

TOKIO MILLENNIUM RE LTD.

Consolidated Financial Statements
(With Independent Auditors' Report Thereon)

Years Ended December 31, 2007 and 2006



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INDEPENDENT AUDITORS' REPORT

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

We have audited the accompanying consolidated balance sheets of Tokio Millennium Re Ltd. and subsidiary as of December 31, 2007 and 2006 and the related consolidated statements of operations and comprehensive income, changes in shareholder's equity and cash flows for the years then ended. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these consolidated financial statements based on our audits.

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

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the consolidated financial position of Tokio Millennium Re Ltd. and subsidiary as of December 31, 2007 and 2006, and the results of their operations and their cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America.

Chartered Accountants
Hamilton, Bermuda
February 27, 2008

TOKIO MILLENNIUM RE LTD.


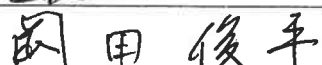
Consolidated Balance Sheets

December 31, 2007 and 2006
(Expressed in United States Dollars)

	<u>2007</u>	<u>2006</u>
Assets		
Cash and cash equivalents (Note 3)	\$ 308,441,993	\$ 254,125,532
Fixed maturity securities (Notes 4 and 11)	624,931,834	600,580,710
Catastrophe bonds (Note 4)	66,934,958	58,652,600
Collateral held on behalf of counterparties (Notes 6 and 9)	111,620,061	117,927,284
Accrued interest receivable	8,977,904	8,541,070
Reinsurance balances receivable	82,844,090	56,357,555
Prepaid reinsurance premiums (Note 6)	28,676,309	10,421,600
Fair value of derivatives (Note 9)	13,632,812	5,488,141
Outstanding losses recoverable from reinsurers (Notes 5 and 6)	5,772,918	3,455,041
Deferred acquisition expenses	10,269,238	5,745,327
Unearned profit commission	544,897	373,152
Prepaid expenses	1,571,237	1,116,963
Capital assets (Note 7)	6,564,412	3,150,234
Funds withheld (Note 3)	31,997,748	32,745,860
Other assets	<u>256,596</u>	<u>346,878</u>
Total assets	\$ 1,303,037,007	\$ 1,159,027,947
Liabilities		
Outstanding losses and loss expenses (Note 5)	\$ 62,964,371	\$ 152,679,367
Liability for collateral held on behalf of counterparties (Notes 6 and 9)	111,620,061	117,927,284
Reinsurance balances payable	62,701,656	25,418,955
Amount due to investment brokers	10,304,000	-
Unearned premiums	92,828,886	51,347,405
Deferred fee income	5,199	5,091
Deferred commission income	3,471,220	734,180
Accounts payable and accrued expenses	2,460,592	2,017,705
Dividend payable	<u>50,313,163</u>	<u>37,178,039</u>
Total liabilities	396,669,148	387,308,026
Shareholder's equity		
Authorised, issued and fully paid, shares of \$1 par value each	250,000,000	250,000,000
Contributed surplus (Note 8)	400,000,000	400,000,000
Retained earnings	242,539,707	125,137,678
Accumulated other comprehensive income (loss)	<u>13,828,152</u>	<u>(3,417,757)</u>
Total shareholder's equity	906,367,859	771,719,921
Total liabilities and shareholder's equity	\$ 1,303,037,007	\$ 1,159,027,947

See accompanying notes to consolidated financial statements

Signed on behalf of the Board

 Director
 Director

TOKIO MILLENNIUM RE LTD.

Consolidated Statements of Operations and Comprehensive Income

Years Ended December 31, 2007 and 2006

(Expressed in United States Dollars)

	<u>2007</u>	<u>2006</u>
Income		
Reinsurance premiums assumed	\$ 296,968,570	\$ 275,587,324
Change in unearned premiums	<u>(41,481,481)</u>	<u>7,330,171</u>
Reinsurance premiums earned	<u>255,487,089</u>	<u>282,917,495</u>
Reinsurance premiums ceded (Note 6)	50,946,286	25,395,480
Change in prepaid reinsurance	<u>(18,254,709)</u>	<u>(6,934,705)</u>
Reinsurance premiums ceded	<u>32,691,577</u>	<u>18,460,775</u>
Net premiums earned	222,795,512	264,456,720
Catastrophe bond income	5,511,583	3,930,444
Fee income	—	1,772,942
Agency fee income	<u>95,935</u>	<u>130,980</u>
Total operating income	228,403,030	270,291,086
Net investment income (Note 4)	<u>43,164,536</u>	<u>36,930,805</u>
Total income	<u>271,567,566</u>	<u>307,221,891</u>
Expenses		
Loss and loss expenses incurred	7,652,352	55,962,672
Losses recoverable from reinsurers	<u>(5,008,149)</u>	<u>2,381,994</u>
Net loss and loss expenses incurred (Note 5)	2,644,203	58,344,666
Acquisition expenses	40,075,818	58,625,523
Profit commission	26,915,362	20,272,986
Net derivative expense (Note 9)	19,542,558	35,495,619
General and administrative expenses (Note 11)	20,687,101	15,081,333
Foreign exchange gain	<u>(6,012,668)</u>	<u>(4,531,452)</u>
Total expenses	<u>103,852,374</u>	<u>183,288,675</u>
Net income	167,715,192	123,933,216
Other comprehensive income (loss)		
Net change in unrealised gains (losses) on investments	<u>17,245,909</u>	<u>(173,459)</u>
Other comprehensive income (loss)	<u>17,245,909</u>	<u>(173,459)</u>
Comprehensive income	<u>\$ 184,961,101</u>	<u>\$ 123,759,757</u>

See accompanying notes to consolidated financial statements

TOKIO MILLENNIUM RE LTD.

Consolidated Statements of Changes in Shareholder's Equity

Years Ended December 31, 2007 and 2006

(Expressed in United States Dollars)

	<u>2007</u>	<u>2006</u>
Share capital		
Balance at beginning and end of year	\$ <u>250,000,000</u>	\$ <u>250,000,000</u>
Contributed surplus		
Balance at beginning and end of year	<u>400,000,000</u>	<u>400,000,000</u>
Retained earnings		
Balance at beginning of year	125,137,678	38,382,501
Net income	167,715,192	123,933,216
Dividends	<u>(50,313,163)</u>	<u>(37,178,039)</u>
Balance at end of year	<u>242,539,707</u>	<u>125,137,678</u>
Other comprehensive income (loss)		
Balance at beginning of year	(3,417,757)	(3,244,298)
Net change in unrealised gains on investments	<u>17,245,909</u>	<u>(173,459)</u>
Balance at end of year	<u>13,828,152</u>	<u>(3,417,757)</u>
Total shareholder's equity	<u>\$ 906,367,859</u>	<u>\$ 771,719,921</u>

See accompanying notes to consolidated financial statements

TOKIO MILLENNIUM RE LTD.

Consolidated Statements of Cash Flows

Years Ended December 31, 2007 and 2006

(Expressed in United States Dollars)

	<u>2007</u>	<u>2006</u>
Cash flows from operating activities		
Net income	\$ 167,715,192	\$ 123,933,216
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation of capital assets	1,334,666	616,323
Loss on disposal of fixed assets	48,285	-
Amortisation of fixed maturity securities	806,698	1,911,777
Realised loss on sale of fixed maturity securities	-	6,649
Deposit asset	-	86,566,575
Collateral held on behalf of counterparties	6,307,223	112,608,487
Accrued interest receivable	(436,834)	(3,060,387)
Reinsurance balances receivable	(26,486,535)	(5,082,168)
Prepaid reinsurance premiums	(18,254,709)	(6,934,705)
Fair value of derivatives	(8,144,671)	230,892
Outstanding losses recoverable from reinsurers	(2,317,877)	20,873,454
Deferred acquisition expenses	(4,523,911)	9,573,069
Unearned profit commission	(171,745)	(373,152)
Prepaid expenses	(454,274)	(232,604)
Funds withheld	748,112	5,165,179
Other assets	90,282	(31,217)
Outstanding losses and loss expenses	(89,714,996)	(35,580,480)
Deposit liability	-	(86,566,575)
Liability for assets held on behalf of swap counterparties	(6,307,223)	(112,608,487)
Reinsurance balances payable	37,282,701	17,855,835
Unearned premiums	41,481,481	(7,330,171)
Deferred fee income	108	(1,772,942)
Deferred commission income	2,737,040	217,387
Accounts payable and accrued expenses	442,887	1,136,700
	<u>102,181,900</u>	<u>121,122,655</u>
Cash flows from investing activities		
Purchase of fixed maturity securities	(154,060,272)	(272,899,878)
Proceeds on sale or maturity of fixed maturity securities	145,170,000	62,423,470
Purchase of catastrophe bonds	(12,000,000)	(37,000,000)
Proceeds on maturity of catastrophe bonds	15,000,000	-
Purchase of capital assets, net of sales proceeds	(4,797,128)	(3,273,151)
	<u>(10,687,400)</u>	<u>(250,749,559)</u>
Cash flows from financing activities		
Dividend paid	(37,178,039)	-
	<u>(37,178,039)</u>	<u>-</u>
Net increase (decrease) in cash and cash equivalents	54,316,461	(129,626,904)
Cash and cash equivalents at beginning of year	<u>254,125,532</u>	<u>383,752,436</u>
Cash and cash equivalents at end of year	\$ 308,441,993	\$ 254,125,532

See accompanying notes to consolidated financial statements

TOKIO MILLENNIUM RE LTD.

Notes to Consolidated Financial Statements

December 31, 2007 and 2006

1. General

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

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

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

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

2. Summary of significant accounting policies

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

(a) Basis of consolidation

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

(b) Premiums earned and acquisition expenses

Premiums assumed are recorded on the accruals basis and are included in income over the period of exposure to risk with the unearned portion deferred in the balance sheet. Reinsurance premiums ceded are similarly earned over the period of exposure to risk with the unearned portion being deferred in the balance sheet as prepaid reinsurance premiums.

For excess of loss contracts, the ultimate premium is estimated at contract inception. Subsequent premium adjustments, if any, are recorded in the period in which they are determined. For proportional treaties, the amount of premium is normally estimated at inception by the ceding company. The Company accounts for such premium using initial estimates, which are reviewed regularly with respect to the actual premium reported by the ceding company. The Company earns reinstatement premiums upon the occurrence of a loss under the reinsurance contract. Reinstatement premiums are calculated in accordance with the contract terms based upon the ultimate loss estimate associated with each contract.

TOKIO MILLENNIUM RE LTD.

Notes to Consolidated Financial Statements

December 31, 2007 and 2006

2. Summary of significant accounting policies (continued)

(b) *Premiums earned and acquisition expenses (continued)*

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

Where applicable, no claims bonuses and profit commissions are accrued based on claim experience.

(c) *Outstanding losses and loss expenses*

Losses and loss expenses paid are recorded when advised by the ceding insurance companies. Outstanding losses comprise estimates of the amount of reported losses and loss expenses received from the ceding insurance companies plus a provision for losses incurred but not reported ("IBNR"). The IBNR provision is estimated by management based on reports from industry sources, including initial estimates of aggregate industry losses, individual loss estimates received from ceding companies and brokers, output from commercially available catastrophe loss models and actuarial analysis using historical data available to the Company on the business assumed together with industry data.

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

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

(d) *Investments*

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

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

TOKIO MILLENNIUM RE LTD.

Notes to Consolidated Financial Statements

December 31, 2007 and 2006

2. Summary of significant accounting policies (continued)

(e) Derivative financial instruments

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

(f) Capital assets

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

Computer equipment & software	3 years
Office equipment	4 years
Fixtures and fittings	5 years
Motor vehicles	5 years
Leasehold improvements	Over the substantial term of each lease

(g) Translation of foreign currencies

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

(h) Cash and cash equivalents

For purposes of the statements of cash flows the Company considers all instruments and deposits with a maturity of ninety days or less as at the date of purchase, and money market funds which can be redeemed without penalty as equivalent to cash.

TOKIO MILLENNIUM RE LTD.

Notes to Consolidated Financial Statements

December 31, 2007 and 2006

4. **Investments** (continued)

(a) *Fixed maturity securities* (continued)

(ii) The following table summarises for all fixed maturity securities in an unrealised loss position at December 31, 2007, the unrealised loss and fair value by the length of time the security has been continuously in an unrealised loss position.

<u>At December 31, 2007</u>	<u>Less than 12 months</u>		<u>Greater than 12 months</u>	
	<u>Fair value</u>	<u>Unrealised losses</u>	<u>Fair value</u>	<u>Unrealised losses</u>
U.S. government and government agency securities	\$ 22,696,080	\$ (3,209)	\$ 20,602,991	\$ (131,761)
Non U.S. government and government agency securities	—	—	5,370,900	(2,354)
U.S. corporate securities	—	—	9,998,824	(4,000)
Non U.S. corporate securities	—	—	10,030,389	(4,734)
	<u>\$ 22,696,080</u>	<u>\$ (3,209)</u>	<u>\$ 46,003,104</u>	<u>\$ (142,849)</u>

<u>At December 31, 2006</u>	<u>Less than 12 months</u>		<u>Greater than 12 months</u>	
	<u>Fair value</u>	<u>Unrealised losses</u>	<u>Fair value</u>	<u>Unrealised losses</u>
U.S. government and government agency securities	\$ 177,328,361	\$ (194,638)	\$ 130,088,912	\$ (2,872,938)
Non U.S. government and government agency securities	—	—	29,661,130	(1,035,145)
U.S. corporate securities	—	—	22,872,857	(264,250)
Non U.S. corporate securities	16,671,263	(118,926)	19,931,091	(336,355)
	<u>\$ 193,999,624</u>	<u>\$ (313,564)</u>	<u>\$ 202,553,990</u>	<u>\$ (4,508,688)</u>

Unrealised losses on investments held at December 31, 2007 and 2006 comprise an accumulation of relatively small unrealised losses on a security by security basis caused by general interest rate movements rather than credit events. There are no amounts in respect of declines in the value of individual securities considered to be other than temporary included in gross realised losses on fixed maturity investments for the years ended December 31, 2007 and 2006.

TOKIO MILLENNIUM RE LTD.

Notes to Consolidated Financial Statements

December 31, 2007 and 2006

4. Investments (continued)*(a) Fixed maturity securities (continued)**(iii)* For fixed maturity securities held on December 31, 2007 the maturity distribution is as follows:

	<u>Amortised cost</u>	<u>Fair value</u>
Within one year	\$ 146,928,764	\$ 147,185,540
From one to five years	364,756,830	375,948,561
From five to ten years	<u>100,049,046</u>	<u>101,797,733</u>
	<u>\$ 611,734,640</u>	<u>\$ 624,931,834</u>

(iv) The Company's investments in fixed maturity securities carry a weighted average credit rating of AAA, as assigned by Standard & Poor's. The minimum credit rating of securities within the fixed maturity securities portfolio is AA.*(v)* The components of net investment income for the years ended December 31, 2007 and 2006 were as follows:

	<u>2007</u>	<u>2006</u>
Interest on fixed maturity securities	\$ 29,054,456	\$ 25,057,345
Realised loss on sale of fixed maturity securities	-	(6,650)
Amortisation of fixed maturity securities	(806,698)	(1,911,777)
Interest on cash and cash equivalents	13,877,907	13,216,028
Interest on funds withheld	1,379,423	887,244
Investment expenses	<u>(340,552)</u>	<u>(311,385)</u>
Net investment income	<u>\$ 43,164,536</u>	<u>\$ 36,930,805</u>

(vi) In the normal course of business, fixed maturity securities and cash and cash equivalents with fair values of \$74,536,432 as at December 31, 2007 (2006 - \$108,825,821), were deposited in trust for the benefit of ceding companies.*(b) Catastrophe bonds**(i)* The Company's investments in catastrophe bonds consists of \$66.3 million, comprised of ten catastrophe bonds with Standard and Poor's credit ratings ranging from B to BBB and Moody's credit ratings ranging from Ba2 to Baa3. Maturities on these bonds range from 2008 to 2011. The issuers of these securities have used the proceeds raised to collateralize certain catastrophe reinsurance obligations, mainly U.S. and European wind and earthquake risks. The investment in these securities is therefore at risk of loss, in whole or in part, if a covered catastrophe occurs.

TOKIO MILLENNIUM RE LTD.

Notes to Consolidated Financial Statements

December 31, 2007 and 2006

5. Outstanding losses and loss expenses (continued)

During 2007 the Company incurred net losses of \$2.6m, of which \$3.5 million related to quota share business written. The adverse development on these programs is offset by a reduction in ceding commission expenses of \$1 million and profit commission of \$2.2 million. A further \$1.2 million of the net losses relate to transformer policies. The losses on these policies are fully recoverable under catastrophe swap derivatives. Reductions in loss estimates for prior years' losses resulted in a release of reserves of \$2.1 million, most of which related to the 2005 US hurricanes and the 2005 Swiss floods.

During 2006 the Company incurred net losses of \$9.7 million as the result of tornadoes which occurred in March and April. The Company also incurred a \$5 million loss under an aggregate protection policy (fully recoverable under a catastrophe swap) of which \$3.7 million related to loss events in 2006. These were the only significant loss events of 2006. The Company's non-property catastrophe programs incurred the balance of the current year losses. Furthermore changes in estimates from prior years resulted in losses of \$27.7 million of which \$12.0 million related to the 2005 US hurricanes. Of this \$12.0 million adverse development, \$9.7 million was recovered under catastrophe swap derivatives. A further \$3.1 million of the development on 2005 losses related to a claim for Swiss floods. The balance of the loss development on losses incurred in prior years is mainly due to non-property catastrophe programs. The adverse development on these programs is offset by a reduction in ceding commission expenses of \$8.5 million.

For certain catastrophic events there is considerable uncertainty underlying the assumptions and associated estimated reserves for losses and loss adjustment expenses. Reserves are reviewed regularly and, as experience develops and new information becomes known, the reserves are adjusted as necessary. Such adjustments could require a material change in the amount estimated. The uncertainty surrounding reserves for property catastrophe exposures arises from problems such as policy coverage issues, multiple events affecting one geographic area and the impact on claims adjusting by ceding companies. These issues can cause significant delays to the timing of notification of changes to loss estimates reported by ceding companies. Adjustments, if necessary, are reflected in results of operations in the period in which they become known.

6. Reinsurance

Reinsurance contracts do not relieve the Company from its obligations to policyholders. Failure of reinsurers to honor their obligations could result in losses to the Company; consequently, allowances are established for amounts deemed uncollectible. The Company evaluates the financial condition of its reinsurers and monitors concentrations of credit risk arising from similar geographic regions, activities, or economic characteristics of the reinsurers to minimise its exposure to significant losses from reinsurer insolvencies.

Of the total outstanding losses recoverable from reinsurers at December 31, 2007, \$5,000,000 (2006 - \$3,455,041) is due from a single reinsurer with an A+ credit rating from AM Best.

At December 31, 2007, the maximum credit risk exposure in relation to unrated counterparties for reinsurance ceded agreements is \$250.6 million (2006 - \$88.9 million). The Company's credit risk in relation to reinsurance ceded is fully collateralised by assets held in trusts for which the Company is a beneficiary of \$180.7 million (2006 - \$nil) and collateral held on behalf of counterparties of \$81.4 million (2006 - \$88.9 million). At December 31, 2007, prepaid reinsurance premiums of \$28.7 million related to exposures ceded to unrated reinsurers, which is fully collateralised.

TOKIO MILLENNIUM RE LTD.

Notes to Consolidated Financial Statements

December 31, 2007 and 2006

7. Capital assets

Capital assets comprise:

	<u>2007</u>			<u>2006</u>
	<u>Cost</u>	<u>Accumulated depreciation</u>	<u>Net book value</u>	<u>Net book value</u>
Fixtures and fittings	\$ 803,759	\$ 184,669	\$ 619,090	\$ 258,469
Office equipment	21,259	20,819	440	3,430
Computer equipment & software	4,577,939	1,724,761	2,853,178	1,233,926
Leasehold improvements	4,215,924	1,194,969	3,020,955	1,595,628
Motor vehicles	<u>127,551</u>	<u>56,802</u>	<u>70,749</u>	<u>58,781</u>
	<u>\$ 9,746,432</u>	<u>\$ 3,182,020</u>	<u>\$ 6,564,412</u>	<u>\$ 3,150,234</u>

8. Contributed surplus

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

9. Net derivative expense

Net derivative expense consists of catastrophe swap derivative premiums paid of \$20,771,893 (2006 - \$50,156,119), offset by recoveries made under the Company's catastrophe swap derivatives of \$1,229,335 (2006 - \$14,660,500).

At December 31, 2007, the maximum exposure to credit risk of the counterparties for swap agreements is \$342.5 million (2006 - \$136.8 million) which is fully collateralised by assets held in trust by the swap counterparty for the benefit of the Company of \$56.3 million (2006 - \$87.8 million), letters of credit of \$256 million (2006 - \$106.4 million) and collateral held on behalf of counterparties of \$30.2 million (2006 - \$29.0 million). The Company has no entitlement to income earned on the collateral held on behalf of counterparties, and any diminution in the market value of these assets is the responsibility of the counterparty and results in a reduction in the liability for collateral held on behalf of counterparties.

10. Fair value of financial instruments

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

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

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

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

TOKIO MILLENNIUM RE LTD.

Notes to Consolidated Financial Statements

December 31, 2007 and 2006

10. Fair value of financial instruments (continued)

Other assets and liabilities: The fair value of collateral held on behalf of counterparties, accrued interest receivable, reinsurance balances receivable, catastrophe swap, funds withheld, other assets, liability for collateral held on behalf of counterparties, reinsurance balances payable, amounts due to investment brokers, accounts payable and accrued expenses and dividend payable approximates their carrying value due to their short term nature. The estimates of fair values presented herein are subjective in nature and are not necessarily indicative of the amounts that the Company would actually realise in a current market exchange. However, any differences would not be expected to be material. Certain instruments such as prepaid reinsurance premiums, deferred acquisition expenses, outstanding losses recoverable from reinsurers, unearned profit commission, prepaid expenses, capital assets, outstanding losses and loss expenses, unearned premiums, deferred fee income and deferred commission income are excluded from fair value disclosure. Thus the total fair value amounts cannot be aggregated to determine the underlying economic value of the Company.

11. Commitments

- (a) On September 1, 2001, the Company entered into an agreement to lease office space. The term of the lease was ten years. Rent for the current year of the contract amounts to \$235,296 (2006 - \$228,655) which has been included in general and administrative expenses. This amount will increase by a factor dependent on the Bermuda consumer price index on an annual basis. Rent is payable in equal monthly installments.
- (b) On October 6, 2005 the Company entered into an agreement to lease additional office premises for a period of ten years commencing in 2006. Rent for the current year of the contract amounts to \$1,251,133 (2006 - \$50,688) which has been included in general and administrative expenses. This amount will increase by a factor dependent on the Bermuda consumer price index on an annual basis. Rent is payable in equal monthly installments.
- (c) The above lease agreements also include a maintenance commitment. Maintenance expense for the current year amounts to \$293,764 (2006 - \$91,395) which has been included in general and administrative expenses.
- (d) The Company's bankers have issued letters of credit for \$12,489,418 (2006 - \$23,818,092) in favour of ceding companies. Fixed maturity securities and cash equivalents with a carrying value of \$19,514,232 (2006 - \$28,146,164) have been pledged as security for these letters of credit.

12. Statutory requirements

The Company is required by its license to maintain capital and surplus greater than a minimum statutory amount determined as the greater of a percentage of outstanding losses or a given fraction of net written premiums. At December 31, 2007 the Company is required to maintain a minimum statutory capital and surplus of \$37,203,343. Actual statutory capital and surplus is \$890,863,378 and accordingly there is no restriction on the amount of retained earnings available for the payment of dividends to the shareholder.

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

Total shareholder's equity	\$ 906,367,859
Less non-admitted assets:	
Deferred acquisition expenses	10,269,238
Prepaid expenses	1,565,285
Ceded deferred acquisition expenses	(3,471,220)
Unearned profit commission	544,897
Capital assets	6,564,412
Investment in subsidiary	31,869
Statutory capital and surplus	\$ 890,863,378

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12. Statutory requirements (continued)

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

At December 31, 2007 the Company was required to maintain relevant assets of \$261,355,799. At that date relevant assets were \$1,249,548,115 and the minimum liquidity ratio was therefore met.

13. Taxation

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