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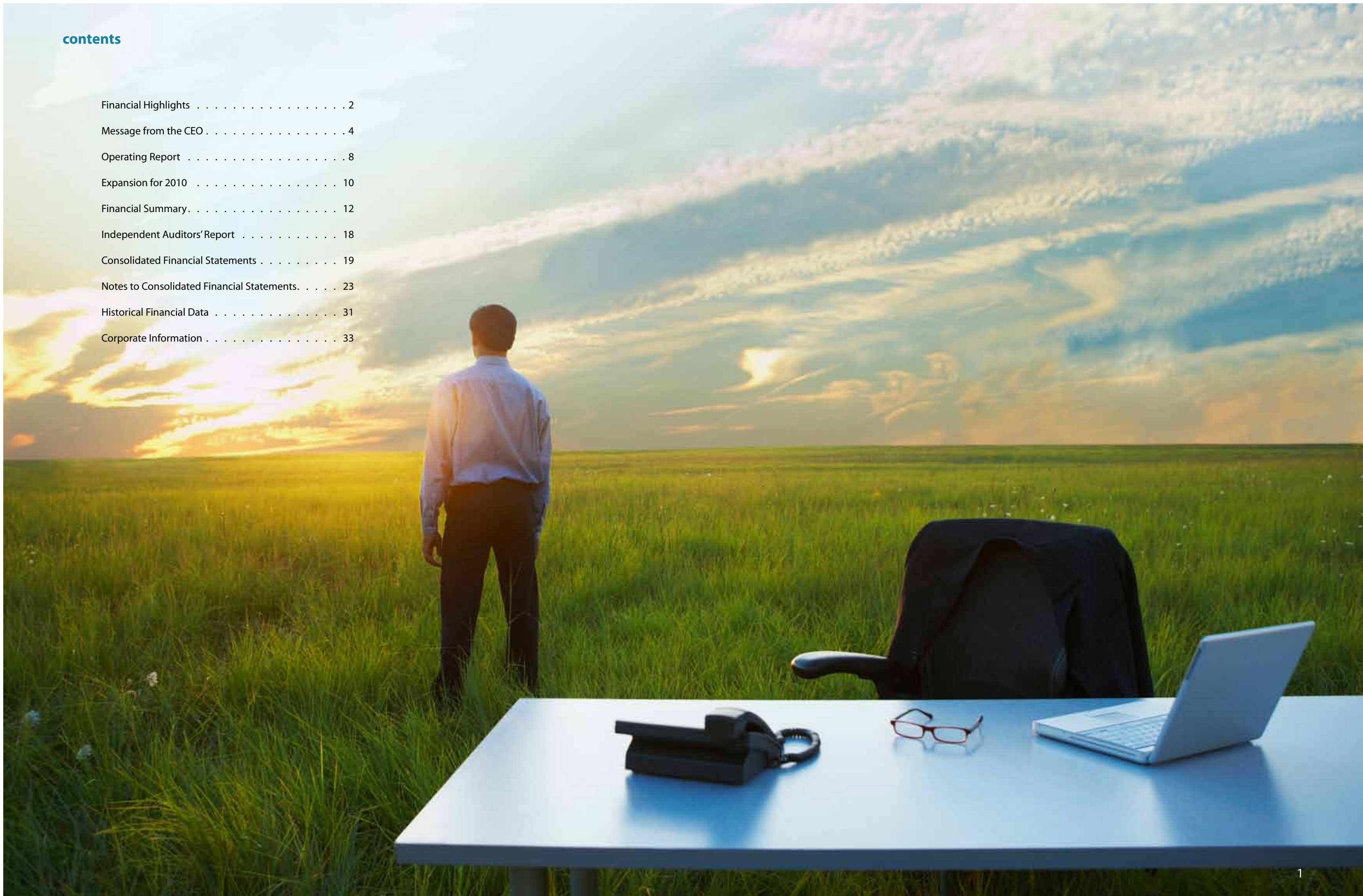
Tokio Millennium Re Ltd.

Planning for Expansion

Annual Report 2009

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financial highlights

Total Assets

US\$ 1,501.2 M

Net Assets

US\$ 1,241.5 M

Net Premium Written

US\$ 360.6 M

Net Income

US\$ 200.5 M

Loss Ratio

5.8%

Combined Ratio

54.8%



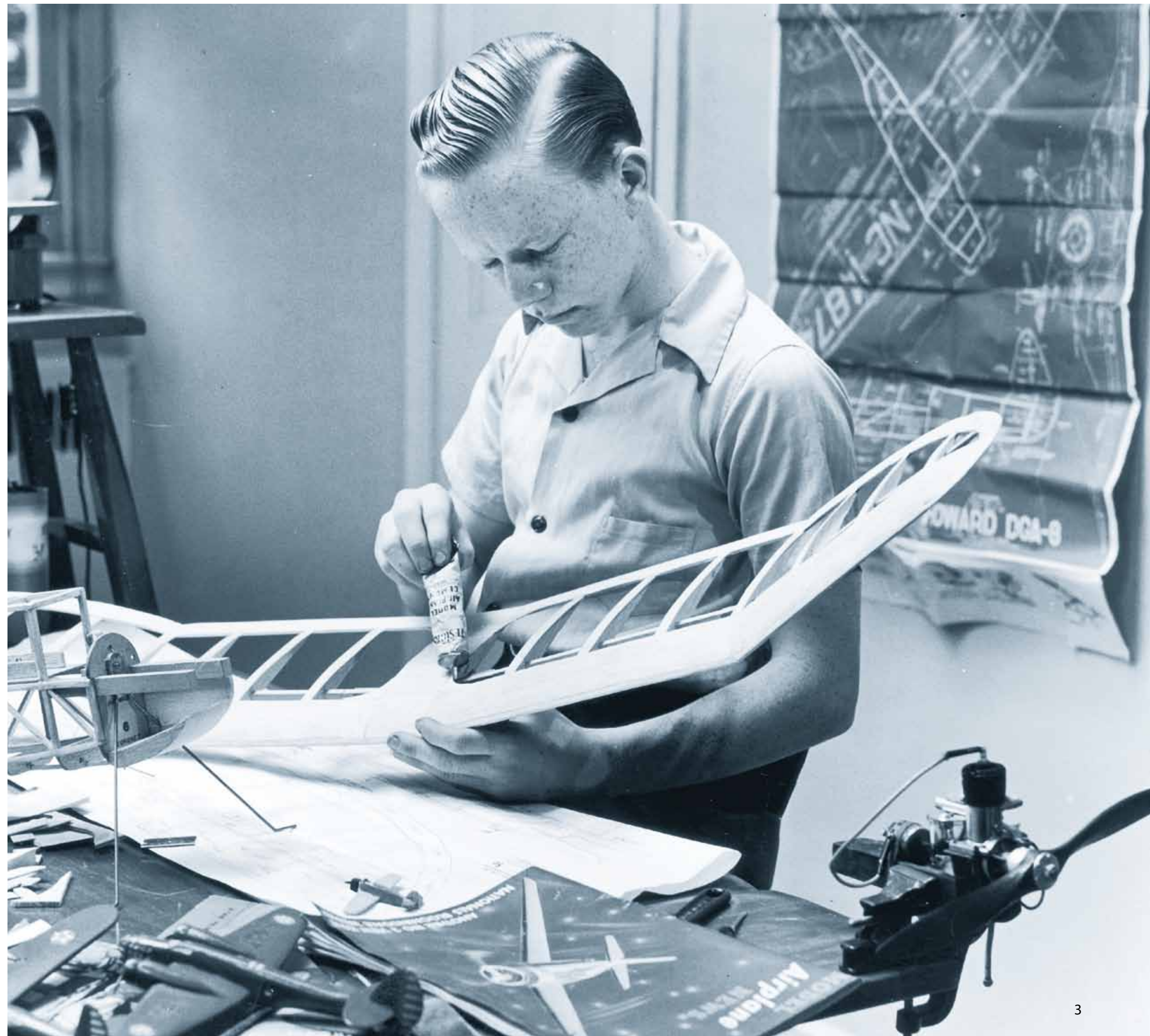
Standard & Poor's rating:

AA



A.M. Best rating:

A+ (SUPERIOR)



message from the ceo

Dear Clients and Business Partners,

2009 was quite simply the best year ever for Tokio Millennium Re. For the first time since our inception in 2000, we were able to make a net profit of over \$200 million, with our assets topping \$1.5 billion. We are in an excellent position as we enter our second decade and prepare to take off into a new phase of development through expansion.

2009 was a very benign year for catastrophic events and Tokio Millennium Re benefited from this, as most of our book of business is natural catastrophe. Despite our investments not performing as well as they did last year – due to the decline in interest rates – we still managed to attain superb results.

While 2009 may have been an uneventful year on the catastrophe front, it was a busy one for Tokio Millennium Re as we began laying the groundwork for our new venture: expansion into the US non-catastrophe property and casualty market. There are several factors driving this expansion, but the primary one is diversification. Our parent company underwrites a high aggregation of Japanese windstorm and earthquake risks, and when we were formed in 2000, it was with a view to enhancing its capital efficiency by geographically diversifying its aggregation of natural perils outside of Japan.

In 2006 – post Hurricane Katrina – we entered our second phase, expanding our business to include workers' compensation catastrophe, crop/hail and terrorism lines, as well as writing lower down the layers of natural peril risk. We also began to position ourselves within the Tokio Marine Group as a profit centre in addition to a risk management vehicle. As our bottom line has grown, it has become increasingly important that we should be able to absorb the inherent volatility of our catastrophe book within our own company, without relying on our parent's balance sheet. This aligns well with our parent company's strategy: the Japanese non-life insurance industry is saturated as a whole, and severe competition is making it much more difficult to grow market share domestically. The aim of the Tokio Marine Group, therefore, is to expand geographically outside Japan and make reinsurance a core pillar of its global expansion plan.



message from the ceo

Tokio Millennium Re's third phase of evolution – entering the US non-catastrophe market for the first time – is a natural route for us to take. Not only is the US market the largest non-life insurance market in the world, but it also complements our catastrophe portfolio which is primarily US-based. We plan to start by expanding within our existing client base and writing the business in Bermuda.

By concentrating on our existing clients, with whom we have formed a relationship of mutual trust and understanding, we plan to expand gradually. Over the past 10 years, Tokio Millennium Re has built up recognition within the reinsurance market; we also have one of the highest credit ratings in the industry. As cedants look to diversify into highly rated companies, this gives us an opportunity to take a share in non-catastrophe lines of business. We are pleased to be able to offer our clients additional top-rated capacity within these areas.

At Tokio Millennium Re, we are known for our scientific analysis of risk. As we prepare to enter the non-catastrophe arena, we will continue to follow the same approach and have already spent considerable time on rigorous ground testing. We have hired additional staff with the skills and experience to establish new platforms and implement the scientific models that will help us to quantify these new risks. The current soft market gives us time to concentrate on building the infrastructure and establishing new pricing models, policies and processes as we gradually start writing new business. We are fortunate in that it is not a necessity for us to make rash decisions in order to attract new accounts onto our books.

Tokio Millennium Re takes pride in sharing our knowledge of risk assessment and management with our parent and other Group companies. This was one of our missions at inception, and we will continue to perform this role as we venture into new areas of business. We are particularly proud of our cutting-edge approach to enterprise risk management as well as the contribution that our enterprise risk management team has made to the Group's policies.

As our business expands, so will our employee count. By the end of 2010 we expect to have grown to a staff complement of 60 and will be moving into additional office space to cope with that expansion.

In March 2010, Tokio Millennium Re celebrated its 10th anniversary. I would like to thank all of our clients, employees and our parent company for their continued support over the past decade. I am optimistic about the future and look forward to piloting the company into a new and exciting phase in its history.

Tatsuhiko Hoshina
President & Chief Executive Officer

operating report

2009 was a great year for Tokio Millennium Re. Thanks to an absence of major catastrophes we achieved solid growth and record revenues on the traditional underwriting side of our business. Our Market Solutions business also continued to experience good deal flow in 2009 despite challenging conditions for our counterparties.

Traditional Reinsurance

Catastrophe reinsurance remains Tokio Millennium Re's core business, so benign hurricane seasons such as that of 2009's benefited us greatly. We recorded some small losses due to storms in Brisbane as well as European hail and windstorm events.

In the wake of Hurricane Ike and the financial crisis of 2008, catastrophe premium rates increased in the first half of 2009, although they did not see a return to 2007 levels. However, as the year progressed without major disasters and as the financial markets began to replenish capital, the market softened. In spite of this, Tokio Millennium Re recorded significant growth in net premium written with an increase of 13% compared to 2008.

2009 proved to be a competitive year for two of our newer lines of reinsurance business: workers' compensation catastrophe and terrorism. A number of companies have recently entered into the workers' compensation catastrophe market for diversification purposes and driven down its prices. In light of this, we have maintained our underwriting discipline and cut back in areas where prices were inadequate and terms were unfavourable. Although the terrorism market remains difficult, we have expanded our terrorism book with new clients.

A quantitative mindset and analytical focus have been the hallmarks of Tokio Millennium Re's approach to risk. Climate change continued to be high on the international agenda in 2009 and we were proud to be at the forefront of the reinsurance industry's research in this area. Since 2006 we have hosted an annual Summit on Global Warming and Climate Change, where renowned experts from around the world are invited to discuss their views on current climate change trends. Our rigorous analysis means that we incorporate what we learn from these sessions directly into our analytical tools.

Market Solutions

Tokio Millennium Re continues to take the lead in transforming reinsurance risk to the capital markets and our counterparties have come to view us as a valued partner in such transactions. Despite challenging market conditions, demand for these services – especially amongst dedicated ILS hedge funds – continued to be strong in 2009. We have continued to expand our Market Solutions team to accommodate what we expect to be an increase in counterparties and deal flow as the economy recovers and investor appetite returns for this non-correlated asset class.

The catastrophe bond market rebounded well from the affects of the Lehman Brothers counterparty default with new issuances of \$3.5 billion in 2009. The market is now providing a more conservative approach to collateral (primarily short term Treasuries). Spreads were wide in 2009 making the new issuances very attractive for investors. Tokio Millennium Re took advantage of these attractive spreads with new catastrophe bond purchases totalling \$57.1 million in 2009. Of the existing portfolio, \$41.5 million of catastrophe bonds matured in 2009.

expansion for 2010

We enter 2010 in a soft market. In the absence of any major catastrophic events, we are likely to continue to see a decline in prices. However, as we are not driven by the need to grow premium income, we will continue to focus on underwriting discipline and expand into areas that fit within our criteria.

During 2010, we look forward to deploying our capabilities within our new standard lines and expanded specialty underwriting units.

Specialty Unit

We will expand the scope of our specialty unit's writings beyond workers' compensation catastrophe, property damage terrorism and CBNR, and the crop/hail business that is currently being offered. New products will include non-catastrophe monoline workers' compensation, non-standard auto and Florida homeowners' quota shares. The capacity offered within this unit will be \$5 million for non-catastrophe workers' compensation programmes, \$25 million for other programmes, and up to \$100 million per pool.

Standard Lines

The standard lines unit has been newly formed within Tokio Millennium Re to write standard property and casualty-exposed business. Products will include property per risk and quota shares, casualty and multiline excess of loss and proportional covers (including general liability, auto, workers' compensation and umbrella), and rated excess covers. Initially, the client focus will be on regional and super-regional insurers within the US and the capacity per programme will be set at \$5 million.

Tokio Millennium Re's financial position in 2009 was excellent. We added \$187.5 million to shareholder's equity – an increase of 17.8% on the previous year – and our total assets broke through \$1.5 billion. Growth in net premium, combined with minimal catastrophe losses, were the main drivers of our success. Our loss ratio was a superb 5.8%.

In 2008, our conservative investment approach protected us from the large mark-to-market losses experienced by most companies. In 2009, however, we did not profit from the gains that our competitors with more aggressive investment portfolios enjoyed. Our investment income also decreased as a result of the low interest rate environment. The extreme volatility seen in financial asset prices over the past few years has reinforced our resolve to maintain our prudent investment philosophy.

financial summary

Underwriting

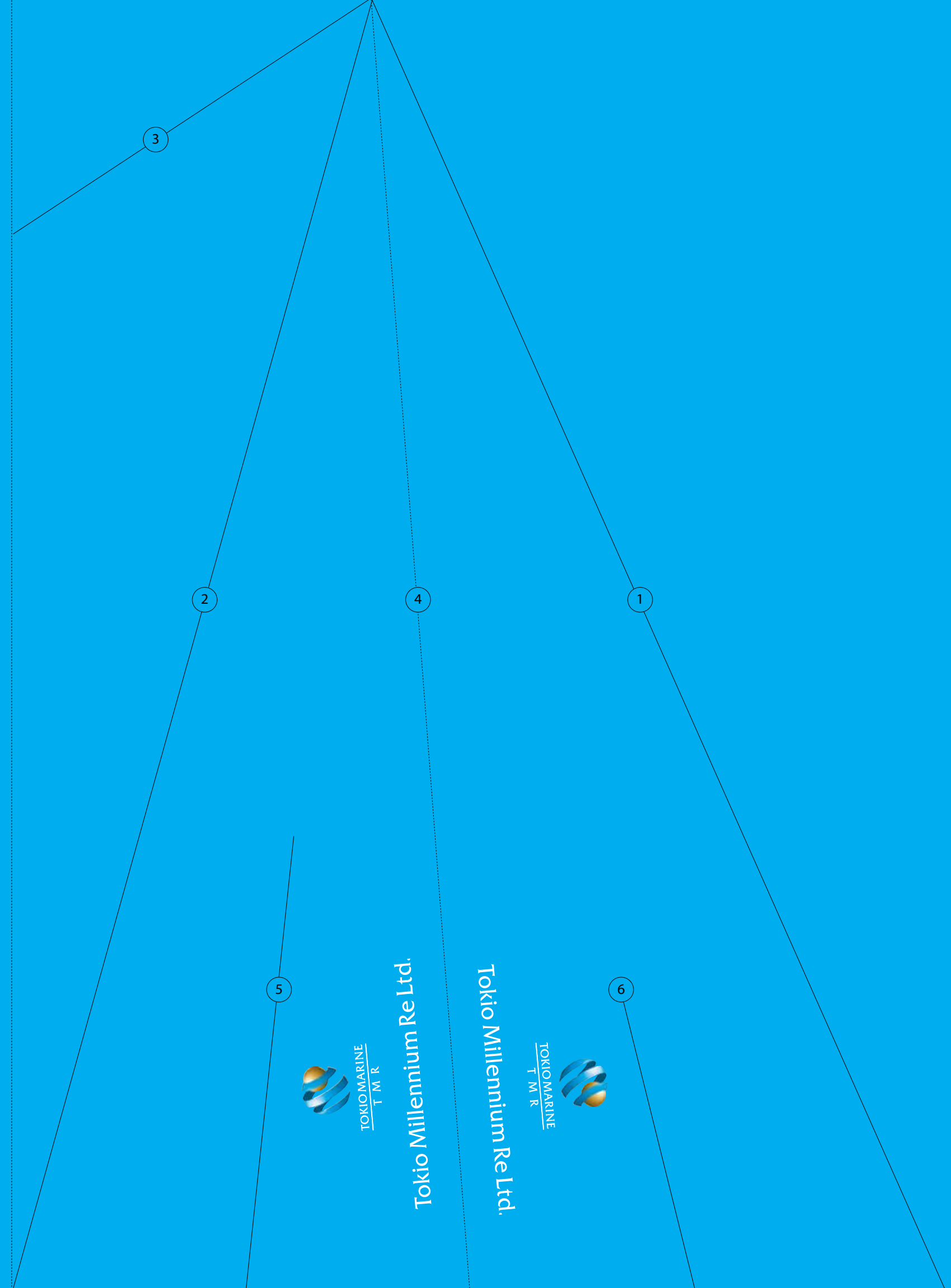
In what was a difficult economic and financial environment, Tokio Millennium Re managed to increase gross premium written to \$417.6 million, up 13% compared to 2008 as we capitalised on the strength of our balance sheet. We experienced a growth of 18.5% in net earned premium, bringing us up to \$356.7 million for the year. Expenses incurred in operating the business rose in line with the growth in premium.

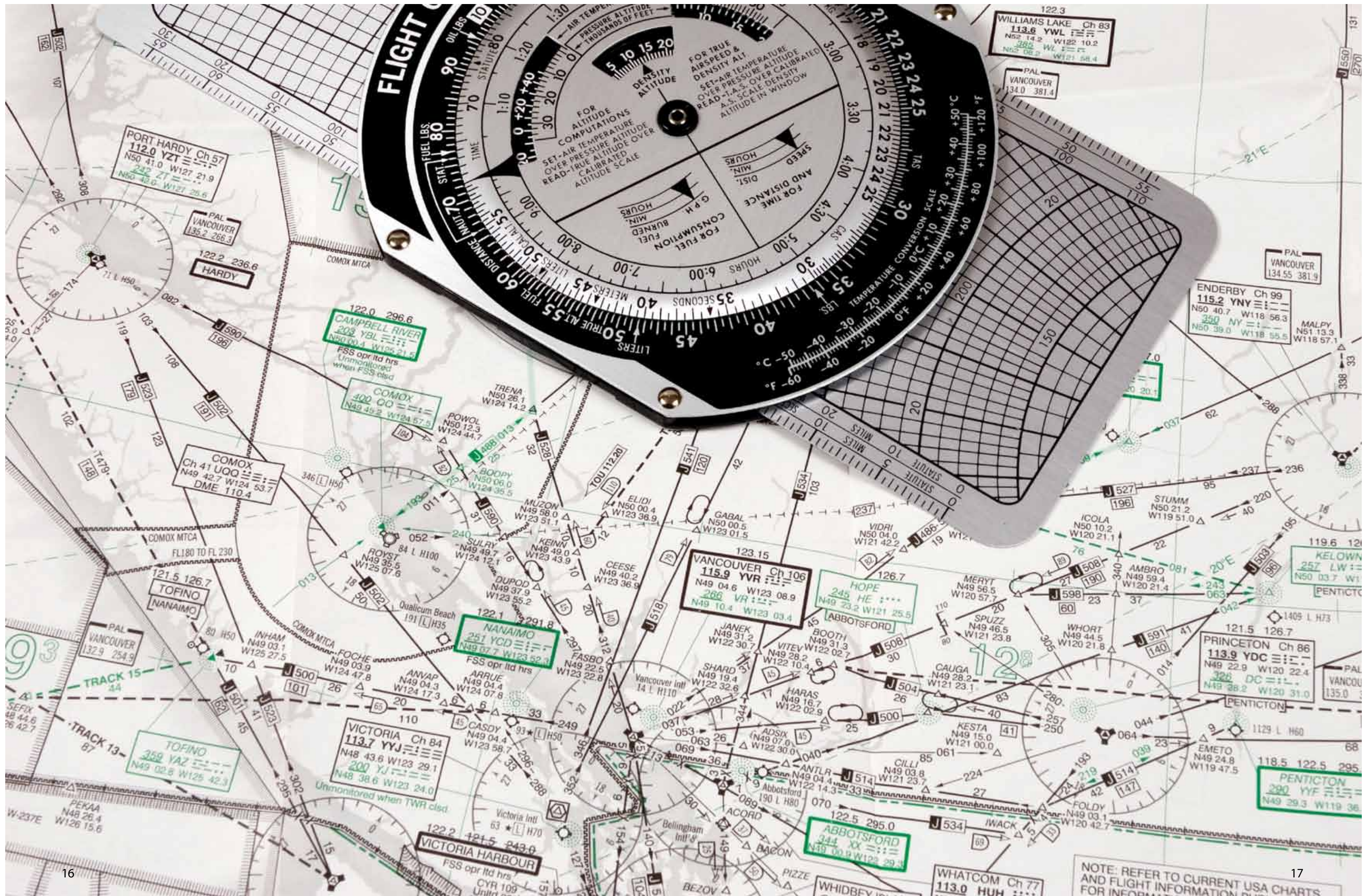
Tokio Millennium Re experienced a steep decline in net loss and loss expenses compared to 2008, falling to \$20.8 million in 2009. Our loss experience was further flattened by the release of loss reserves of \$11.7 million related to Hurricane Ike, a testament to our prudent approach to reserving.

Investments

In 2009, as in 2008, the investment portfolio did not suffer from any realised losses due to credit events. Given the tumultuous period for the financial markets this is a testament to our very conservative investment philosophy. However, net income on the investment portfolio fell to \$28.8 million in 2009, reflecting the downward trend in interest rates, particularly in the US.

Key developments during 2009 were the reduction in cash holdings and the purchase of agency mortgage backed securities. Against a background of almost zero interest rates on cash and short term instruments, exposure to cash and cash equivalents – which had represented 30% of investment assets as at 31 December 2008 – was reduced to 6.5% by the end of 2009. Within the fixed maturity portfolio, the major change was the purchase of AAA-rated US agency-sponsored mortgage backed securities. In conjunction with the Treasury and agency debentures, this left the fixed maturity portfolio with an allocation of 87% to US government and agency securities at the end of 2009, only slightly down from 92% at the end of 2008. Credit ratings remained exceedingly strong with 88% of the fixed maturity portfolio rated AAA and the rest rated no lower than AA-.





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, 2009 and 2008 and the related consolidated statements of operations and comprehensive income, changes in shareholder's equity and cash flows for the years then ended. These consolidated financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these consolidated financial statements based on our audits.

We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the 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, 2009 and 2008, 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

Consolidated Balance Sheets

December 31, 2009 and 2008

	2009 US\$'000	2008 US\$'000
Assets		
Cash and cash equivalents (Notes 3 and 10)	\$ 81,982	\$ 322,034
Short term investments (Notes 3, 4 and 10)	100,000	69,748
Investments in fixed interest securities (Notes 3 and 4)	991,791	637,738
Investments in catastrophe bonds (Note 4)	81,889	62,421
Collateral held on behalf of counterparties (Note 3)	21,111	58,896
Accrued interest receivable	10,540	10,136
Premiums receivable (Note 3)	104,623	87,636
Prepaid reinsurance premiums (Note 3)	17,440	25,653
Fair value of derivatives (Note 3)	29,976	23,232
Outstanding losses recoverable from reinsurers (Notes 3 and 5)	17,083	20,500
Deferred acquisition expenses	10,107	10,998
Unearned profit commission	539	599
Prepaid expenses	2,611	2,055
Capital assets (Note 7)	9,592	9,375
Funds withheld (Note 3)	21,592	40,610
Other assets	331	209
Total assets	\$ 1,501,207	\$ 1,381,840
Liabilities		
Outstanding losses and loss expenses (Note 5)	\$ 84,412	\$ 103,939
Liability for collateral held on behalf of counterparties (Note 3)	22,611	60,145
Reinsurance balances payable	43,305	50,252
Unearned premiums	102,797	107,118
Deferred commission income	2,190	3,566
Accounts payable and accrued expenses (Note 11)	4,383	2,802
Deferred fee income	6	4
Total liabilities	259,704	327,826
Shareholder's equity		
Authorised, issued and fully paid, shares of \$1 par value each	250,000	250,000
Contributed surplus (Note 8)	400,000	400,000
Retained earnings	569,687	369,167
Accumulated other comprehensive income	21,816	34,847
Total shareholder's equity	1,241,503	1,054,014
Total liabilities and shareholder's equity	\$ 1,501,207	\$ 1,381,840

See accompanying notes to consolidated financial statements

Consolidated Statements of Operations and Comprehensive Income

For the Years Ended December 31, 2009 and 2008

	2009 US\$'000	2008 US\$'000
Income		
Reinsurance premiums assumed	\$ 417,622	\$ 369,786
Change in unearned premiums	4,321	(14,289)
Reinsurance premiums earned	421,943	355,497
Reinsurance premiums ceded (Note 6)	57,044	51,510
Change in prepaid reinsurance	8,213	3,024
Reinsurance premiums ceded	65,257	54,534
Net premiums earned	356,686	300,963
Catastrophe bond income	6,373	5,097
Agency fee income	22	15
Total operating income	363,081	306,075
Net investment income (Note 4)	28,833	36,205
Total income	391,914	342,280
Expenses		
Loss and loss expenses incurred	37,329	80,552
Losses recoverable from reinsurers	(16,544)	(21,203)
Net loss and loss expenses incurred (Note 5)	20,785	59,349
Acquisition expenses	53,633	51,261
Profit commission	33,670	26,952
Net derivative expense (Note 9)	54,093	37,012
General and administrative expenses (Note 10)	33,391	27,059
Foreign exchange (gains) losses (Note 4)	(4,178)	14,020
Total expenses	191,394	215,653
Net income	200,520	126,627
Other comprehensive income		
Net change in unrealised gains and losses on investments	(13,031)	21,019
Other comprehensive (loss) income	(13,031)	21,019
Comprehensive income	\$ 187,489	\$ 147,646

See accompanying notes to consolidated financial statements

Consolidated Statements of Changes in Shareholder's Equity

For the Years Ended December 31, 2009 and 2008

	2009 US\$'000	2008 US\$'000
Share capital		
Balance at beginning and end of year	\$ 250,000	\$ 250,000
Contributed surplus		
Balance at beginning and end of year	400,000	400,000
Retained earnings		
Balance at beginning of year	369,167	242,540
Net income	200,520	126,627
Balance at end of year	569,687	369,167
Accumulated other comprehensive income		
Balance at beginning of year	34,847	13,828
Net change in unrealised gains and losses on investments	(13,031)	21,019
Balance at end of year	21,816	34,847
Total shareholder's equity	\$ 1,241,503	\$ 1,054,014

See accompanying notes to consolidated financial statements

Consolidated Statements of Cash Flows

For the Years Ended December 31, 2009 and 2008

	2009 US\$'000	2008 US\$'000
Cash flows from operating activities		
Net income	\$ 200,520	\$ 126,627
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation of capital assets	3,804	2,170
Loss on disposal of fixed assets	–	8
Amortisation of fixed interest securities	2,968	1,765
Amortisation of catastrophe bonds	4	6
Foreign exchange (gains) losses on cash and cash equivalents	(6,373)	332
Other than temporary impairment charge on short term investments	–	12,334
Change in:		
Collateral held on behalf of counterparties	37,785	52,724
Accrued interest receivable	(404)	(1,158)
Premiums receivable	(16,987)	(9,834)
Prepaid reinsurance premiums	8,213	3,023
Fair value of derivatives	(6,744)	(4,557)
Outstanding losses recoverable from reinsurers	3,417	(14,727)
Deferred acquisition expenses	891	(729)
Unearned profit commission	60	(55)
Prepaid expenses	(556)	(484)
Funds withheld	19,018	(8,612)
Other assets	(122)	48
Outstanding losses and loss expenses	(19,527)	40,974
Liability for collateral held on behalf of counterparties	(37,534)	(51,475)
Reinsurance balances payable	(6,947)	(12,450)
Unearned premiums	(4,321)	14,289
Deferred commission income	(1,376)	95
Accounts payable and accrued expenses	1,581	342
Deferred fee income	2	(1)
Cash provided by operating activities	177,372	150,655
Cash flows from investing activities		
Purchase of short term investments	(200,000)	(82,082)
Proceeds on maturity of short term investments	169,748	–
Purchase of fixed interest securities	(486,827)	(138,565)
Proceeds on maturity of fixed interest securities	112,897	146,890
Purchase of catastrophe bonds	(57,094)	(28,814)
Proceeds on maturity of catastrophe bonds	41,500	21,141
Purchase of capital assets, net of sales proceeds	(4,021)	(4,988)
Cash used in investing activities	(423,797)	(86,418)
Cash flows from financing activities		
Dividends paid	–	(50,313)
Cash used in financing activities	–	(50,313)
Net (decrease) increase in cash and cash equivalents	(246,425)	13,924
Foreign exchange gains (losses) on cash and cash equivalents	6,373	(332)
Cash and cash equivalents at beginning of year	322,034	308,442
Cash and cash equivalents at end of year	\$ 81,982	\$ 322,034

See accompanying notes to consolidated financial statements

Notes to Consolidated Financial Statements

December 31, 2009 and 2008

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 3B 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 Tokio Marine Holdings, Inc. (formerly Millea Holdings, Inc.), 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 reinsurance and financial solutions for its clients' world-wide property and casualty exposures on both a treaty and facultative basis.

Tokio Millennium Agency Ltd. ("TMA"), a wholly-owned subsidiary of the Company, was incorporated in Bermuda on June 6, 2003, 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 consolidated financial statements are prepared in accordance with accounting principles generally accepted in the United States of America ("US GAAP"). The consolidated financial statements include the accounts of the Company and its wholly-owned subsidiary, TMA. All significant intercompany transactions and balances are eliminated on consolidation. To facilitate comparison of information across periods, certain prior year amounts may be reclassified to conform to the current year presentation.

The preparation of financial statements in conformity with US GAAP requires management to make estimates and assumptions that affect the reported and disclosed amounts of assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates. The major estimates reflected in the Company's consolidated financial statements include, but are not limited to, the outstanding losses and loss expenses, outstanding losses recoverable from reinsurers, estimates of written and earned premiums and the fair value of catastrophe swap derivatives.

The following are the significant accounting policies adopted by the Company:

(a) 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.

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 estimated claim experience.

(b) 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 ("I billionR"). The I billionR 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.

Notes to Consolidated Financial Statements

December 31, 2009 and 2008

2. Summary of significant accounting policies (continued)

(c) Investments

Short term investments, investments in fixed interest securities and investments in 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. Short term investments represent bank deposits with an original term of greater than ninety days, but less than one year. The carrying value reported in the consolidated balance sheets for these instruments approximates their fair value due to the short term nature of the investments. The fair value of fixed interest securities is based on quoted market prices, if available. If a quoted price is not available, fair value is estimated using quoted prices for similar securities or other market-corroborated data. Fair value for catastrophe bonds is based on independent broker quotes. The cost of investments is adjusted for amortisation of premiums and discounts. Realised gains and losses on investments are recognised in net income using the specific identification method. Interest income on short term investments, fixed interest securities and catastrophe bonds is accrued to the balance sheet date.

Impairment losses are recognised on investments on an individual security basis when the investment is considered to be other than temporarily impaired. Impairment occurs when it is deemed probable that the Company will be unable to collect all amounts due according to contractual terms of the individual security. If there is no objective evidence to support recovery in value before disposal and the Company intends to sell the security or more likely than not will be required to sell the security before recovery of its adjusted amortised cost basis, these impairments will be included within realised losses and the cost basis of the investment reduced accordingly. If the Company does not intend to sell the security and it is unlikely that the Company will be required to sell the security before recovery of its adjusted amortised cost basis, the other than temporary impairment is separated into the amount representing the credit losses and the amount related to all other factors. The amount of the total other than temporary impairment related to credit loss is recognised in earnings. The amount of the total other than temporary impairment related to other factors is recognised in other comprehensive income. The Company will not change the revised cost basis for subsequent recoveries in value.

The Company's investments are managed following prudent standards of diversification. Specific provisions limit the allowable holdings of a single issue and issuers.

(d) Derivative financial instruments

From time to time, the Company enters into catastrophe swap derivatives, under which certain catastrophe reinsurance exposures are ceded to or assumed from swap counterparties. The Company does this to facilitate institutional investors who seek to diversify their portfolios by adding non-correlated reinsurance risks to their portfolio. The Company has accumulated considerable experience in the transformation of such risks by selling reinsurance and buying derivatives from the institutional investors, or vice versa. The Company earns a fee for its role in facilitating such transactions. Since there is no right of offset all transactions are presented on a gross basis in the financial statements. The Company designates its derivatives

as non-hedging derivative instruments based upon criteria established by FASB ASC 815, Derivative and Hedging Activities. Catastrophe swaps are recorded at fair value with changes in fair values recorded in the income statement.

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

(f) 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.

(g) 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 at the date of purchase, and money market funds which can be redeemed without penalty, as equivalent to cash.

(h) Fair value measurements

FASB ASC 820, Fair Value Measurements and Disclosures ("FASB ASC 820"), clarifies the definition of fair value, establishes a framework for measuring fair value and expands disclosures about fair value measurements. FASB ASC 820 clarifies that fair value is a market-based measurement, not an entity-specific measurement, and sets out a fair value hierarchy with the highest priority being quoted prices in active markets and the lowest priority being unobservable data. Further, FASB ASC 820 requires tabular disclosures of the fair value measurements by level within the fair value hierarchy. The Company adopted FASB ASC 820 effective January 1, 2008. The adoption did not have a significant impact on the Company's consolidated statements of operations or financial condition, except for additional required disclosures in the consolidated financial statements.

The following are the levels within the fair value hierarchy:

Level 1 – Valuations based on quoted prices in active markets for identical assets or liabilities that the Company has the ability to access. Since valuations are based on quoted prices that are readily and regularly available in an active market, valuation of these instruments does not entail a significant degree of judgment.

Level 2 – Valuations based on quoted prices in markets that are not active or for which all significant inputs are observable, directly or indirectly. Level 2 inputs include quoted prices for similar assets and liabilities in active markets and inputs other than quoted prices that are observable for the asset or liability, such as interest rates and yield curves that are observable at commonly quoted intervals, broker quotes and certain pricing indices.

Level 3 – Valuations based on inputs that are unobservable and significant to the overall fair value measurement. These measurements include circumstances where there is little, if any, market activity for the asset or liability. In these cases, significant management assumptions can be used to establish management's best estimate of the assumptions used by other market participants in determining the fair value of the asset or liability.

There have been no material changes in the Company's valuation techniques since the adoption of FAS ASC 820.

In certain cases, the inputs used to measure fair value may fall into different levels of the fair value hierarchy. In such cases, the level in the fair value hierarchy within which the fair value measurement in its entirety falls has been determined based on the lowest level input that is significant to the fair value measurement of the asset or liability. The Company's assessment of the significance of a particular input to the fair value measurement in its entirety requires judgment, and the Company considers factors specific to the asset or liability.

Below is a summary of the assets and liabilities that are measured at fair value on a recurring basis:

	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
Total			
At December 31, 2009	US\$'000	US\$'000	US\$'000
Short term investments	\$ 100,000	\$ 100,000	\$ –
Investments in fixed interest securities	991,791	418,554	573,237
Investments in catastrophe bonds	81,889	–	81,889
Collateral held on behalf of counterparties	21,111	21,111	–
Fair value of derivatives	29,976	–	–
Liability for collateral held on behalf of counterparties	(22,611)	(22,611)	–
	\$1,202,156	\$ 517,054	\$ 655,126
			\$ 29,976

Investments in fixed interest securities included in Level 1 consist of the Company's investments in US Treasuries; also included in Level 1 are short term investments and collateral held on behalf of counterparties, which consists of cash and cash equivalents.

Notes to Consolidated Financial Statements

December 31, 2009 and 2008

Investments in fixed interest securities included in Level 2 consist of the Company's investments in US agency debentures, non-US government bonds, US agency mortgage-backed securities and corporate bonds. Investments in catastrophe bonds are also included in Level 2. The fair value of catastrophe bonds is determined using the midpoint of the bid and offer price provided by an independent pricing agent.

Included in Level 3 are the Company's catastrophe swap derivatives. Catastrophe swap derivatives are stated at fair value as estimated by management primarily based on the unexpired period of risk, an evaluation of the probability of loss and other unobservable inputs. The inputs for catastrophe swap derivatives are purely based on management's evaluation and are unobservable.

Below is a reconciliation of the beginning and ending balances of derivatives measured at fair value on a recurring basis using Level 3 inputs:

Year Ended December 31, 2009	Fair Value Measurements Using Significant Unobservable Inputs (Level 3) US\$'000
Balance – January 1	\$ 23,232
Total unrealised losses Included in net derivative expense	(30,878)
Total realised losses Included in net derivative expense	(23,232)
Total foreign exchange gains Included in net derivative expense	17
Net purchases, issuances, and settlements	60,837
Net transfers in and/or out of Level 3	–
Balance – December 31	\$ 29,976

The following methods and assumptions are used by the Company in estimating fair value disclosures for other financial instruments:

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

Other assets and liabilities: The fair value of accrued interest receivable, premiums receivable, funds withheld, other assets, reinsurance balances payable, accounts payable and accrued expenses approximates their carrying value due to their short term nature. The estimates of fair values 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.

Notes to Consolidated Financial Statements

December 31, 2009 and 2008

2. Summary of significant accounting policies (continued)

(i) Bad debt provision

The company reviews receivables on a quarterly basis. A bad debt provision is generally provided for any receivables that are greater than six months overdue. In addition the company considers known and emerging credit events to determine if other provisions are necessary.

(j) Long term incentive compensation plan

In 2008, the Board approved a compensation program for employees. The compensation program consists of accumulation units which are based on movements in the net asset value of the Company and are settled in cash once the cliff vesting service period has been rendered. The Company is required to account for the compensation program in accordance with FASB ASC 718, Compensation – Stock Compensation (“FASB ASC 718”). FASB ASC 718 requires the Company to measure the cost of employee services received in exchange for an accumulation unit award based on the grant-date fair value of the award and as a liability award is remeasured each reporting period. The cost of such services will be recognised over the period during which an employee is required to provide service in exchange for the award. The fair value of the accumulation units is accounted for as a liability classified award. The Company has applied a narrow based interpretation of authorization, as defined in FASB ASC 718, for the determination of the grant date of the awards. As such, the grant date of the units is determined to be upon authorization of the awards in accordance with the Company's governance structure.

(k) Taxation

In July 2006, the Financial Accounting Standards Board (“FASB”) issued and update to FASB ASC 740 (FASB statement No.109). This interpretation. It also provides detailed guidance for the financial statement recognition, measurement and disclosure of uncertain tax positions recognised in an enterprise's financial statements. The Company has adopted FASB ASC 740 (FIN 48) for the fiscal year beginning on January 1, 2009 with no resulting impact on the Company's operating results or financial condition.

3. Concentration of credit risk

As at December 31, 2009, cash and cash equivalents of \$2.0 million (2008 - \$322.0 million) and short term investments of \$100 million (2008 - \$69.7 million) are held with a single banking institution with a credit rating of AA-. Money market funds totalling \$79.9 million (2008 - \$ nil) are held with three banking institutions. The money market funds are all rated AAA. All ratings have been assigned by leading rating agencies. The Company's management evaluates the financial strength and stability of these institutions on a periodic basis.

As at December 31, 2009, 71% of the Company's funds withheld is held in trust by a ceding company with a credit rating of A-. At December 31, 2008, 78% of the Company's funds withheld was held in trust by two ceding companies with credit ratings of A- and A, respectively.

The Company's investment portfolio is managed by an external investment manager in accordance with the Company's investment guidelines. These guidelines follow prudent standards of diversification and a prudent investment philosophy. Within the fixed income portfolio, the Company attempts to limit credit exposure by purchasing fixed income securities rated AA- and higher. The Company is not exposed to any significant concentration risk on its investments.

The Company has exposure to credit risk related to premiums receivable and reinsurance recoverable on paid and unpaid losses. The credit risk exposure related to these balances is mitigated by several factors, including but not limited to, collateralization of exposures ceded to unrated counterparties, credit checks performed as part of the underwriting process and monitoring of aged receivables. As of December 31, 2009 and 2008, the Company has no significant aged receivables.

The creditworthiness of any counterparty is evaluated by the Company, taking into account credit ratings assigned by rating agencies. The credit approval process involves an assessment of factors including, among others, the counterparty, country and credit exposure limits.

At December 31, 2009, the maximum credit risk exposure in relation to unrated counterparties for reinsurance ceded agreements is \$290.8 million (2008 - \$416.7 million). The Company's credit risk in relation to reinsurance ceded is fully collateralised. The collateral consists of assets held in trusts by the reinsurance counterparty for the benefit of the Company of \$95.3 million (2008 - \$219.6 million), collateral held on behalf of counterparties of \$16.6 million (2008 - \$56.6 million), and letters of credit of \$258.0 million (2008 - \$140.4 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.

At December 31, 2009, prepaid reinsurance premiums of \$17.4 million (2008 - \$25.7 million) are related to exposures ceded to unrated reinsurers.

At December 31, 2009, the maximum exposure to credit risk of the counterparties for catastrophe swap agreements is \$415.4 million (2008 - \$422.8 million) which is fully collateralised. The collateral consists of assets held in trust by the swap counterparty for the benefit of the Company of \$2.5 million (2008 - \$15.9 million), letters of credit of \$408.4 million (2008 - \$403.3 million) and collateral held on behalf of counterparties of \$4.5 million (2008 - \$3.5 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.

The Company also has exposure to credit risk as it relates to its business written through brokers, if any of the Company's brokers is unable to fulfill their contractual obligations with respect to payments to the Company. In addition, in some jurisdictions, if the broker fails to make payments to the insured under the Company's policy, the Company might remain liable to the insured for any deficiency.

Notes to Consolidated Financial Statements

December 31, 2009 and 2008

4. Investments

(a) Fixed interest securities

(i) The amortised cost, fair value and unrealised gains and losses of investments in fixed interest securities are as follows:

	Amortised Cost US\$'000	Unrealised Gains US\$'000	Unrealised Losses US\$'000	Fair Value US\$'000
At December 31, 2009				
US government and government agency securities	\$ 615,487	\$ 19,716	\$ (1,706)	\$ 633,497
Non US government and government agency securities	30,023	745	-	30,768
US corporate securities	64,151	1,202	(127)	65,226
Non US corporate securities	65,584	622	(147)	66,059
Agency mortgage-backed securities	197,362	-	(1,121)	196,241
	\$ 972,607	\$ 22,285	\$ (3,101)	\$ 991,791
At December 31, 2008				
US government and government agency securities	\$ 529,737	\$ 35,427	\$ -	\$ 565,164
Non US government and government agency securities	30,255	1,208	-	31,463
US corporate securities	12,886	355	-	13,241
Non US corporate securities	28,767	23	(920)	27,870
	\$ 601,645	\$ 37,013	\$ (920)	\$ 637,738

(ii) The following table summarises for all fixed interest securities in an unrealised loss position at December 31, 2009, the unrealised loss and fair value by the length of time the security has been continuously in an unrealised loss position.

	Less than 12 months		Greater than 12 months	
	Fair Value US\$'000	Unrealised Losses US\$'000	Fair Value US\$'000	Unrealised Losses US\$'000
At December 31, 2009				
US government and government agency securities	\$ 102,459	\$ (1,706)	\$ -	\$ -
Non US government and government agency securities	-	-	-	-
US corporate securities	19,963	(127)	-	-
Non US corporate securities	20,692	(147)	-	-
Agency mortgage-backed securities	196,241	(1,121)	-	-
	\$ 339,355	\$ (3,101)	\$ -	\$ -
At December 31, 2008				
US government and government agency securities	\$ -	\$ -	\$ -	\$ -
Non US government and government agency securities	-	-	-	-
US corporate securities	-	-	-	-
Non US corporate securities	26,047	(920)	-	-
	\$ 26,047	\$ (920)	\$ -	\$ -

Notes to Consolidated Financial Statements

December 31, 2009 and 2008

4. Investments (continued)

(a) Fixed interest securities (continued)

As of December 31, 2009, the Company held 31 out of a total of 87 fixed interest securities in an unrealised loss position, which carried total gross unrealised losses of \$3.1 million. The securities have been in an unrealised loss position for one to two months. These 31 fixed interest securities in an unrealised loss position, for which an other-than-temporary impairment charge has not been taken, are rated between AA- and AAA.

Unrealised losses on investments held as of December 31, 2009 and 2008 comprise of an accumulation of relatively small unrealised losses on a security by security basis caused by general interest rate movements rather than credit events. As of December 31, 2009 and 2008, the Company had no significant unrealised losses caused by other factors or circumstances, including an issuer's specific credit risk or due to industry or geographic risk. There are no amounts in respect of declines in the value of individual securities considered to be other than temporary that were included in gross realised losses on fixed interest investments for the years ended December 31, 2009 and 2008.

(iii) The amortised cost and estimated fair value of fixed interest securities as of December 31, 2009, by contractual maturity, are shown below. Actual maturities may differ from contractual maturities because borrowers may have the right to repay obligations with or without prepayment penalties:

	Amortised Cost US\$'000	Fair Value US\$'000
Within one year	\$ 185,644	\$ 187,565
From one to five years	499,305	517,132
From five to ten years	90,296	90,853
Subtotal	775,245	795,550
Agency mortgage-backed securities	197,362	196,241
Total	\$ 972,607	\$ 991,791

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

(v) The components of net investment income for the years ended December 31, 2009 and 2008 were as follows:

	2009 US\$'000	2008 US\$'000
Interest on fixed interest securities	\$ 28,048	\$ 27,662
Amortisation of fixed interest securities	(2,968)	(1,765)
Interest on cash and cash equivalents	1,733	8,618
Interest on short term investments	1,971	1,345
Interest on funds withheld	570	702
Investment management fees	(521)	(357)
Net investment income	\$ 28,833	\$ 36,205

(vi) In the normal course of business, fixed interest securities and cash and cash equivalents with fair values of \$67.7 million as at December 31, 2009 (2008 - \$101.9 million), were deposited in trust for the benefit of ceding companies.

(vii) During the year ended December 31, 2008, the Company recorded an other-than-temporary impairment charge of \$12.3 million on short term investments due to movements in exchange rates. The impairment charge has been recorded as part of foreign exchange losses (gains) in the consolidated statements of operations. There was no impairment charge recorded during 2009.

(b) Catastrophe bonds

(i) The Company's investments in catastrophe bonds comprised of thirteen bonds. Eleven of the catastrophe bonds have credit ratings with Standard and Poor's ranging from B to BB+ while the other two catastrophe bonds have credit ratings with Moody's ranging from B1 to Baa2. Maturities on these bonds range from 2010 to 2012. The issuers of these securities have used the proceeds raised to collateralise certain catastrophe reinsurance obligations, mainly North American 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.

The cost, fair value and unrealised gains and losses of catastrophe bonds are as follows:

	Cost US\$'000	Unrealised Gains US\$'000	Unrealised Losses US\$'000	Fair Value US\$'000
At December 31, 2009				
Catastrophe bonds	\$ 79,257	\$ 3,008	\$ (376)	\$ 81,889
At December 31, 2008				
Catastrophe bonds	\$ 63,667	\$ -	\$ (1,246)	\$ 62,421

5. Outstanding losses and loss expenses

The summary of changes in outstanding losses and loss expenses for 2009 and 2008 is as follows:

	2009 US\$'000	2008 US\$'000
Gross balance as of January 1	\$ 103,939	\$ 62,964
Less outstanding losses recoverable from reinsurers	(20,500)	(5,773)
Net balance at January 1	83,439	57,191
Incurred losses related to:		
Current year	31,926	57,429
Prior years	(11,141)	1,920
Total incurred	20,785	59,349
Paid losses related to:		
Current year	6,353	12,112
Prior years	30,542	20,989
Total paid	36,895	33,101
Net balance at December 31	67,329	83,439
Plus outstanding losses recoverable from reinsurers	17,083	20,500
Gross balance at December 31	\$ 84,412	\$ 103,939

During 2009, the Company incurred net losses of \$20.8 million. The Company experienced favorable development of \$11.7 million related to Hurricane Ike losses, a 2008 event, which is offset by adverse development of \$2.1 million relating to the 2008 Brisbane storms. Management's initial assessment of the Brisbane storms was no impact to the Company, hence no reserves were recorded at year end 2008. The favorable development of \$11.7 million relating to Hurricane Ike is due to updated loss information received from various cedants.

Notes to Consolidated Financial Statements

December 31, 2009 and 2008

During 2008, the Company incurred net losses of \$59.3 million, of which \$48.9 million related to Hurricane Ike, \$7.2 million related to quota share business written and the balance related to smaller events and development on prior year losses. Of the total incurred net losses for 2008, \$4.9 million was recoverable under catastrophe swap derivatives.

For certain catastrophic events, particularly significant events such as Hurricane Ike, 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. Ceded reinsurance

The Company uses retrocessional agreements to reduce its exposure to risk of loss on reinsurance assumed. These agreements generally provide for recovery of a portion of losses and loss expenses from retrocessionaires. The Company remains liable to its cedants to the extent that the retrocessionaires do not meet their obligations under these agreements. Failure of reinsurers to honor their obligations could result in losses to the Company. Therefore the Company evaluates the financial condition of its reinsurers and monitors concentration of credit risk on an ongoing basis, arising from similar geographic regions, activities, or economic characteristics of the reinsurers in order to minimise its exposure to significant losses from reinsurer insolvencies. Provisions are made for amounts considered potentially uncollectible.

As discussed in note 3, the Company's maximum exposure to unrated reinsurers is fully collateralised.

7. Capital assets

Capital assets comprise:

	2009 Cost US\$'000	2009 Accumulated Depreciation US\$'000	Net Book Value US\$'000	2008 Net Book Value US\$'000
Computer equipment	\$ 3,617	\$ 2,945	\$ 672	\$ 911
Computer software	8,937	3,806	5,131	4,519
Fixtures and fittings	1,273	495	778	699
Leasehold improvements	4,742	1,757	2,985	3,200
Motor vehicles	99	73	26	46
Office equipment	8	8	-	-
	\$ 18,676	\$ 9,084	\$ 9,592	\$ 9,375

Notes to Consolidated Financial Statements

December 31, 2009 and 2008

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 expensed of \$54.1 million (2008 - \$41.9 million), offset by recoveries made under the Company's catastrophe swap derivatives of \$nil (2008 - \$4.9 million).

As discussed in note 3, the Company's maximum exposure to unrated counterparties is fully collateralised.

10. 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 \$256,100 (2008 - \$247,034) 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. The Company is currently in negotiations with the lease counterparty to relieve its obligations under the terms of the lease. The Company does not anticipate it will incur any material expense associated with this action.

(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 \$1.3 million (2008 - \$1.2 million) 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 \$446,885 (2008 - \$435,002) which has been included in general and administrative expenses.

(d) On January 22, 2010 the Company entered into an agreement to lease additional office premises for a period of ten years commencing January 1, 2010. The expected annual charge per the contract amounts to \$853,423. The new lease also includes a maintenance commitment with an expected annual charge per contract amounting to \$297,965. This amount will increase by a factor dependent on the Bermuda consumer price index on an annual basis. Rent and maintenance is payable in equal monthly installments.

(e) The Company's bankers have issued letters of credit for \$11.9 million (2008 - \$7.2 million) in favour of ceding companies. Short term investments with a fair value of \$11.9 million (2008 - \$7.2 million) have been pledged as security for these letters of credit.

11. Long term incentive compensation plan

On April 1, 2009, the Company granted its first accumulation units under its long term incentive compensation plan. The value of the units are based on movements in the net asset value of the Company and will be settled in cash four years from the date of issue if the fair value of units at that date exceeds the grant date fair value. At December 31, 2009, there were 384,692 units in issue with a grant date fair value of \$3.16.

In accordance with FASB ASC 718, the fair value of options granted is estimated using a model with the following assumptions:

Expected unit life	4 years
Expected volatility	36%
Risk-free interest rate	1.5%
Forfeiture rate	0%

At year end the fair value per unit was \$4.05. This resulted in an accrued expense of \$292,074 for the year and an unrecognised expense of \$1.2 million which will be recognised evenly over the next 39 months. The company revises fair value on a quarterly basis based on the latest estimate of fair value and number of units in issue.

The activity during 2009 related to number of accumulation units is summarised as follows:

Outstanding at beginning of year	-
Granted	388,613
Exercised	-
Forfeited	(3,921)
Outstanding at end of year	384,692

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, 2009, the Company is required to maintain a minimum statutory capital and surplus of \$54.4 million. Actual statutory capital and surplus is \$1.2 billion 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:

	US\$'000
Total shareholder's equity	1,241,503
Less non-admitted assets	-
Deferred acquisition expenses	10,107
Prepaid expenses	2,605
Ceded deferred acquisition expenses	(2,190)
Unearned profit commission	539
Capital assets	9,592
Investment in subsidiary	34
Statutory capital and surplus	1,220,816

The Company is also required to maintain a minimum liquidity ratio whereby the value of its relevant assets is not less than 75% of the amount of its relevant liabilities. Relevant assets include cash and cash equivalents, short term investments, catastrophe bonds, fixed interest securities, accrued interest receivable, premiums 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, funds withheld ceded, accounts payable and accrued expenses, net of outstanding losses recoverable from reinsurers and prepaid reinsurance premiums.

At December 31, 2009 the Company was required to maintain relevant assets of \$167.2 million. At that date, relevant assets were \$1.4 billion 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.

14. Subsequent events

The Company has completed its subsequent events evaluation for the period subsequent to the balance sheet date of December 31, 2009, through March 12, 2010, the date the consolidated financial statements were available for issuance.

Historical Financial Data

December 31, 2009, 2008, 2007, 2006 and 2005

Consolidated Balance Sheets

	2009 US\$'000	2008 US\$'000	2007 US\$'000	2006 US\$'000	2005 US\$'000
Assets					
Cash and cash equivalents	\$ 81,982	\$ 322,034	\$ 308,442	\$ 254,125	\$ 383,752
Short term investments	100,000	69,748	-	-	-
Investments in fixed interest securities	991,791	637,738	624,932	600,581	391,936
Investments in catastrophe bonds	81,889	62,421	66,935	58,653	21,913
Deposit asset	-	-	-	-	86,567
Collateral held on behalf of counterparties	21,111	58,896	111,620	117,927	5,319
Premiums receivable	104,623	87,636	77,802	56,358	51,275
Funds withheld	21,592	40,610	31,998	32,746	37,911
Other assets	98,219	102,757	81,308	38,638	56,027
Total assets	\$ 1,501,207	\$ 1,381,840	\$ 1,303,037	\$ 1,159,028	\$ 1,034,700
Liabilities					
Outstanding losses and loss expenses	\$ 84,412	\$ 103,939	\$ 62,964	\$ 152,679	\$ 188,260
Deposit liability	-	-	-	-	86,567
Liability for collateral held on behalf of counterparties	22,611	60,145	111,620	117,927	5,319
Unearned premiums	102,797	107,118	92,829	51,348	58,678
Other liabilities	49,884	56,624	129,256	65,354	10,738
Total liabilities	259,704	327,826	396,669	387,308	349,562
Shareholder's equity					
Share Capital	250,000	250,000	250,000	250,000	250,000
Contributed surplus	400,000	400,000	400,000	400,000	400,000
Retained earnings	569,687	369,167	242,540	125,138	38,383
Other comprehensive income (loss)	21,816	34,847	13,828	(3,418)	(3,245)
Total shareholder's equity	1,241,503	1,054,014	906,368	771,720	685,138
Total liabilities and shareholder's equity	\$ 1,501,207	\$ 1,381,840	\$ 1,303,037	\$ 1,159,028	\$ 1,034,700

Consolidated Statements of Operations and Comprehensive Income

	2009 US\$'000	2008 US\$'000	2007 US\$'000	2006 US\$'000	2005 US\$'000
Income					
Net reinsurance premiums written	\$ 360,578	\$ 318,276	\$ 246,023	\$ 250,192	\$ 115,362
Net premiums earned	356,686	300,963	222,796	264,457	102,516
Other operating income	6,395	5,112	5,607	5,834	4,442
Total operating income	363,081	306,075	228,403	270,291	106,958
Net investment income	28,833	36,205	43,164	36,931	23,551
Total income	391,914	342,280	271,567	307,222	130,509
Expenses					
Net loss and loss expenses incurred	20,785	59,349	2,644	58,345	148,205
Acquisition expenses	53,633	51,261	40,076	58,625	26,370
General and administrative expenses	33,391	27,059	20,687	15,081	9,622
Net derivative expense (income)	54,093	37,012	19,543	35,496	(7,151)
Other expenses	29,492	40,972	20,902	15,742	3,461
Total expenses	191,394	215,653	103,852	183,289	180,507
Net income (loss)	\$ 200,520	\$ 126,627	\$ 167,715	\$ 123,933	\$ (49,998)



Tokio Millennium Re Ltd.

Directors

Shin-ichiro Okada
Fumiaki Namekawa
Kunihiko Fujii
Tatsuhiko Hoshina
Shumpei Takizawa
Jerome Faure

Parent Company

Tokio Marine & Nichido
Fire Insurance Co., Ltd.
2-1, Marunouchi
1-Chome
Chiyoda-ku,
Tokyo 100-8050
Japan

Auditors

KPMG
Crown House
4 Par-La-Ville Road
Hamilton HM 08
Bermuda

Bermuda Lawyers

Conyers Dill & Pearman
Clarendon House
2 Church Street
Hamilton HM 11
Bermuda



Tokio Millennium Re Ltd.

Tokio Millennium House, 3 Waterloo Lane, Pembroke HM 08, Bermuda
Telephone 1-441-296-6700 Fax 1-441-278-1044 www.tokiomillennium.com