs | 5,230 | 1,745 |
| | Income tax recoverable | 14,012 | 31,594 |
| | Other assets | 47,093 | 46,666 |
| | Total assets | $ 1,498,445 | $ 1,454,416 |
| ***Liabilities*** | Losses and loss expenses | $ 418,756 | $ 460,084 |
| | Unearned premiums | 29,929 | 15,952 |
| | Subordinated debt | 167,078 | 167,075 |
| | Reinsurance balances payable | 13,147 | 10,937 |
| | Deposit liabilities | 73,074 | 72,143 |
| | Payable for securities | 1,527 |  |
| | Other liabilities | 31,467 | 31,670 |
| | Total liabilities | 734,978 | 757,861 |
| ***Shareholders' Equity*** | Serial convertible preferred shares, $1.00 par value, $10,000 stated value  10 million shares authorized, 0.01 million and 0.02 million shares issued and outstanding, respectively | 63,371 | 163,871 |
| | Common shares, $1.00 par value  50 million shares authorized, 28.8 million and 20.5 million shares issued and outstanding, respectively | 28,813 | 20,469 |

| | | |
|---|---|---|
| Additional paid-in capital | 437,198 | 329,730 |
| Accumulated other comprehensive income net of deferred income tax benefit of $(1,085) and $(1,616), respectively | (6,202) | (4,855) |
| Retained earnings | 251,014 | 194,081 |
| Restricted shares at cost (0.5 million and 0.4 million shares, respectively) | (10,727) | (6,741) |
| Total shareholders equity | 763,467 | 696,555 |
| Total liabilities and shareholders’ equity | $ 1,498,445 | $ 1,454,416 |

The accompanying notes are an integral part of these statements.

***PXRE Group Ltd.***

## Consolidated Statements of Income and Comprehensive Income

(Dollars in thousands, except per share amounts)

| | | Three Months Ended June 30, | | Six Months Ended June 30, | |
|---|---|---|---|---|---|
| | | **2005** | **2004** | **2005** | **2004** |
| | | (Unaudited) | | | |
| ***Revenues*** | Net premiums earned | $ 83,420 | $ 69,565 | $ 162,854 | $ 138,517 |
| | Net investment income | 6,681 | 4,915 | 17,123 | 11,784 |
| | Net realized investment (losses) gains | (225) | (38) | (332) | 51 |
| | Fee income | 206 | 262 | 417 | 861 |
| | | 90,082 | 74,704 | 180,062 | 151,213 |
| ***Losses and Expenses*** | Losses and loss expenses incurred | 25,125 | 18,077 | 69,563 | 36,216 |
| | Commission and brokerage | 9,789 | 10,214 | 19,067 | 19,386 |
| | Operating expenses | 10,471 | 9,868 | 19,848 | 22,488 |
| | Foreign exchange (gains) losses | (1,414) | 94 | (816) | 360 |
| | Interest expense | 3,612 | 3,455 | 7,222 | 7,130 |
| | | 47,583 | 41,708 | 114,884 | 85,580 |
| | Income before income taxes, cumulative effect of accounting change and convertible preferred share dividends | 42,499 | 32,996 | 65,178 | 65,633 |
| | Income tax (benefit) provision | (1,008) | 660 | (1,072) | 1,313 |
| | Income before cumulative effect of accounting change and convertible preferred share dividends | 43,507 | 32,336 | 66,250 | 64,320 |
| | Cumulative effect of accounting change, net of $0.2 million tax benefit | — | — | — | (1,053) |
| | Net income before convertible preferred share dividends | $ 43,507 | $ 32,336 | $ 66,250 | $ 63,267 |
| | Convertible preferred share dividends | 1,268 | 3,513 | 4,637 | 6,956 |
| | Net income available to common shareholders | $ 42,239 | $ 28,823 | $ 61,613 | $ 56,311 |
| ***Comprehensive*** | Net income before convertible preferred share dividends | $ 43,507 | $ 32,336 | $ 66,250 | $ 63,267 |

| | | | | | |
|---|---|---|---|---|---|
| ***Income, Net of Tax*** | Net change in unrealized appreciation (depreciation) on investments | 5,783 | (15,107) | (1,564) | (9,550) |
| | Reclassification adjustments for losses included in net income | 161 | 219 | 217 | 185 |
| | Comprehensive income | $ 49,451 | $ 17,448 | $ 64,903 | $ 53,902 |
| ***Per Share*** | Basic: | | | | |
| | Income before cumulative effect of accounting change and convertible preferred share dividends | $ 1.54 | $ 2.34 | $ 2.73 | $ 4.72 |
| | Cumulative effect of accounting change | — | — | — | (0.08) |
| | Convertible preferred share dividends | (0.04) | (0.25) | (0.19) | (0.51) |
| | Net income available to common shareholders | $ 1.50 | $ 2.09 | $ 2.54 | $ 4.13 |
| | Average shares outstanding (000’s) | 28,179 | 13,822 | 24,236 | 13,632 |
| | Diluted: | | | | |
| | Net income before cumulative effect of accounting change | $ 1.30 | $ 1.20 | $ 2.00 | $ 2.41 |
| | Cumulative effect of accounting change | — | — | — | (0.04) |
| | Net income | $ 1.30 | $ 1.20 | $ 2.00 | $ 2.37 |
| | Average shares outstanding (000’s) | 33,359 | 27,021 | 33,186 | 26,664 |

The accompanying notes are an integral part of these statements.

***PXRE Group Ltd.***

## Consolidated Statements of Shareholders' Equity

(Dollars in thousands)

| | | Three Months Ended June 30, | | Six Months Ended June 30, | |
|---|---|---|---|---|---|
| | | 2005 | 2004 | 2005 | 2004 |
| | | (Unaudited) | | | |
| ***Convertible Preferred Shares*** | Balance at beginning of period | $ 63,371 | $ 175,634 | $ 163,871 | $ 172,190 |
| | Conversion of convertible preferred shares | — | — | (103,869) | — |
| | Dividends to convertible preferred shareholders | — | 3,513 | 3,369 | 6,957 |
| | Balance at end of period | $ 63,371 | $ 179,147 | $ 63,371 | $ 179,147 |
| ***Common Shares*** | Balance at beginning of period | $ 28,646 | $ 14,101 | $ 20,469 | $ 13,277 |
| | Issuance of common shares, net | 167 | 283 | 8,344 | 1,107 |
| | Balance at end of period | $ 28,813 | $ 14,384 | $ 28,813 | $ 14,384 |
| ***Additional Paid-in Capital*** | Balance at beginning of period | $ 433,811 | $ 209,717 | $ 329,730 | $ 192,078 |
| | Issuance of common shares, net | 3,137 | 4,334 | 106,850 | 21,217 |
| | Tax effect of stock options exercised | 250 | 652 | 618 | 1,408 |
| | Balance at end of period | $ 437,198 | $ 214,703 | $ 437,198 | $ 214,703 |
| ***Accumulated Other Comprehensive Income*** | Balance at beginning of period | $ (12,146) | $ 7,215 | $ (4,855) | $ 1,692 |
| | Change in unrealized gains (losses) | 5,944 | (14,888) | (1,347) | (9,365) |
| | Balance at end of period | $ (6,202) | $ (7,673) | $ (6,202) | $ (7,673) |
| ***Retained Earnings*** | Balance at beginning of period | $ 212,221 | $ 215,322 | $ 194,081 | $ 188,670 |
| | Net income before convertible preferred share dividends | 43,507 | 32,336 | 66,250 | 63,267 |
| | Dividends to convertible preferred shareholders | (1,268) | (3,513) | (4,637) | (6,957) |
| | Dividends to common shareholders | (3,446) | (848) | (4,680) | (1,683) |
| | Balance at end of period | $ 251,014 | $ 243,297 | $ 251,014 | $ 243,297 |
| ***Restricted Shares*** | Balance at beginning of period | $ (11,304) | $ (9,007) | $ (6,741) | $ (3,391) |
| | Issuance of restricted shares | (617) | (370) | (6,069) | (7,336) |
| | Amortization of restricted shares | 1,194 | 723 | 2,083 | 2,073 |

| | | | | | |
|---|---|---|---|---|---|
| | Balance at end of period | $ (10,727) | $ (8,654) | $ (10,727) | $ (8,654) |
| ***Total*** | Balance at beginning of period | $ 714,599 | $ 612,982 | $ 696,555 | $ 564,516 |
| ***Shareholders'*** | Conversion of convertible preferred shares | — | — | (103,869) | — |
| ***Equity*** | Issuance of common shares, net | 3,304 | 4,618 | 115,194 | 22,325 |
| | Restricted shares, net | 577 | 352 | (3,986) | (5,264) |
| | Unrealized appreciation (depreciation) on investments, net of deferred income tax | 5,944 | (14,888) | (1,347) | (9,365) |
| | Net income before convertible preferred share dividends | 43,507 | 32,336 | 66,250 | 63,267 |
| | Dividends to preferred shareholders | (1,268) | — | (1,268) | — |
| | Dividends to common shareholders | (3,446) | (848) | (4,680) | (1,683) |
| | Tax effect of stock options exercised | 250 | 652 | 618 | 1,408 |
| | Balance at end of period | $ 763,467 | $ 635,204 | $ 763,467 | $ 635,204 |

The accompanying notes are an integral part of these statements.

***PXRE Group Ltd.***

## Consolidated Statements of Cash Flows

(Dollars in thousands)

| | | Three Months Ended June 30, | | Six Months Ended June 30, | |
|---|---|---|---|---|---|
| | | 2005 | 2004 | 2005 | 2004 |
| | | (Unaudited) | | | |
| ***Cash Flow from Operating Activities*** | Premiums collected, net of reinsurance | $ 71,568 | $ 50,659 | $ 181,459 | $ 142,375 |
| | Loss and loss adjustment expenses paid, net of reinsurance | (58,164) | (17,288) | (104,500) | (37,793) |
| | Commission and brokerage received (paid), net of fee income | 4,241 | (18,171) | (14,463) | (25,702) |
| | Operating expenses paid | (6,593) | (8,597) | (17,538) | (21,693) |
| | Net investment income received | 9,929 | 6,373 | 17,232 | 9,281 |
| | Interest paid | (1,371) | (1,572) | (7,165) | (7,368) |
| | Income taxes recovered (paid) | 11,283 | (4,709) | 18,469 | (5,961) |
| | Trading portfolio purchased | (13) | — | (14,409) | — |
| | Deposit received (paid) | 3,983 | (3,043) | 931 | (7,818) |
| | Other | (927) | 11,129 | (984) | (1,294) |
| | Net cash provided by operating activities | 33,936 | 14,781 | 59,032 | 44,027 |
| ***Cash Flow from Investing Activities*** | Fixed maturities available for sale purchased | (107,034) | (42,108) | (295,024) | (217,057) |
| | Fixed maturities available for sale disposed or matured | 59,108 | 136,250 | 115,654 | 238,720 |
| | Hedge funds purchased | (9,536) | (5,000) | (114,888) | (5,000) |
| | Hedge funds disposed | 9,698 | 1,005 | 108,503 | 6,033 |
| | Other invested assets disposed | 25 | 1,767 | 1,392 | 2,658 |
| | Net change in short-term investments | 15,061 | (100,729) | 125,542 | (121,321) |
| | Receivable for securities | 11,516 | (5,297) | (344) | (5,273) |
| | Payable for securities | (20,389) | — | 1,527 | (18) |
| | Net cash used by investing activities | (41,551) | (14,112) | (57,638) | (101,258) |
| ***Cash Flow from Financing Activities*** | Proceeds from issuance of common shares | 2,693 | 4,360 | 5,822 | 15,742 |
| | Cash dividends paid to common shareholders | (3,446) | (848) | (4,680) | (1,683) |
| | Cash dividends paid to preferred shareholders | (1,268) | — | (1,268) | — |
| | Cost of shares repurchased | (6) | (263) | (567) | (906) |
| | Net cash (used) provided by financing activities | (2,027) | 3,249 | (693) | 13,153 |

| | | | | |
|---|---|---|---|---|
| Net change in cash | (9,642) | 3,918 | 701 | (44,078) |
| Cash, beginning of period | 26,011 | 17,812 | 15,668 | 65,808 |
| Cash, end of period | $ 16,369 | $ 21,730 | $ 16,369 | $ 21,730 |
| **Reconciliation of net income to net cash provided by operating activities:** | | | | |
| Net income before convertible preferred share dividends | $ 43,507 | $ 32,336 | $ 66,250 | $ 63,267 |
| Adjustments to reconcile net income to net cash provided by operating activities: | | | | |
| Losses and loss expenses | (41,809) | (8,211) | (41,328) | (22,166) |
| Unearned premiums | (19,967) | (18,528) | 14,205 | 2,044 |
| Deferred acquisition costs | 1,567 | 337 | (3,485) | 303 |
| Receivables | 20,922 | (5,345) | 8,286 | 2,316 |
| Reinsurance balances payable | (1,755) | (5,789) | 2,210 | (10,689) |
| Reinsurance recoverable | 8,770 | 8,998 | 6,391 | 20,588 |
| Income taxes | 10,549 | (4,037) | 17,670 | (4,647) |
| Equity in earnings of limited partnerships | (135) | (1,261) | (4,538) | (4,685) |
| Trading portfolio purchased | (13) | — | (14,409) | — |
| Deposit liability | 3,983 | (3,043) | 931 | (7,818) |
| Other | 8,317 | 19,324 | 6,849 | 5,514 |
| Net cash provided by operating activities | $ 33,936 | $ 14,781 | $ 59,032 | $ 44,027 |

The accompanying notes are an integral part of these statements.

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**PXRE Group Ltd. Notes to Consolidated Financial Statements (Unaudited)**

**1. Organization**

PXRE Group Ltd. (the “Company” or collectively with its subsidiaries, “PXRE”) is an insurance holding company organized in Bermuda. PXRE provides reinsurance products and services to a worldwide marketplace through its wholly-owned subsidiary operations located in Bermuda, Europe and the United States. PXRE’s primary focus is providing property catastrophe reinsurance and retrocessional coverage. PXRE also provides marine, aviation and aerospace products and services.

**2. Significant Accounting Policies**

Basis of Presentation and Consolidation

The consolidated financial statements have been prepared in U.S. dollars in conformity with U.S. generally accepted accounting principles (“GAAP”). These statements reflect the consolidated operations of the Company and its wholly-owned subsidiaries, including PXRE Reinsurance Ltd. (“PXRE Bermuda”), PXRE Reinsurance (Barbados) Ltd. (“PXRE Barbados”), PXRE Corporation (“PXRE Delaware”), PXRE Reinsurance Company (“PXRE Reinsurance”), PXRE Solutions, Inc., PXRE Solutions, S.A. (“PXRE Europe”), PXRE Limited and PXRE Holding (Ireland) Limited (“PXRE Ireland”). All material inter-company transactions have been eliminated in preparing these consolidated financial statements.

GAAP requires management to make estimates and assumptions that affect the (i) reported amounts of assets and liabilities; (ii) disclosure of contingent assets and liabilities at the date of the financial statements; and (iii) the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

The interim consolidated financial statements are unaudited. In the opinion of management, such consolidated financial statements include all adjustments, consisting only of normal recurring adjustments, necessary for a fair statement of the results for the interim periods. These interim statements should be read in conjunction with the 2004 consolidated financial statements and related notes. The preparation of interim consolidated financial statements relies significantly upon estimates. Use of such estimates and the seasonal nature of the reinsurance business necessitate caution in drawing specific conclusions from interim results.

Certain reclassifications have been made for 2004 to conform to the 2005 presentation.

Share-Based Compensation

At June 30, 2005, PXRE has share option plans, which are accounted for under the recognition and measurement principles of the Accounting Principles Board Opinion No. 25, “Accounting for Stock Issued to Employees”, and related Interpretations. No share-based compensation cost related to the options granted under the plans is reflected in net income, as the options granted had an exercise price equal to the market value of the underlying common shares on the date of grant. The following table illustrates the effect on net income and earnings per share if PXRE had applied the fair value recognition provisions of the Financial Accounting Standards Board (“FASB”) Statement of Financial Accounting Standards (“SFAS”) No. 123, “Accounting for Stock-Based Compensation” to share-based employee compensation.

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**PXRE Group Ltd. Notes to Consolidated Financial Statements (Unaudited)**

| ($000's, except per share data) | Three Months Ended June 30, | | Six Months Ended June 30, | |
|---|---|---|---|---|
| | **2005** | **2004** | **2005** | **2004** |
| Net income before convertible preferred share dividends: | | | | |
| As reported | $ 43,507 | $ 32,336 | $ 66,250 | $ 63,267 |
| Deduct: | | | | |
| Total share-based compensation expense determined under fair value based method, net of related tax effects | (357) | (363) | (614) | (1,333) |
| Pro-forma | $ 43,150 | $ 31,973 | $ 65,636 | $ 61,934 |
| Basic income per share: | | | | |
| As reported | $ 1.50 | $ 2.09 | $ 2.54 | $ 4.13 |
| Pro-forma | $ 1.49 | $ 2.06 | $ 2.52 | $ 4.03 |
| Diluted income per share: | | | | |
| As reported | $ 1.30 | $ 1.20 | $ 2.00 | $ 2.37 |
| Pro-forma | $ 1.29 | $ 1.18 | $ 1.98 | $ 2.32 |

Consolidation of Variable Interest Entities

In December 2003, the FASB issued FASB Interpretation No. 46 (revised December 2003), "Consolidation of Variable Interest Entities" ("FIN 46R"), which requires consolidation of all "Variable Interest Entities" ("VIEs") by the "primary beneficiary," as these terms are defined in FIN 46R. The adoption of this statement, during the quarter ended March 31, 2004, resulted in PXRE deconsolidating the five special purpose trusts which issued PXRE's trust preferred securities. As a result, the subordinated loans from the trusts are reflected as liabilities under the caption "Subordinated debt" on PXRE's June 30, 2005 Consolidated Balance Sheet, while PXRE's minority investments of approximately $5.2 million in such trusts in the form of equity, which prior to March 31, 2004 were eliminated on consolidation, are reflected as assets under the caption "Other assets" with a corresponding increase in liabilities under the caption "Subordinated debt." FIN 46 did not permit these changes be made retroactively. In addition, gains on the repurchase of $5.2 million of PXRE's trust preferred securities in prior periods of $1.1 million, net of tax, that were previously accounted for as extinguishments of debt, were reversed in the quarter ended March 31, 2004 and presented as a cumulative effect of an accounting change in the Company's Consolidated Statement of Income and Comprehensive Income during 2004. These repurchased securities are reflected in PXRE's June 30, 2005 Consolidated Balance Sheet under the caption "Fixed maturities: Available-for-sale."

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**PXRE Group Ltd. Notes to Consolidated Financial Statements (Unaudited)**

### 3. Underwriting

Premiums written and earned for the three and six months ended June 30, 2005 and 2004 are as follows:

| ($000's) | Three Months Ended June 30, 2005 | Three Months Ended June 30, 2004 | % Increase (Decrease) | Six Months Ended June 30, 2005 | Six Months Ended June 30, 2004 | % Increase (Decrease) |
|---|---|---|---|---|---|---|
| Premiums written | | | | | | |
| Gross premiums written | $ 66,863 | $ 52,914 | 26 | $ 191,563 | $ 160,317 | 19 |
| Ceded premiums written | (3,409) | (1,690) | 102 | (14,503) | (19,381) | (25) |
| Net premiums written | $ 63,454 | $ 51,224 | 24 | $ 177,060 | $ 140,936 | 26 |
| Premiums earned | | | | | | |
| Gross premiums earned | $ 90,431 | $ 80,078 | 13 | $ 177,585 | $ 162,234 | 9 |
| Ceded premiums earned | (7,011) | (10,513) | (33) | (14,731) | (23,717) | (38) |
| Net premiums earned | $ 83,420 | $ 69,565 | 20 | $ 162,854 | $ 138,517 | 18 |

PXRE purchases catastrophe retrocessional coverage for its own protection, depending on market conditions. PXRE purchases reinsurance primarily to reduce its exposure to severe losses related to any one event or catastrophe. PXRE currently has reinsurance treaties in place with several different coverages, territories, limits and retentions that serve to reduce a large gross loss emanating from any one event. In addition, primarily related to PXRE's exposure assumed on per-risk treaties, PXRE purchases clash reinsurance protection which allows PXRE to recover losses ceded by more than one reinsured related to any one particular property. In the event that retrocessionaires are unable to meet their contractual obligations, PXRE would remain liable for the underlying covered claims.

### 4. Investments

The following table summarizes investments with unrealized losses at fair value by length of continuous unrealized loss position as of June 30, 2005:

| ($000's) | One Year or Less Fair Value | One Year or Less Unrealized Loss | Over One Year Fair Value | Over One Year Unrealized Loss |
|---|---|---|---|---|
| United States government securities | $ 65,941 | $ (771) | $ 938 | $ (26) |
| United States government sponsored agency debentures | 102,871 | (839) | 22,937 | (612) |
| United States government sponsored agency mortgage-backed securities | 115,421 | (775) | 5,954 | (162) |
| Other mortgage and asset-backed securities | 85,529 | (1,009) | 50,051 | (1,489) |
| Obligations of states and political subdivisions | 491 | (8) | 726 | (10) |
| Corporate securities | 118,666 | (1,010) | 130,221 | (3,581) |

| | | | | |
|---|---|---|---|---|
| Total temporarily impaired securities | $ 488,919 | $ (4,412) | $ 210,827 | $ (5,880) |

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**PXRE Group Ltd. Notes to Consolidated Financial Statements (Unaudited)**

## 5. Earnings Per Share

Reconciliations of income before cumulative effect of accounting change to earnings and shares, which affect basic and diluted earnings per share, are as follows:

| | Three Months Ended June 30, | | Six Months Ended June 30, | |
|---|---|---|---|---|
| **($000's, except per share data)** | **2005** | **2004** | **2005** | **2004** |
| Net income available to common shareholders: | | | | |
| Income before cumulative effect of accounting change and convertible preferred share dividends | $ 43,507 | $ 32,336 | $ 66,250 | $ 64,320 |
| Cumulative effect of accounting change, net of tax |  |  |  | (1,053) |
| Net income before convertible preferred share dividends | 43,507 | 32,336 | 66,250 | 63,267 |
| Convertible preferred share dividends | (1,268) | (3,513) | (4,637) | (6,956) |
| Net income available to common shareholders | $ 42,239 | $ 28,823 | $ 61,613 | $ 56,311 |
| Weighted average common shares outstanding: | | | | |
| Weighted average common shares outstanding (basic) | 28,179 | 13,822 | 24,236 | 13,632 |
| Equivalent shares of underlying options | 263 | 394 | 319 | 471 |
| Equivalent number of restricted shares | 141 | 142 | 110 | 116 |
| Equivalent number of convertible preferred shares | 4,776 | 12,663 | 8,521 | 12,445 |
| Weighted average common equivalent shares (diluted) | 33,359 | 27,021 | 33,186 | 26,664 |
| Per share amounts: | | | | |
| Basic: | | | | |
| Income before cumulative effect of accounting change and convertible preferred share dividends | $ 1.54 | $ 2.34 | $ 2.73 | $ 4.72 |
| Cumulative effect of accounting change |  |  |  | (0.08) |
| Convertible preferred share dividends | (0.04) | (0.25) | (0.19) | (0.51) |
| Net income available to common shareholders | $ 1.50 | $ 2.09 | $ 2.54 | $ 4.13 |
| Diluted: | | | | |
| Net income before cumulative effect of accounting change | $ 1.30 | $ 1.20 | $ 2.00 | $ 2.41 |
| Cumulative effect of accounting change |  |  |  | (0.04) |
| Net income | $ 1.30 | $ 1.20 | $ 2.00 | $ 2.37 |

## 6. Income Taxes

The Company is incorporated under the laws of Bermuda and, under current Bermuda law, is not obligated to pay any taxes in Bermuda based upon income or capital gains. The Company has received an undertaking from the Supervisor of Insurance in Bermuda pursuant to the provisions of the Exempted Undertakings Tax Protection Act, 1966, which exempts the Company from any Bermuda taxes computed on profits, income or any capital asset, gain or appreciation, or any tax in the nature of estate duty or inheritance tax, at least until the year 2016.

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The Company does not consider itself to be engaged in a trade or business in the United States and, accordingly, does not expect to be subject to direct United States income taxation.

The United States subsidiaries of the Company file a consolidated U.S. federal income tax return.

### 7. Shareholders' Equity

As of June 30, 2005, the Company had the following equity securities outstanding: (i) 21.3 million common shares, (ii) 7.6 million convertible voting common shares, and (iii) 6,337 convertible preferred shares.

On March 31, 2005, 5,840.6 Series A1 convertible voting preferred shares, 3,143.6 Series B1 convertible voting preferred shares and 1,393.6 Series C1 convertible voting preferred shares were mandatorily converted into 4.4 million class A convertible voting common shares, 2.4 million class B convertible voting common shares and 1.0 million class C convertible voting common shares, respectively. The conversion was effected based upon a conversion price of $13.27, which conversion price was agreed between the Company and holders of the Company's convertible voting preferred shares pursuant to a letter agreement dated as of March 31, 2005. All the remaining convertible preferred shares mandatorily convert by April 4, 2008.

Each convertible voting common share converts into 1 common share upon sale to a third party.

The convertible preferred shares accrue cumulative dividends per share at the rate per annum of 8% of the sum of the stated value of each share plus any accrued and unpaid dividend thereon payable on a quarterly basis. Commencing in the second quarter of 2005, the dividends paid on such convertible voting preferred shares are paid in cash, rather than in additional convertible voting preferred shares.

Convertible preferred shares are convertible into convertible common shares at the option of the holder at any time at a conversion price equal to the original conversion price of $15.69, subject to adjustment if PXRE experiences adverse development in excess of a $7.0 million after-tax threshold. The number of convertible common shares issued upon the conversion of each convertible preferred share would be equal to the sum of the original purchase price ($10,000) of such convertible preferred share plus accrued but unpaid dividends divided by the adjusted conversion price. Certain adverse development, excluding that related to most of the non-finite adverse development on loss reserves within the exited lines segment and all of the losses arising from the events of September 11, 2001, is subject to a cap of $12.0 million after-tax. Adverse development on the reserves excluded is not subject to any cap or limit. As of June 30, 2005, after giving effect to the $12.0 million cap referred to above, PXRE has incurred $36.2 million of net after-tax adverse development above this $7.0 million threshold, resulting in an adjusted conversion price of $13.26.

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### 8. Segment Information

PXRE operates in two reportable property and casualty segments  (i) catastrophe and risk excess and (ii) exited lines  based on PXRE’s approach to managing the business. The exited lines segment includes business previously written and classified by the Company as direct casualty, Lloyd’s of London (“Lloyd’s”), international casualty and finite. In addition, PXRE operates in two geographic segments  North American, representing North American based risks written by North American based clients, and International (principally the United Kingdom, Continental Europe, Latin America, the Caribbean, Australia and Asia), representing all other premiums written.

There are no significant differences among the accounting policies of the segments as compared to PXRE’s consolidated financial statements.

PXRE does not maintain separate balance sheet data for each of its operating segments, nor does it allocate net investment income, net realized investment gains or losses, operating expenses, foreign exchange gains or losses and interest expense to these segments. Accordingly, PXRE does not review and evaluate the financial results of its operating segments based upon balance sheet data and these other income statement items.

The following tables summarize the net premiums written, net premiums earned and underwriting income (loss) by PXRE’s business segments. The amounts shown for the North American and International geographic segments are presented net of proportional reinsurance but gross of corporate catastrophe excess of loss reinsurance cessions, which are separately disclosed where applicable.

**Net Premiums Written**

| | Three Months Ended June 30, | | Six Months Ended June 30, | |
|---|---|---|---|---|
| **($000’s)** | **2005** | **2004** | **2005** | **2004** |
| Catastrophe and Risk Excess | | | | |
| International | $ 44,633 | $ 30,654 | $ 133,946 | $ 113,840 |
| North American | 21,326 | 18,084 | 55,500 | 38,761 |
| Excess of Loss Cessions | (2,548) | (257) | (11,725) | (15,278) |
| | 63,411 | 48,481 | 177,721 | 137,323 |
| Exited Lines | | | | |
| International | 46 | (2) | 68 | 62 |
| North American | (3) | 2,745 | (729) | 3,551 |
| | 43 | 2,743 | (661) | 3,613 |
| Total | $ 63,454 | $ 51,224 | $ 177,060 | $ 140,936 |

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**PXRE Group Ltd. Notes to Consolidated Financial Statements (Unaudited)**

**Net Premiums Earned**

| ($000's) | Three Months Ended June 30, 2005 | Three Months Ended June 30, 2004 | Six Months Ended June 30, 2005 | Six Months Ended June 30, 2004 |
|---|---|---|---|---|
| Catastrophe and Risk Excess | | | | |
| International | $ 63,721 | $ 53,281 | $ 128,649 | $ 111,118 |
| North American | 25,310 | 21,553 | 46,962 | 39,741 |
| Excess of Loss Cessions | (5,660) | (8,647) | (12,099) | (18,477) |
| | 83,371 | 66,187 | 163,512 | 132,382 |
| Exited Lines | | | | |
| International | 47 | (2) | 71 | 63 |
| North American | 2 | 3,380 | (729) | 6,072 |
| | 49 | 3,378 | (658) | 6,135 |
| Total | $ 83,420 | $ 69,565 | $ 162,854 | $ 138,517 |

Underwriting income (loss) includes net premiums earned, losses and loss expenses incurred and commission and brokerage, net of fee income, but does not include net investment income, net realized investment gains or losses, operating expenses, foreign exchange gains or losses, or interest expense.

**Underwriting Income (Loss)**

| ($000's) | Three Months Ended June 30, 2005 | Three Months Ended June 30, 2004 | Six Months Ended June 30, 2005 | Six Months Ended June 30, 2004 |
|---|---|---|---|---|
| Catastrophe and Risk Excess | | | | |
| International | $ 38,302 | $ 36,890 | $ 49,244 | $ 73,400 |
| North American | 18,002 | 15,999 | 34,680 | 30,996 |
| Excess of Loss Cessions | (6,218) | (9,661) | (7,719) | (19,132) |
| | 50,086 | 43,228 | 76,205 | 85,264 |
| Exited Lines | | | | |
| International | (222) | 2,397 | 1,888 | 4,812 |
| North American | (1,152) | (4,089) | (3,452) | (6,300) |
| | (1,374) | (1,692) | (1,564) | (1,488) |

| | | | | |
|---|---|---|---|---|
| Total | $ 48,712 | $ 41,536 | $ 74,641 | $ 83,776 |

The following table reconciles the net underwriting income for the operating segments to income before income taxes, cumulative effect of accounting change and convertible preferred share dividends as reported in the Consolidated Statements of Income and Comprehensive Income.

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| ($000's) | Three Months Ended June 30, 2005 | Three Months Ended June 30, 2004 | Six Months Ended June 30, 2005 | Six Months Ended June 30, 2004 |
|---|---|---|---|---|
| Net underwriting income | $ 48,712 | $ 41,536 | $ 74,641 | $ 83,776 |
| Net investment income | 6,681 | 4,915 | 17,123 | 11,784 |
| Net realized investment (losses) gains | (225) | (38) | (332) | 51 |
| Operating expenses | (10,471) | (9,868) | (19,848) | (22,488) |
| Foreign exchange gains (losses) | 1,414 | (94) | 816 | (360) |
| Interest expense | (3,612) | (3,455) | (7,222) | (7,130) |
| Income before income taxes, cumulative effect of accounting change and convertible preferred share dividends | $ 42,499 | $ 32,996 | $ 65,178 | $ 65,633 |

## 9. Subordinated Debt

The Company has issued subordinated debt securities to separate special purpose trusts, which, in turn, issued trust preferred securities. The subordinated debt securities are as follows:

| ($000's) | June 30, 2005 | December 31, 2004 |
|---|---|---|
| 8.85% fixed rate due February 1, 2027 | $ 102,643 | $ 102,640 |
| 7.35% fixed/floating rate due May 15, 2033 | 18,042 | 18,042 |
| 9.75% fixed rate due May 23, 2033 | 15,464 | 15,464 |
| 7.70% fixed/floating rate due October 29, 2033 | 20,619 | 20,619 |
| 7.58% fixed/floating rate due September 30, 2033 | 10,310 | 10,310 |
| | $ 167,078 | $ 167,075 |

The 8.85% fixed rate subordinated debt securities pay interest semi-annually and are redeemable by PXRE from February 1, 2007 at 104.180% declining to 100.418% at February 1, 2016, and at par thereafter.

The 7.35% fixed/floating rate subordinated debt securities initially pay interest quarterly at a fixed rate of 7.35% through May 2008 and then at a floating rate of 3 month LIBOR plus 4.1% reset quarterly thereafter, and are redeemable by PXRE at par on or after May 15, 2008.

The 9.75% fixed rate subordinated debt securities pay interest quarterly and are redeemable by PXRE from May 23, 2008 at 104.875% declining to 100.975% at May 23, 2013, and at par thereafter.

The 7.70% fixed/floating rate subordinated debt securities initially pay interest quarterly at a rate of 7.70% through October 2008 and then at a floating rate of 3 month LIBOR plus 3.85% reset quarterly thereafter, and are redeemable by PXRE at par on or after October 29, 2008.

The 7.58% fixed/floating rate subordinated debt initially pay interest quarterly at a rate of 7.58% through September 2008 and then at a floating rate of 3 month LIBOR plus 3.90% reset quarterly thereafter, and are redeemable by PXRE at par on or after September 30, 2008.

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PXRE has the option to defer interest payments on the subordinated debt securities and redeem them earlier than the due dates, subject to limits and penalties as set out in the relevant indentures.

### 10. Employee Benefits

The qualified and non-qualified defined benefit pension plans were curtailed effective March 31, 2004 and employees no longer accrue additional benefits thereunder.

The components of net pension expense for these company-sponsored plans are as follows:

| ($000's) | Three Months Ended June 30, | | Six Months Ended June 30, | |
|---|---|---|---|---|
| | **2005** | **2004** | **2005** | **2004** |
| **Components of net periodic cost:** | | | | |
| Service cost | $ — | $ — | $ — | $ 303 |
| Interest cost | 78 | 93 | 157 | 229 |
| Expected return on assets | (70) | (109) | (141) | (212) |
| Amortization of prior service costs | — | — | — | 68 |
| Recognized net actuarial costs | 34 | — | 69 | — |
| Curtailment | — | — | — | (486) |
| Net periodic benefit cost (benefit) | $ 42 | $ (16) | $ 85 | $ (98) |

During the six months ended June 30, 2005, the Company made no contributions to its pension plans and expects no significant contributions during 2005.

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## Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations

### General

Unless the context otherwise requires, references in this Form 10-Q to the "Company" refer to PXRE Group Ltd. a Bermuda holding company, while "PXRE", "we", "us" and "our" include PXRE Group Ltd. and its subsidiaries, which principally include PXRE Reinsurance Ltd. ("PXRE Bermuda"), PXRE Reinsurance (Barbados) Ltd. ("PXRE Barbados"), PXRE Corporation ("PXRE Delaware"), PXRE Reinsurance Company ("PXRE Reinsurance"), PXRE Solutions Inc. ("PXRE Solutions"), PXRE Solutions, S.A. ("PXRE Europe"), PXRE Limited and PXRE Holding (Ireland) Limited ("PXRE Ireland"). References to GAAP refer to accounting principles generally accepted in the United States ("GAAP"). References to SAP refer to statutory accounting principles ("SAP") in either the State of Connecticut where PXRE Reinsurance is domiciled or Bermuda where PXRE Bermuda is domiciled, as applicable.

The following is a discussion and analysis of PXRE's results of operations for the three and six months ended June 30, 2005 compared with the three and six months ended June 30, 2004, and also a discussion of our financial condition as of June 30, 2005. This discussion and analysis should be read in conjunction with the attached unaudited consolidated financial statements and notes thereto and PXRE's Annual Report on Form 10-K for the year ended December 31, 2004 (the "10-K"), including the audited consolidated financial statements and notes thereto, the discussion of Certain Risks and Uncertainties and the discussion of Critical Accounting Policy Disclosures contained in the 10-K.

### Overview and Comparison of Second Quarter Results for 2005 with 2004

PXRE Group Ltd. is an insurance holding company organized in Bermuda. We provide reinsurance products and services to a worldwide marketplace through our wholly owned subsidiary operations located in Bermuda, Europe and the United States. Our primary business is catastrophe and risk excess reinsurance, which accounted for substantially all of our net premiums written and underwriting income for the three month period ended June 30, 2005. Our catastrophe and risk excess business includes property catastrophe excess of loss, property catastrophe retrocessional, property catastrophe proportional, property risk excess and marine excess and aerospace excess and pro rata reinsurance products.

For the quarter ended June 30, 2005, net income before convertible preferred share dividends was $43.5 million. This represented an increase of 35% compared to $32.3 million for the comparable period of 2004. This increase in net income was driven by a $13.9 million, or 20%, increase in net premiums earned during the quarter compared to the corresponding prior year period. Premium increases during the quarter were driven by new business written and rate increases on the renewal of contracts that were impacted by losses from the 2004 hurricanes and typhoons.

Net income per diluted common share was $1.30 for the second quarter of 2005 compared to $1.20 for the second quarter of 2004, based on diluted average shares outstanding of approximately 33.4 million in the second quarter of 2005 and 27.0 million in the second quarter of 2004.

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***Premiums***

Gross and net premiums written for the second quarter of 2005 and 2004 were as follows:

| **($000's)** | **Three Months Ended June 30,** | | | |
|---|---|---|---|---|
| | **2005** | **2004** | **$ Increase (Decrease)** | **% Increase (Decrease)** |
| Gross premiums written | $ 66,863 | $ 52,914 | $ 13,949 | 26 |
| Ceded premiums written | (3,409) | (1,690) | 1,719 | 102 |
| Net premiums written | $ 63,454 | $ 51,224 | $ 12,230 | 24 |

Gross and net premiums earned for the second quarter of 2005 and 2004 were as follows:

| **($000's)** | **Three Months Ended June 30,** | | | |
|---|---|---|---|---|
| | **2005** | **2004** | **$ Increase (Decrease)** | **% Increase (Decrease)** |
| Gross premiums earned | $ 90,431 | $ 80,078 | $ 10,353 | 13 |
| Ceded premiums earned | (7,011) | (10,513) | (3,502) | (33) |
| Net premiums earned | $ 83,420 | $ 69,565 | $ 13,855 | 20 |

As noted above, the increase in both net premiums written and net premiums earned during the quarter were driven by new business written and rate increases on the renewal of contracts that were impacted by losses from the 2004 hurricanes and typhoons. A summary of our net premiums written and earned by business segment for the three months ended June 30, 2005 and 2004 is included in Note 8 to the Consolidated Financial Statements.

***Ratios***

The underwriting results of a property and casualty insurer are discussed frequently by reference to its loss ratio, expense ratio and combined ratio. The loss ratio is the result of dividing losses and loss expenses incurred by net premiums earned. The expense ratio is the result of dividing underwriting expenses (including amortization of expenses previously deferred, commission and brokerage, net of fee income, and operating expenses) by net premiums earned. The combined ratio is the sum of the loss ratio and the expense ratio. A combined ratio less than 100% indicates underwriting profits and a combined ratio greater than 100% indicates underwriting losses. The combined ratio does not reflect the effect of investment income on underwriting results. The ratios discussed below have been calculated on a GAAP basis.

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The following table summarizes the loss ratio, expense ratio and combined ratio for the quarters ended June 30, 2005 and 2004, respectively:

| **(%)** | **Three Months Ended June 30,** | |
|---|---|---|
| | **2005** | **2004** |
| Loss ratio | 30.1 | 26.0 |
| Expense ratio | 24.0 | 28.5 |
| Combined ratio | 54.1 | 54.5 |
| Catastrophe and risk excess loss ratio | 28.5 | 21.3 |

***Losses and Loss Expenses***

Losses and loss expenses incurred amounted to $25.1 million in the second quarter of 2005 compared to $18.1 million in the second quarter of 2004. Our loss ratio was 30.1% for the second quarter of 2005 as compared to 26.0% for comparable prior year period. The increase in losses and loss expenses incurred and our loss ratio was attributable primarily to greater than expected losses reported during the quarter with respect to the 2004 storms. There were no significant property catastrophe losses during the second quarter of 2005 or 2004.

During the second quarter of 2005, we experienced net adverse development of $11.9 million for prior-year losses and loss expenses, consisting of $10.5 million of adverse development on our catastrophe and risk excess segment and $1.4 million of adverse development on our exited lines segment. The $10.5 million of prior-year catastrophe and risk excess losses were related to re-estimation of the 2004 storms following additional reports from cedents. Prior year losses in the exited lines segment were related to three large direct treaty claims reported during the quarter. During the second quarter of 2004, we experienced net unfavorable development of $1.7 million for prior-year loss and loss expenses due primarily to $2.6 million of unfavorable development on a 1999 catastrophe event after a cedent lost a court case contesting a claim.

***Underwriting Expenses***

The expense ratio was 24.0% for the second quarter of 2005 compared to 28.5% during the comparable year-earlier period. The commission and brokerage ratio, net of fee income, was 11.5% for the second quarter of 2005 compared with 14.3% for the second quarter of 2004. The catastrophe and risk excess commission and brokerage ratio, net of fee income, was 11.5% for the second quarter of 2005 compared with 13.4% for the second quarter of 2004, such ratio decrease being mainly attributable to a reduction in ceded excess earned premiums.

The operating expense ratio was 12.5% for the three months ended June 30, 2005 compared with 14.2% for the comparable period of 2004. The decrease in the operating expense ratio can be attributed to the increase in net premiums earned. Other operating expenses increased $0.6 million, or 6%, to $10.5 million for the three months ended June 30, 2005 from $9.9 million in the comparable period of 2004 primarily due to various reporting and software costs.

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***Interest Expense***

Interest expense increased to $3.6 million for the three months ended June 30, 2005 from $3.5 million in the comparable period of 2004.

***Net Investment Income***

Net investment income for the second quarter of 2005 increased $1.8 million, or 36%, to $6.7 million from $4.9 million in the second quarter of 2004 primarily as a result of a $2.2 million increase in income from our fixed maturity and short-term investment portfolio and a $0.6 million decrease in investment charges offset by a decrease in income from hedge funds of $0.5 million and a decrease in income from other invested assets of $0.6 million. Investments in hedge funds produced a return of 0.1% for the second quarter of 2005 compared with 0.5% in the comparable prior-year period. The lower hedge fund return was earned on a larger invested asset base during 2005. The net return of the fixed maturity and short-term investment portfolios, excluding realized and unrealized capital gains, increased to 3.6% during the second quarter of 2005, on an annualized basis, compared with 3.2% during the comparable prior-year period. In addition, average invested balances increased due to cash flow from operating and financing activities including proceeds from a share issuance of $98.2 million in the fourth quarter of 2004.

Investment income for the quarter was affected by various finite and other reinsurance contracts where premiums payable under such contracts were retained on a funds withheld basis. In order to reduce credit risk or to comply with regulatory credit for reinsurance requirements, a portion of premiums paid under such reinsurance contracts is retained by the cedent pending payment of losses or commutation of the contract. Investment income on such withheld funds is typically for the benefit of the reinsurer and the cedent may provide a minimum investment return on such funds. We have both ceded and assumed reinsurance contracts that involve the withholding of premiums by the cedent. On assumed reinsurance contracts, cedents held premiums and we accrued investment income due to us of $0.0 million (as a result of commutations in the quarter ended September 30, 2004), and $27.3 million as of June 30, 2005 and 2004, respectively, for which we have recognized $0.0 million and $0.5 million of investment income for the second quarter of 2005 and 2004, respectively. On ceded reinsurance contracts, we held premiums and accrued investment income of $87.2 million and $125.0 million due to reinsurers as of June 30, 2005 and 2004, respectively, for which we recognized a reduction to gross investment income of $1.7 million and $2.2 million for the second quarter of 2005 and 2004, respectively. On a net basis, this reduction to investment income was $1.0 million and $0.9 million for the quarters ended June 30, 2005 and 2004, respectively, representing the difference between the stated investment return under such contracts and the overall yield achieved on our total investment portfolio for the quarter. The weighted average contractual investment return on the funds held by PXRE is 8.0% and 7.4% for the quarters ended June 30, 2005 and 2004, respectively, and we expect to be obligated for this contractual investment return for the life of the underlying liabilities, which is expected to be one year as of June 30, 2005 on a weighted average basis.

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***Income Taxes***

PXRE recognized a tax benefit of $1.0 million in the second quarter of 2005 compared to a tax expense of $0.7 million in the comparable prior-year period.

**Comparison of Year-to-Date Results for 2005 with 2004**

For the six months ended June 30, 2005, net income before convertible preferred share dividends was $66.3 million compared to $63.3 million for the comparable period of 2004. This increase in net income was driven by a $24.3 million, or 18%, increase in net premiums earned during the period compared to the corresponding prior year period, offset in part by $26.9 million in net losses incurred in connection with European Windstorm Erwin, which occurred in the first quarter of 2005, and greater than expected losses with respect to the 2004 storms. Premium increases during the period were driven by new business written and rate increases on the renewal of contracts that were impacted by losses from the 2004 hurricanes and typhoons.

Net income per diluted common share was $2.00 for the first six months of 2005 compared to $2.37 for the first six months of 2004, based on diluted average shares outstanding of approximately 33.2 million in the first six months of 2005 and 26.7 million in the first six months of 2004.

***Premiums***

Gross and net premiums written for the six months ended June 30, 2005 and 2004 were as follows:

| ($000's) | Six Months Ended June 30, | | | |
|---|---|---|---|---|
| | 2005 | 2004 | $ Increase (Decrease) | % Increase (Decrease) |
| Gross premiums written | $ 191,563 | $ 160,317 | $ 31,246 | 19 |
| Ceded premiums written | (14,503) | (19,381) | (4,878) | (25) |
| Net premiums written | $ 177,060 | $ 140,936 | $ 36,124 | 26 |

Gross and net premiums earned for the six month period ended June 30, 2005 and 2004 were as follows:

| ($000's) | Six Months Ended June 30, | | | |
|---|---|---|---|---|
| | 2005 | 2004 | $ Increase (Decrease) | % Increase (Decrease) |
| Gross premiums earned | $ 177,585 | $ 162,234 | $ 15,351 | 9 |
| Ceded premiums earned | (14,731) | (23,717) | (8,986) | (38) |
| Net premiums earned | $ 162,854 | $ 138,517 | $ 24,337 | 18 |

The increase in both net premiums written and net premiums earned during the period were driven by new business written and rate increases on the renewal of contracts that were impacted by losses from the 2004 hurricanes and typhoons. A summary of our net premiums written and earned by business segment for the six months ended June 30, 2005 and 2004 is included in Note 8 to the Consolidated Financial Statements.

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***Ratios***

The following table summarizes the loss ratio, expense ratio and combined ratio for the six months ended June 30, 2005 and 2004, respectively:

| **(%)** | **Six Months Ended June 30,** | |
|---|---|---|
| | **2005** | **2004** |
| Loss ratio | 42.7 | 26.2 |
| Expense ratio | 23.6 | 29.6 |
| Combined ratio | 66.3 | 55.8 |
| Catastrophe and risk excess loss ratio | 41.9 | 23.5 |

***Losses and Loss Expenses***

Losses and loss expenses incurred amounted to $69.6 million for the six month period ended June 30, 2005 compared to $36.2 million in the corresponding prior-year period. Our loss ratio was 42.7% for the first six months of 2005 as compared to 26.2% for the comparable prior-year period. The increase in losses and loss expenses incurred and our loss ratio was primarily driven by $26.9 million in net losses incurred in connection with European Windstorm Erwin, which occurred in the first quarter of 2005, and greater than expected losses with respect to the 2004 storms. Windstorm Erwin occurred in early January 2005 and caused extensive damage across Northern Europe, most notably in Denmark and Sweden. There were no significant property catastrophe losses during the six months ended June 30, 2004.

During the first six months of 2005, we experienced net adverse development of $13.7 million for prior-year losses and loss expenses, consisting of $12.7 million of adverse development on our catastrophe and risk excess segment and $1.0 million of adverse development on our exited lines segment. The $12.7 million of prior year development in the catastrophe and risk excess segment was related to the 2004 storms. During the first six months of 2004, we experienced net favorable development of $0.6 million for prior-year loss and loss expenses all attributable to our exited lines segment.

***Underwriting Expenses***

The expense ratio was 23.6% for the first six months of 2005 compared to 29.6% during the comparable year-earlier period. The commission and brokerage ratio, net of fee income, was 11.5% for the first six months of 2005 compared with 13.4% for the first six months of 2004. The catastrophe and risk excess commission and brokerage ratio, net of fee income, was 11.5% for the first six months of 2005 compared with 12.1% for the first six months of 2004, such ratio decrease being mainly attributable to a reduction in ceded excess earned premiums.

The operating expense ratio was 12.1% for the six months ended June 30, 2005 compared with 16.2% for the comparable period of 2004. Other operating expenses decreased $2.6 million, or 12%, to $19.8 million for the six months ended June 30, 2005 from $22.5 million in the comparable period of 2004. During the first six months of 2004, we incurred several charges that totaled $2.6 million related to a 10% reduction in personnel, the curtailment of the Company’s retirement plans and termination of the Company’s prior annual bonus plan.

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***Interest Expense***

Interest expense increased to $7.2 million for the six months ended June 30, 2005 from $7.1 million in the comparable period of 2004.

***Net Investment Income***

Net investment income for the six month period ended June 30, 2005 increased $5.3 million, or 45%, to $17.1 million from $11.8 million in the comparable prior-year period primarily as a result of a $3.8 million increase in income from our fixed maturity and short-term investment portfolio and a $1.3 million decrease in investment charges. Investment income related to our hedge fund portfolio increased to $4.2 million in the six month period ended June 30, 2005 from $3.8 million in the comparable prior-year period as investments in hedge funds produced a return of 3.1% for the first six months of 2005 compared with 3.2% in the comparable prior-year period. The increased hedge fund return was earned on a larger invested asset base during 2005. The net return of the fixed maturity and short-term investment portfolios, excluding realized and unrealized capital gains, increased to 3.5% during the first six months of 2005, on an annualized basis, compared with 3.3% during the comparable prior-year period. In addition, average invested balances increased due to cash flow from operating and financing activities including proceeds from a share issuance of $98.2 million in the fourth quarter of 2004.

Investment income for the first six months of 2005 was affected by various finite and other reinsurance contracts where premiums payable under such contracts were retained on a funds withheld basis. In order to reduce credit risk or to comply with regulatory credit for reinsurance requirements, a portion of premiums paid under such reinsurance contracts is retained by the cedent pending payment of losses or commutation of the contract. Investment income on such withheld funds is typically for the benefit of the reinsurer and the cedent may provide a minimum investment return on such funds. We have both ceded and assumed reinsurance contracts that involve the withholding of premiums by the cedent. On assumed reinsurance contracts, cedents held premiums and we accrued investment income due to us of $0.0 million, (as a result of commutations in the quarter ended September 30, 2004), and $27.3 million as of June 30, 2005 and 2004, respectively, for which we have recognized $0.0 million and $0.9 million of investment income for the first six months of 2005 and 2004, respectively. On ceded reinsurance contracts, we held premiums and accrued investment income of $87.2 million and $125.0 million due to reinsurers as of June 30, 2005 and 2004, respectively, for which we recognized a reduction to gross investment income of $3.4 million and $4.4 million for the first six months of 2005 and 2004, respectively. On a net basis, this reduction to investment income was $1.7 million and $1.6 million for the six months ended June 30, 2005 and 2004, respectively, representing the difference between the stated investment return under such contracts and the overall yield achieved on our total investment portfolio for the quarter. The weighted average contractual investment return on the funds held by PXRE is 8.0% and 7.3% for the six months ended June 30, 2005 and 2004, respectively, and we expect to be obligated for this contractual investment return for the life of the underlying liabilities, which is expected to be one year as of June 30, 2005 on a weighted average basis.

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***Income Taxes***

PXRE recognized a tax benefit of $1.1 million in the six month period ended June 30, 2005 compared to a tax expense of $1.3 million in the comparable prior-year period.

***Cumulative Adjustment***

The Company adopted the provisions of FIN 46R during the first quarter of 2004. The cumulative effect of this accounting pronouncement reduced net income for the six months ended June 30, 2004 by $1.1 million but did not materially impact shareholders' equity.

**FINANCIAL CONDITION**

**Capital Resources**

The Company and PXRE Delaware rely primarily on dividend payments from PXRE Bermuda and PXRE Reinsurance, respectively, to pay operating expenses, meet debt service obligations and pay dividends. During the six month period ended June 30, 2005, PXRE Bermuda and PXRE Reinsurance did not pay dividends. Based on the statutory surplus as of December 31, 2004, the aggregate dividends that are available to be paid during 2005, without prior regulatory approval, by PXRE Bermuda and PXRE Reinsurance, are $236.7 million and $22.5 million, respectively. We anticipate that this available dividend capacity will be sufficient to fund our liquidity needs during 2005.

**Liquidity**

The primary sources of liquidity for PXRE Bermuda and PXRE Reinsurance, our principal operating subsidiaries, are net cash flows from operating activities (including interest income from investments), the maturity or sale of investments, borrowings, capital contributions and advances. Funds are applied primarily to the payment of claims and operating expenses, to the purchase of investments, and to payment of income taxes. Premiums are typically received in advance of related claim payments.

*Financings*

As of June 30, 2005, PXRE had $167.1 million in subordinated debt securities outstanding as follows:

| **($000's)** | **June 30, 2005** |
|---|---|
| 8.85% fixed rate due February 1, 2027 | $ 102,643 |
| 7.35% fixed/floating rate due May 15, 2033 | 18,042 |
| 9.75% fixed rate due May 23, 2033 | 15,464 |
| 7.70% fixed/floating rate due October 29, 2033 | 20,619 |
| 7.58% fixed/floating rate due September 30, 2033 | 10,310 |
| | $ 167,078 |

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*Share Dividends and Book Value*

Dividends to common shareholders declared in the second quarter of 2005 and 2004 were $3.4 million and $0.8 million, respectively. The expected annual dividend based on common shares outstanding at June 30, 2005 is approximately $13.8 million. Book value per common share was $22.73 at June 30, 2005 after considering convertible preferred shares.

The convertible preferred shares accrue cumulative dividends per share at the rate per annum of 8% of the sum of the stated value of each share plus any accrued and unpaid dividend thereon payable on a quarterly basis. As of June 30, 2005, 6,337 convertible preferred shares were issued and outstanding. Dividends to preferred shareholders in the amount of $1.3 million were paid in cash commencing in the second quarter of 2005, following the first mandatory conversion date. Dividends to preferred shareholders, paid in kind, amounted to $3.5 million during the second quarter of 2004. The expected dividend to be paid on the convertible preferred shares during the remainder of 2005 is approximately $2.5 million.

*Cash Flows*

Net cash flows provided by operations were $33.9 million in the second quarter of 2005 compared to $14.8 million in the second quarter of 2004 primarily due to increases from premium collected as well as tax refunds. Offsetting these increases in operating cash flows was an increase in paid losses, mainly attributable to the 2004 Florida hurricanes.

Because of the nature of the coverages we provide, which typically can produce infrequent losses of high severity, it is not possible to predict accurately our future cash flows from operating activities. As a consequence, cash flows from operating activities may fluctuate, perhaps significantly, between individual quarters and years.

Net cash used by investing activities were $41.6 million in the second quarter of 2005 compared to $14.1 million in the second quarter of 2004. This increase was primarily due to investment of increased cash flows from operations as well as an increased payable for securities in the second quarter of 2005.

The Company is subject to large losses, including natural perils such as hurricanes and earthquakes. Since the timing and amount of losses from such exposures is unknown, the Company invests its assets so that should an event occur, it would have sufficient liquidity to pay claims on the underlying contracts. A portion of the invested assets is notionally allocated to a Contingent Catastrophe Portfolio. The guidelines of this portfolio are designed in such a manner that securities are available to pay claims from a potential loss. For example, the securities, which are of high credit quality, have a duration that approximates the duration of the cash outflows of past large losses incurred by PXRE. The purpose of the Contingent Catastrophe Portfolio is to maintain a pool of assets whose underlying durations and maturities approximate that of the potential future cash outflows. Should an event actually occur, the Company may dedicate assets, including cash equivalents and other short-term investments, in such a manner that cash is always on hand to pay claims.

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This asset/liability matching strategy is evidenced by the Company’s overall 2.0 year duration of its fixed income and short-term investments. Due to this relatively short duration portfolio, the Company does not believe realized losses resulting from selling securities before anticipated will have a material adverse impact on its financial position.

PXRE has two letter of credit (LOC) facilities that allow it to provide LOCs to its ceding companies if such LOC is required under the terms of the contract. Both facilities require the Company to provide collateral in the form of fixed maturity securities to the issuing bank as security for outstanding LOCs. The first is a $135.0 million committed facility under which the Company pays the issuing bank an annual standby commitment fee of 0.15% per annum. The second is an uncommitted facility that allows for LOCs to be issued subject to satisfactory collateral being provided to the issuing bank by the Company. There is no commitment fee for the second facility. The Company must transfer eligible assets to a collateral account prior to the bank’s issuing the LOC. Since eligible assets include fixed income investments, such securities need not be sold in order to qualify as eligible collateral.

***Off-Balance Sheet Arrangements***

We do not have any material off-balance sheet arrangements. The commitments, contingencies and contractual obligations payments due by us have not materially changed during the first six months of 2005.

*Commitments, Contingencies and Contractual Obligations*

As noted under “Capital Resources” above, PXRE and PXRE Delaware expect to be able to meet their contractual obligations during 2005 with the dividend paying capacity of PXRE Bermuda and PXRE Reinsurance, respectively. PXRE Bermuda and PXRE Reinsurance expect to be able to meet their contractual obligations during 2005 with operating and investing cash flows.

As of June 30, 2005, other commitments and pledged assets include (a) LOC’s of $36.2 million which are secured by cash and securities amounting to $82.0 million, (b) cash and securities amounting to $9.7 million which were on deposit with various state insurance departments and overseas banks in order to comply with insurance laws, (c) securities with a fair value of $65.4 million deposited in a trust for the benefit of a cedent in connection with certain assumed reinsurance transactions, (d) funding commitments to certain limited partnerships of $0.3 million, (e) a contingent liability amounting to $0.5 million under the Restated Employee Annual Incentive Bonus Plan, (f) commitments under the subordinated debt securities discussed above, and (g) commitment fees of $0.2 million per annum under a Letter of Credit Facility Agreement, dated June 25, 2004, and a related amendment thereto dated January 28, 2005 between PXRE Bermuda and Barclays Bank PLC.

In connection with the capitalization of PXRE Lloyd’s Syndicate 1224, PXRE Reinsurance has on deposit $22.4 million par value of securities as collateral for Lloyd’s of London (“Lloyd’s”). Cash and invested assets held by PXRE Lloyd’s Syndicate 1224, amounting to $9.9 million at June 30, 2005, are restricted from being paid as a dividend until the run-off of our exited Lloyd’s business has been completed.

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**Investments**

As of June 30, 2005, our investment portfolio, at fair value, was allocated 74.1% in fixed maturity instruments, 14.0% in short-term investments, 11.5% in hedge funds and 0.4% in other investments.

The following table summarizes our investments at June 30, 2005 and December 31, 2004 at carrying value:

| | Analysis of Investments | | | |
|---|---|---|---|---|
| | June 30, 2005 | | December 31, 2004 | |
| **($000's, except percentages)** | **Amount** | **Percent** | **Amount** | **Percent** |
| Fixed maturities: | | | | |
| United States government securities | $ 71,897 | 5.9% | $ 62,009 | 5.4% |
| Foreign denominated securities | 27,456 | 2.3 | 15,483 | 1.3 |
| United States government sponsored agency debentures | 161,768 | 13.2 | 121,954 | 10.6 |
| United States government sponsored agency mortgage-backed securities | 133,539 | 10.9 | 99,911 | 8.7 |
| Other mortgage and asset-backed securities | 221,627 | 18.2 | 170,013 | 14.8 |
| Obligations of states and political subdivisions | 1,719 | 0.1 | 2,054 | 0.2 |
| Corporate securities | 287,051 | 23.5 | 245,857 | 21.4 |
| Total fixed maturities | 905,057 | 74.1 | 717,281 | 62.4 |
| Short-term investments | 170,776 | 14.0 | 296,318 | 25.8 |
| Total fixed maturities and short-term investments | 1,075,833 | 88.1 | 1,013,599 | 88.2 |
| Hedge funds | 140,260 | 11.5 | 129,118 | 11.2 |
| Other invested assets | 5,210 | 0.4 | 6,823 | 0.6 |
| Total investment portfolio | $ 1,221,303 | 100.0% | $ 1,149,540 | 100.0% |

At June 30, 2005, 97.5% of the fair value of our fixed maturities and short-term investments portfolio was in obligations rated "A" (strong) or better by Moody's or S&P. Mortgage and asset-backed securities accounted for 33.0% of fixed maturities and short-term investments or 29.1% of our total investment portfolio based on fair value at June 30, 2005. The average yield to maturity on our fixed maturities portfolio, including short-term investments at June 30, 2005 and 2004 was 4.0% and 3.3%, respectively.

Fixed maturity investments, other than trading securities, are reported at fair value, with the net unrealized gain or loss, net of tax, reported as a separate component of shareholders' equity. Fixed maturity investments classified as trading securities are reported at fair value, with the net unrealized gain or loss reported as investment income. At June 30, 2005, an after-tax unrealized gain of $4.9 million (a gain of 15 cents per share, after considering convertible preferred shares) was included in shareholders' equity.

Short-term investments are carried at amortized cost, which approximates fair value. Our short-term investments, principally short-term agencies and United States treasuries, amounted to $170.8 million at June 30, 2005, compared to $296.3 million at December 31, 2004 reflecting the re-deployment of the proceeds of our share offering in the fourth quarter of 2004.

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A significant component of our investment strategy is investing a portion of our invested assets in a diversified portfolio of hedge funds. At June 30, 2005, total hedge fund investments amounted to $140.3 million, representing 11.5% of the total investment portfolio. At December 31, 2004, total hedge fund investments amounted to $129.1 million, representing 11.2% of the total investment portfolio. For the six months ended June 30, 2005, our hedge funds yielded a return of 3.1% as compared to 3.2% in the six months ended June 30, 2004. At June 30, 2005, twenty hedge fund investments with fair values ranging from $2.1 million to $17.6 million were administered by fifteen managers.

As of June 30, 2005, our investment portfolio also included $5.2 million of other invested assets which is in two mezzanine bond funds. The remaining aggregate cash call commitments in respect of such investments are $0.3 million.

Hedge funds and other limited partnership investments are accounted for under the equity method. Total investment income for the six months ended June 30, 2005, included $4.0 million attributable to hedge funds and other investments.

Our investments in hedge funds and other privately held securities should be viewed as exposing us to the risk of substantial losses. We seek to reduce such risk within our hedge fund portfolio through our multi-asset and multi-management strategy. There can be no assurance, however, that this strategy will prove to be successful.

**Taxes**

PXRE Delaware files U.S. income tax returns for itself and all of its direct or indirect U.S. subsidiaries that satisfy the stock ownership requirements for consolidation. PXRE Delaware is party to a tax allocation agreement concerning filing of consolidated federal income tax returns pursuant to which each of these U.S. subsidiaries makes tax payments to PXRE Delaware in an amount equal to the federal income tax payment that would have been payable by the relevant U.S. subsidiary for the year if it had filed a separate income tax return for that year. PXRE Delaware is required to provide payment of the consolidated federal income tax liability for the entire group. If the aggregate amount of tax payments made in any tax year by one of these U.S. subsidiaries is less than (or greater than) the annual tax liability for that U.S. subsidiary on a stand-alone basis for that year, the U.S. subsidiary will be required to make up the deficiency to PXRE Delaware (or will be entitled to receive a credit if payments exceed the separate return tax liability of that U.S. subsidiary).

**Update on Critical Accounting Policy Disclosures**

The Company’s Annual Report on Form 10-K for the year ended December 31, 2004 contains a discussion concerning critical accounting policy disclosures (See Item 7  Management’s Discussion and Analysis of Financial Condition and Results of Operations Critical Accounting Policy Disclosures contained in the Company’s Annual Report on Form 10-K for the year ended December 31, 2004). We disclose our significant accounting policies in the notes to the Consolidated Financial Statements which should be read in conjunction with the notes to the interim Consolidated Financial Statements and the 2004 audited Consolidated Financial Statements and notes. Certain of these policies are critical to the portrayal of our financial condition and results since they require management to establish estimates based on complex and subjective judgments, including those related to our estimation of losses and loss expenses.

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*Estimation of Loss and Loss Expenses*

As a property catastrophe reinsurer, incurred losses are inherently more volatile than those of primary insurers and reinsurers of risks that have an established historical pattern of losses. In addition, with respect to insured events that occur near the end of a reporting period, as well as with respect to our retrocessional book of business, the significant delay in losses being reported to insurance carriers, reinsurers and finally retrocessionaires requires us to make estimates of losses based on limited information from our clients, industry loss estimates and our own underwriting data. Because of the uncertainty in the process of estimating our losses from insured events, there is a risk that our liabilities for losses and loss expenses could prove to be inadequate, with a consequent adverse impact on our future earnings and shareholders’ equity.

In reserving for catastrophe losses, our estimates are influenced by underwriting information provided by our clients, industry catastrophe models and our internal analyses of this information. This reserving approach can cause significant development for an accident year when events occur late in the period. As an event matures, we rely more and more on our development patterns by type of event as well as contract information to project ultimate losses for the event. This process can cause our ultimate estimates to differ significantly from initial projections. The French storm Martin that occurred on December 27, 1999 presents an example of these potential uncertainties. Initially we based our reserves to a significant degree on industry estimates of the total loss, which were approximately $1.0 billion. In 2001, the cost was estimated to be $2.5 billion by SIGMA, a widely used industry publication. Our gross loss estimate at December 31, 1999 for this event was $31.3 million. Our gross loss estimate at June 30, 2005 for this event was $65.5 million. Thus, the original industry loss estimate increased by 150%, and our loss estimate has increased by 109%.

A number of significant catastrophe losses occurred in the second half of 2004, including hurricanes Charley, Frances, Ivan and Jeanne, the Asian Tsunami, and Typhoon Songda. Our reserve estimates are primarily based on reported losses, modeling, a detailed review of affected contracts and numerous discussions with our clients. The ultimate impact of losses from these 2004 events might therefore differ substantially from either our current aggregate loss estimates or our individual estimates for each event.

In reserving for non-catastrophe losses from recent periods, we are required to make assumptions concerning the expected loss ratio usually for broad lines of business, but sometimes on an individual contract basis. We consider historical loss ratios for each line of business and utilize information provided by our clients and estimates provided by underwriters and actuaries concerning the impact of pricing and coverage changes. As experience emerges, we will revise our prior estimates concerning pricing adequacy and non-catastrophe loss potential for our coverages and we will eventually rely solely on our indicated loss development patterns to estimate ultimate losses.

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In addition, the risk for recent underwriting years includes the increased casualty exposures assumed by us through our casualty and finite businesses. Unlike property losses that tend to be reported more promptly and usually are settled within a shorter time period, casualty losses are frequently slower to be reported and may be determined only through the lengthy, unpredictable process of litigation. Moreover, given our limited experience in the casualty and finite businesses, we do not have established historical loss development patterns that can be used to establish these loss liabilities. We must therefore rely on the inherently less reliable historical loss development patterns reported by our clients and industry loss development data in calculating our liabilities. PXRE’s loss reserve estimation process takes into consideration the facts and circumstances related to reported losses; however, for immature accident years, reported casualty losses are relatively insignificant when compared to ultimate losses. As such, it is difficult to determine how facts and circumstances related to early-notified claims will impact future reported losses. When reported losses grow to a magnitude at which they suggest a trend, PXRE can, and does, re-estimate loss reserves.

PXRE has historically been involved in very few disputes with ceding companies, especially those that enter into contracts that the Company includes in its catastrophe and risk excess segment; nevertheless contract disputes in the property casualty reinsurance industry have increased in recent years.

There is an additional risk of uncertainty in PXRE’s estimation of loss due to the fact that PXRE writes only reinsurance business and no insurance business. As a result, losses, unearned premiums and premiums written are all recorded based on reports received from the ceding companies. PXRE does not receive loss information from the underlying insureds; however, since the Company’s reinsurance business focuses on short-tail lines such as property catastrophe, retrocessional property catastrophe, risk-excess and aerospace, the delay from the time of the underlying loss to the report date to PXRE is not as significant a risk as it would be if the Company underwrote a significant amount of casualty business; however, with respect to insured events that occur near the end of a reporting period, as well as with respect to our retrocessional book of business, a delay in losses being reported to insurance carriers, reinsurers and finally retrocessionaires may require us to make estimates of losses based on limited information from our clients, industry loss estimates and our own underwriting data.

PXRE derives almost all of its business from reinsurance intermediaries. As a result, the ceding company reports claims to the intermediary and the intermediary in turn reports the data to all the reinsurers included in the underlying program. Controls in place require that certain claims must be approved by the underwriter or a member of senior management. The underwriter, based on his knowledge and judgment, may question the broker or ceding company if he did not expect a loss of a certain magnitude to impact a certain layer. Since many of PXRE’s losses are from events that are well known, such as large hurricanes and earthquakes, the underwriter may in fact expect losses to certain layers and therefore would not question the accuracy of such loss reports. If the underwriter does question the loss data, PXRE may perform audits at the underlying ceding company in order to determine the accuracy of the amounts ceded. PXRE’s risk management and underwriting systems provide a list of impacted or potentially impacted contracts by peril and by geographic zone. This assists PXRE in determining the completeness of losses, as it will contact intermediaries and the ceding companies for which it believes underlying contracts are impacted subsequent to an event to request information.

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Currently, PXRE does not have any backlog related to the processing of assumed reinsurance information. When a large loss occurs, the Company shifts personnel from various functions to assist the claims personnel in the processing and evaluation of claims data.

Finally, PXRE records reserves for losses that have been incurred but not yet reported, which are generally referred to as IBNR reserves. The IBNR includes both losses from events which PXRE is not aware of and losses from events which PXRE is aware of but has not yet received reports from ceding companies.

During the second quarter of 2005, we experienced net adverse development of $11.9 million for prior-year losses and loss expenses, consisting of $10.5 million of adverse development on our catastrophe and risk excess segment and $1.4 million of adverse development on our exited lines segment. The $10.5 million of prior-year catastrophe and risk excess losses were related to re-estimation of the 2004 storms following additional reports from cedents. Prior year losses in the exited lines segment were related to three large direct treaty claims reported during the quarter. During the second quarter of 2004, we experienced net unfavorable development of $1.7 million for prior-year loss and loss expenses due primarily to $2.6 million of unfavorable development on a 1999 catastrophe event after a cedent lost a court case contesting a claim.

Loss and loss expense liabilities as of June 30, 2005 were as follows:

| **($000's)** | **Gross** | **Net** |
|---|---|---|
| Catastrophe and Risk Excess | $ 303,934 | $ 253,045 |
| Exited Lines | 114,822 | 110,112 |
| Total | $ 418,756 | $ 363,157 |

On an overall basis, the low and high ends of a range of reasonable net loss reserves are $29.7 million below and $31.5 million above the $363.2 million best estimate displayed above. Note that the range around the overall estimate is not the sum of the ranges about the component segments due to the impact of diversification when the reserve levels are considered in total. The low and high ends of a range of reasonable net loss reserves around the best estimate displayed in the table above with respect to each segment are as follows:

| **($000's)** | **Low End** | **Best Estimate** | **High End** |
|---|---|---|---|
| Catastrophe and Risk Excess | $ 225,685 | $ 253,045 | $ 282,465 |
| Exited Lines | 99,154 | 110,112 | 121,856 |

*Estimation and Recognition of Assumed and Ceded Premiums*

Our premiums on reinsurance business assumed are recorded as earned evenly over the contract period based upon estimated subject premiums. PXRE's assumed premium is comprised of both minimum and deposit premium and an estimate of premium. Minimum and deposit premium is billed and collected in accordance with the provisions of the contracts and is usually billed quarterly or semi-annually. A premium estimate is also recorded if the estimate of the ultimate premium is greater than the minimum and deposit premium. The final or ultimate premium for most contracts is the product of the provisional rate and the ceding company's subject net earned premium income (SNEPI). Since this portion of the premium is reasonably estimable, the Company records and recognizes it as revenue over the period of the contract in the same manner as the minimum and deposit premium. The key assumption related to the premium estimate is the estimate of the amount of the ceding company's SNEPI, which is a significant element of PXRE's overall underwriting process. Because of the inherent uncertainty in this process, there is the risk that premiums and related receivable balances may turn out to be higher or lower than reported.

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For the first six months of 2005, the assumed premium estimate is $10.6 million, which is 6.6% of the total gross current underwriting year premium written of $161.3 million, excluding reinstatement premiums. The estimated premium receivable included in premiums receivable, excluding reinstatement premiums, was $25.0 million at June 30, 2005.

We record an allowance for doubtful accounts that we believe approximates the exposure for all potential uncollectible assets.

The premiums on reinsurance business ceded are recorded as incurred evenly over the contract period. Certain ceded reinsurance contracts contain provisions requiring us to pay additional premiums or reinstatement premiums in the event that losses of a significant magnitude are ceded under such contracts. Under GAAP, we are not permitted to establish reserves for these potential additional premiums until a loss occurs that would trigger the obligation to pay such additional or reinstatement premiums. As a result, the net amount recoverable from our reinsurers in the event of a loss may be reduced by the payment of additional premiums and reinstatement premiums. Frequently, the impact of such premiums will be offset by additional premiums and reinstatement premiums payable to us by our clients on our assumed reinsurance business. No assurance can be given, however, that assumed reinstatement and additional premiums will offset ceded reinstatement and additional premiums. For example, in the case of the September 11, 2001 terrorist attacks, our net premiums earned during 2001 were reduced by $26.3 million as a result of net additional premiums and reinstatement premiums.

**Cautionary Statement Regarding Forward-Looking Statements**

This report contains various forward-looking statements and includes assumptions concerning our operations, future results and prospects. Statements included herein, as well as statements made by us or on our behalf in press releases, written statements or other documents filed with the Securities and Exchange Commission (the “SEC”), or in our communications and discussions with investors and analysts in the normal course of business through meetings, phone calls and conference calls, which are not historical in nature are intended to be, and are hereby identified as, “forward-looking statements” for purposes of the safe harbor provided by Section 21E of the Securities Exchange Act of 1934 as amended. These forward-looking statements, identified by words such as “intend,” “believe,” “anticipate,” or “expects” or variations of such words or similar expressions are based on current expectations, speak only as of the date thereof, and are subject to risk and uncertainties. In light of the risks and uncertainties inherent in all future projections, the forward-looking statements in this report should not be considered as a representation by us or any other person that our objectives or plans will be achieved. We caution investors and analysts that actual results or events could differ materially from those set forth or implied by the forward-looking statements and related assumptions, depending on the outcome of certain important factors including, but not limited to, the following:

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(i) because of exposure to catastrophes, our financial results may vary significantly from period to period;

(ii) we may be overexposed to losses in certain geographic areas for certain types of catastrophe events;

(iii) we operate in a highly competitive environment;

(iv) reinsurance prices may decline, which could affect our profitability;

(v) underwriting reinsurance includes the application of judgment, the assessment of probabilities and outcomes, and assumption of correlations, which are subject to inherent uncertainties;

(vi) reserving for losses includes significant estimates which are also subject to inherent uncertainties;

(vii) a decline in the credit rating assigned to our claim-paying ability may impact our potential to write new or renewal business;

(viii) a decline in our ratings may require us to transfer premiums retained by us into a beneficiary trust or may allow clients to terminate their contract with us;

(ix) our investment portfolio is subject to market and credit risks which could result in a material adverse impact on our financial position or results;

(x) because we depend on a few reinsurance brokers for a large portion of revenue, loss of business provided by them could adversely affect us; and our reliance on reinsurance brokers exposes us to their credit risk;

(xi) we have exited the finite reinsurance business, but claims in respect of the business we wrote could have an adverse effect on our results of operations;

(xii) we may be adversely affected by foreign currency fluctuations;

(xiii) retrocessional reinsurance subjects us to credit risk and may become unavailable on acceptable terms;

(xiv) the impairment of our ability to provide collateral to cedents could affect our ability to offer reinsurance in certain markets;

(xv) the reinsurance business is historically cyclical, and we may experience periods with excess underwriting capacity and unfavorable premium rates; conversely, we may have a shortage of underwriting capacity when premium rates are strong;

(xvi) regulatory constraints may restrict our ability to operate our business;

(xvii) contention by the United States Internal Revenue Service that we or our offshore subsidiaries are subject to U.S. taxation could result in a material adverse impact on our financial position or results; and

(xviii) changes in tax laws, tax treaties, tax rules and interpretations could result in a material adverse impact on our financial position or results.

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In addition to the factors outlined above that are directly related to our business, we are also subject to general business risks, including, but not limited to, adverse state, federal or foreign legislation and regulation, adverse publicity or news coverage, changes in general economic factors and the loss of key employees. The factors listed above should not be construed as exhaustive.

We undertake no obligation to release publicly the results of any future revisions we may make to forward-looking statements to reflect events or circumstances after the date hereof or to reflect the occurrence of unanticipated events.

**Item 3. Quantitative and Qualitative Disclosures About Market Risk.**

We have reviewed our exposure to market risks at June 30, 2005 and the changes in exposure since December 31, 2004. The principal market risks which we are exposed to, continue to be interest rate and credit risk.

The composition of our fixed maturity portfolio did not change materially during the second quarter of 2005. There were no material changes in our exposure to market risks or our risk management strategy during the second quarter of 2005.

**Item 4. Controls and Procedures**

As of the end of the period covered by this report, an evaluation was carried out by our management, with the participation of our Chief Executive Officer and Chief Financial Officer, of the effectiveness of our disclosure controls and procedures (as defined in Rule 13a-15(e) under the Securities Exchange Act of 1934). Based upon that evaluation, our Chief Executive Officer and Chief Financial Officer concluded that these disclosure controls and procedures were effective as of the end of the period covered by this report. In addition, no change in our internal control over financial reporting (as defined in Rule 13a-15(f) under the Securities and Exchange Act of 1934) occurred during our most recent fiscal quarter that has materially affected, or is reasonably likely to materially effect, our internal control over financial reporting.

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## PART II. OTHER INFORMATION

### Item 1. Legal Proceedings.

We are subject to litigation and arbitration in the ordinary course of business. Management does not believe that the eventual outcome of any such pending litigation or arbitration is likely to have a material effect on our financial condition or business. Pursuant to our insurance and reinsurance arrangements, disputes are generally required to be finally settled by binding arbitration.

### Item 2. Unregistered Sales of Equity Securities and Use of Proceeds.

None.

### Item 3. Defaults Upon Senior Securities.

None.

### Item 4. Submission of Matters to a Vote of Security Holders.

At the Company’s Annual General Meeting of Shareholders held on April 26, 2005, the Company’s shareholders approved the following:

(i) The election of two Class I directors to serve until the 2008 Annual Meeting of Shareholders and until their successors have been elected and have qualified:

| Nominee | Votes For | Votes Withheld |
|---|---|---|
| Wendy Luscombe | 14,057,606 | 454,045 |
| Jeffrey L. Radke | 13,768,158 | 743,493 |

(ii) The appointment of KPMG as PXRE’s independent auditors for the fiscal year ending December 31, 2005, and referral to the Board of the determination of their remuneration by the vote of 25,320,356 votes for, 32,332 votes against, and 0 votes abstaining;

(iii) The adoption of various amendments to the Company’s Bye-Laws by the vote of 24,592,374 votes for, 727,235 votes against and 0 votes abstaining.

### Item 5. Other Information.

None.

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**Item 6. Exhibits.**

**a. Exhibits**

A list of exhibits required to be filed as part of this report is set forth in the Exhibit Index of this Form 10-Q, which immediately precedes such exhibits, and is incorporated herein by reference.

**EXHIBIT INDEX**

| Exhibit Number | Description |
|---|---|
| 10.1 | Agreement, dated as of June 20, 2005, between PXRE Group Ltd. and the holders of the Series A Convertible Voting Preferred Shares, Series B Convertible Preferred Shares, Series C Convertible Preferred Shares, Class A Convertible Voting Common Shares, Class B Convertible Voting Common Shares and Class C Convertible Voting Common Shares (incorporated by reference to Exhibit 99.1 of PXRE Group Ltd.'s Current Report on Form 8-K dated June 20, 2005). |
| 10.2 | Employment Agreement, dated June 23, 2005, by and between PXRE Group Ltd. and Jeffrey L. Radke (incorporated by reference to Exhibit 99.1 of PXRE Group Ltd.'s Current Report on Form 8-K dated June 23, 2005). |
| 31.1 | Certification by the Chief Executive Officer Relating to a Periodic Report Containing Financial Statements pursuant to Section 302 of the Sarbanes-Oxley Act of 2002. |
| 31.2 | Certification by the Chief Financial Officer Relating to a Periodic Report Containing Financial Statements Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002. |
| 32.1 | Certification of Periodic Report Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002. |

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**SIGNATURES**

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

PXRE GROUP LTD.

July 29, 2005

By: /s/ John M. Modin
John M. Modin
Executive Vice President
and Chief Financial Officer