

Ironshore Insurance Ltd.
Consolidated Financial Statements
December 31, 2010

REPORT OF INDEPENDENT AUDITORS

TO THE BOARD OF DIRECTORS AND SHAREHOLDER OF
IRONSHORE INSURANCE LTD.

We have audited the accompanying consolidated balance sheets of Ironshore Insurance Ltd. and subsidiaries as of December 31, 2010 and 2009, and the related consolidated statements of operations changes in shareholder 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 financial statements based on our audits.

We conducted our audits in accordance with auditing standards generally accepted in the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. We were not engaged to perform an audit of the Company's internal control over financial reporting. Our audits included 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 financial statements, assessing the accounting principles used and significant estimates made by management, and 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 Ironshore Insurance Ltd. and subsidiaries at December 31, 2010 and 2009, and the consolidated results of its operations and its cash flows for the years then ended in conformity with accounting principles generally accepted in the United States.

Ernst & Young Ltd.

April 29, 2011

Ironshore Insurance Ltd.
Consolidated Balance Sheets
As of December 31, 2010 and 2009
(Expressed in U.S. dollars, except share data)

	<u>2010</u>	<u>2009</u>
ASSETS		
Fixed maturity investments, at fair value (amortized cost: 2010 - \$2,004,729,454, 2009 - \$1,626,339,894) (Note 5)	\$2,025,678,616	\$1,604,670,294
Short term investments, at cost	53,610,447	-
Total investments	<u>2,079,289,063</u>	<u>1,604,670,294</u>
Cash and cash equivalents	129,536,685	101,702,605
Accrued investment income	14,122,826	11,594,322
Premium balances receivable	160,916,855	109,247,465
Reinsurance recoverable (Note 7)	281,189,560	217,740,618
Reinsurance recoverable on paid losses (Note 7)	10,538,789	10,019,519
Deferred acquisition costs	78,296,349	57,490,277
Prepaid reinsurance premiums	170,524,977	142,442,011
Receivable for securities sold	1,370,231	128,019
Goodwill and other intangible assets (Note 4)	38,857,036	37,946,261
Amounts receivable from related parties	273,289,792	-
Other assets	24,349,205	11,891,050
Total Assets	<u><u>\$3,262,281,368</u></u>	<u><u>\$2,304,872,441</u></u>
LIABILITIES		
Reserve for losses and loss adjustment expenses (Note 6)	814,430,498	484,235,246
Unearned premiums	571,406,056	424,408,545
Insurance and reinsurance balances payable	59,013,966	16,273,922
Deferred acquisition costs ceded	34,725,184	25,960,131
Payable for securities purchased	50,821,819	4,136,813
Deferred tax liabilities	2,947,985	424,279
Amounts payable to related parties	381,922	3,460,964
Other liabilities	71,411,710	44,588,087
Debt obligations (Note 11)	246,450,869	-
Total Liabilities	<u>1,851,590,009</u>	<u>1,003,487,987</u>
SHAREHOLDER'S EQUITY (Note 8)		
Common share, 2,000,000 authorized, \$1.00 par value, issued and outstanding (2010: 1,000,000; 2009: 1,000,000)	1,000,000	1,000,000
Additional paid-in capital	1,222,728,209	1,218,068,576
Retained earnings	183,188,396	78,421,407
TOTAL IRONSHORE INSURANCE LTD. SHAREHOLDER'S EQUITY	<u>1,406,916,605</u>	<u>1,297,489,983</u>
Noncontrolling interest - Wright & Co.	3,774,754	3,894,471
TOTAL SHAREHOLDER'S EQUITY	<u>1,410,691,359</u>	<u>1,301,384,454</u>
TOTAL LIABILITIES AND SHAREHOLDER'S EQUITY	<u><u>\$3,262,281,368</u></u>	<u><u>\$2,304,872,441</u></u>

See accompanying notes to the consolidated financial statements.

Ironshore Insurance Ltd.
Consolidated Statements of Operations
For the years ended December 31, 2010 and 2009
(Expressed in U.S. dollars)

	<u>2010</u>	<u>2009</u>
REVENUES		
Gross premiums written	\$1,033,480,602	\$743,358,329
Reinsurance premiums ceded	<u>(280,223,898)</u>	<u>(238,697,661)</u>
Net premiums written	753,256,704	504,660,668
Change in unearned premiums	<u>(117,678,922)</u>	<u>(113,085,508)</u>
Net premiums earned	635,577,782	391,575,160
Net investment income (Note 5)	58,756,590	46,069,848
Net realized and unrealized gains on investments (Note 5)	37,675,608	26,159,150
Net foreign exchange gains (losses)	8,032,066	(6,245,105)
Other (expense) income	<u>(580,497)</u>	<u>4,471,672</u>
Total revenues	<u>739,461,549</u>	<u>462,030,725</u>
EXPENSES		
Losses and loss adjustment expenses (Note 6)	398,049,153	175,096,274
Acquisition expenses	81,203,863	58,330,676
General and administrative expenses	141,399,511	112,594,123
Interest expense	<u>13,783,160</u>	<u>-</u>
Total expenses	<u>634,435,687</u>	<u>346,021,073</u>
Net income before taxes	\$105,025,862	\$116,009,652
Income tax expense (Note 10)	378,589	1,419,438
Net income	<u>\$104,647,273</u>	<u>\$114,590,214</u>
Net (loss) income (attributable) available to noncontrolling interest - Wright & Co.	<u>(119,716)</u>	<u>36,053</u>
Net income attributable to Ironshore Insurance Ltd.	<u>\$104,766,989</u>	<u>\$114,554,161</u>

See accompanying notes to the consolidated financial statements.

Ironshore Insurance Ltd.
Consolidated Statements of Changes in Shareholder's Equity
For the years ended December 31, 2010 and 2009
(Expressed in U.S. dollars)

	2010	2009
COMMON VOTING SHARES	\$1,000,000	\$1,000,000
ADDITIONAL PAID-IN-CAPITAL		
Balance as of beginning of year	1,218,068,576	973,869,346
Stock compensation expense	4,659,633	4,199,230
Capital contribution	-	240,000,000
Balance as of end of year	1,222,728,209	1,218,068,576
RETAINED EARNINGS		
Balance as of beginning of year	78,421,407	(36,132,754)
Net income for year attributable to Ironshore Insurance Ltd.	104,766,989	114,554,161
Balance as of end of year	183,188,396	78,421,407
TOTAL IRONSHORE INSURANCE LTD. SHAREHOLDER'S EQUITY	1,406,916,605	1,297,489,983
Noncontrolling interest - Wright & Co	3,774,754	3,894,471
TOTAL SHAREHOLDER'S EQUITY	\$1,410,691,359	\$1,301,384,454

See accompanying notes to the consolidated financial statements.

Ironshore Insurance Ltd.
Consolidated Statements of Cash Flows
For the years ended December 31, 2010 and 2009
(Expressed in U.S. dollars)

	2010	2009
CASH FLOWS PROVIDED BY OPERATING ACTIVITIES:		
Net income	\$104,647,273	\$114,590,214
ADJUSTMENTS TO RECONCILE NET INCOME TO NET CASH PROVIDED BY OPERATING ACTIVITIES:		
Amortization and depreciation	191,231	1,796,091
Stock compensation expense	4,659,633	4,199,230
Amortization of debt securities	12,135,666	3,574,492
Net realized and unrealized gains on investments	(37,127,146)	(26,159,150)
CHANGES IN OPERATIONAL ASSETS AND LIABILITIES:		
Accrued investment income	(2,528,504)	(1,756,775)
Premium balances receivable	(51,669,390)	(33,417,924)
Reinsurance recoverable	(63,448,942)	35,490,772
Reinsurance recoverables on paid losses	(519,270)	(10,019,519)
Deferred acquisition costs	(20,806,072)	(27,415,837)
Prepaid reinsurance premiums	(28,082,966)	(101,172,583)
Amounts receivable from related parties	(273,289,792)	11,780,085
Other assets	(8,977,694)	(16,018)
Reserve for losses and loss adjustment expenses	330,195,252	50,280,693
Unearned premiums	146,997,511	213,825,907
Insurance and reinsurance balances payable	42,740,044	(48,206,140)
Deferred acquisition costs ceded	8,765,053	20,720,640
Amounts payable to related parties	(3,079,042)	3,460,964
Deferred tax liabilities	2,523,706	(1,306)
Other liabilities	25,423,622	25,943,678
Net cash provided by operating activities	188,750,173	237,497,514
CASH FLOWS USED IN INVESTING ACTIVITIES:		
Purchases of fixed maturity investments	(1,360,255,303)	(1,148,338,173)
Purchases of short term investments	(1,105,164,166)	(24,326,521)
Proceeds on sales of fixed maturity investments	879,987,922	662,335,772
Proceeds on maturities of fixed maturity investments	129,571,308	66,140,129
Proceeds on sales of short term investments	1,051,675,912	24,345,649
Net loan to related party	1,250,000	(1,250,000)
Provision of loan to non controlling interest - Wright & Co	1,400,000	(1,400,000)
Purchases of fixed assets	(5,832,635)	(3,286,942)
Purchase of subsidiary, net of cash acquired	-	(1,322,189)
Purchase of intangibles in asset acquisition	-	(10,000,000)
Transfer of intangible asset	-	2,166,677
Net cash used in investing activities	(407,366,962)	(434,935,608)

See accompanying notes to the consolidated financial statements.

Ironshore Insurance Ltd.
Consolidated Statements of Cash Flows
For the years ended December 31, 2010 and 2009
(Expressed in U.S. dollars)

	2010	2009
CASH FLOWS PROVIDED BY FINANCING ACTIVITIES:		
Additional paid-in capital received from shareholder	-	240,000,000
Debt offering	246,450,869	-
Contribution by noncontrolling interest in purchase of subsidiary	-	3,858,418
Net cash provided by financing activities	246,450,869	243,858,418
Net increase in cash and cash equivalents	27,834,080	46,420,324
Cash and cash equivalents as of beginning of year	101,702,605	55,282,281
CASH AND CASH EQUIVALENTS AS OF END OF YEAR	\$129,536,685	\$101,702,605
SUPPLEMENTAL DISCLOSURES OF CASH FLOW INFORMATION:		
Income taxes paid	\$1,726,160	\$1,378,589
Interest paid	\$10,920,139	\$-

See accompanying notes to the consolidated financial statements.

Ironshore Insurance Limited
Notes to consolidated financial statements
(Expressed in U.S. dollars)

1. Nature of the business

Ironshore Insurance Ltd. (“Ironshore Insurance”) was incorporated under the laws of Bermuda on October 19, 2006. Ironshore Insurance, together with its subsidiaries (collectively referred to as the “Company”), began underwriting activities in 2007 and provides specialty commercial property and casualty coverages for risks located throughout the world. Ironshore Insurance is registered as a Class 4 insurer under The Insurance Act 1978 in Bermuda, related regulations and amendments thereto (“The Act”). Ironshore Insurance writes primarily property catastrophe and property all-risks coverage for small to mid sized commercial risks. The Company is a wholly owned subsidiary of Ironshore Inc. (“Ironshore”), a company that was incorporated under the laws of the Cayman Islands on September 26, 2006.

Ironshore Inc. entered into a joint venture agreement with C.V. Starr & Co. Inc., and its affiliates (“Starr”) to create Iron-Starr Excess Agency Ltd (“Iron-Starr Excess” or the “Agency”) on January 23, 2009. Iron-Starr Excess was incorporated under the laws of Bermuda on February 26, 2009 and is domiciled in Bermuda. Iron-Starr Excess acts as a specialty lines insurance and reinsurance managing general agency in the offering, issuance and administration of insurance policies written on an equal subscription basis by Ironshore Insurance and Starr Insurance and Reinsurance Limited (“SIRL”). Iron-Starr Excess writes catastrophic excess casualty insurance products, targeting Fortune 2000 and other clients purchasing cat excess coverages. On December 29, 2010, “Iron-Starr Excess” became a wholly owned subsidiary of Ironshore Inc.

The Company’s U.S. platform consists of Ironshore Holdings (U.S.) Inc. (“Ironshore Holdings US”) which is incorporated in Delaware and its principal subsidiaries Ironshore Indemnity Inc., (“Ironshore Indemnity”), a Minnesota domiciled insurer and Ironshore Specialty Insurance Limited (“Ironshore Specialty”), an Arizona domiciled insurer. The U.S. companies serve the property and specialty casualty insurance market sectors. The U.S. companies also insure all classes of aviation and aerospace risks worldwide through an agreement with Starr Aviation Agency, Inc. Ironshore Reinsurance Ltd. (“Ironshore Reinsurance”) a subsidiary of Ironshore Holdings US and a Bermuda domiciled company which was registered as a Class 3A insurer, under The Act, was dissolved on December 29, 2010.

2. Significant accounting policies

Basis of presentation

The consolidated financial statements have been prepared in accordance with accounting principles generally accepted in the United States of America (“GAAP”) and include the financial statements of Ironshore Insurance and its wholly owned subsidiaries. All inter-company balances and transactions have been eliminated on consolidation. Certain prior year comparatives have been reclassified to conform to the current year presentation.

Use of Estimates in Financial Statements

The preparation of financial statements in conformity with GAAP requires management to make estimates and assumptions that affect the reported and disclosed amounts of assets and liabilities and disclosure of contingent assets and liabilities as of the date of the financial statements and the reported amounts of reserves and expenses during the reporting period. Actual results could differ materially from those estimates. The major estimates reflected in the Company’s consolidated financial statements include, but are not limited to, the reserves for losses and loss adjustment expenses, reinsurance recoverable, estimates of written and earned premiums, the fair value of investments, recoverability of intangible assets and the Company’s net deferred tax liability.

Premiums and related expenses

Premiums written and ceded are earned on a pro rata basis over the terms of the risk period. Premiums written include estimates based on information received from brokers, ceding companies and insureds, and any subsequent differences arising on such estimates are recorded in the period in which they are determined. The portion of the premiums written applicable to the unexpired terms of the underlying contracts and policies are recorded as unearned premiums. For contracts written on a losses occurring basis, the risk period is generally the same as the contract or policy term. For contracts written on a risks attaching basis, the risk period is based on the terms of the underlying contracts and policies. Reinstatement premiums are estimated after the occurrence of a significant loss and are recorded in accordance with the contract terms based upon the ultimate loss estimates associated with each contract. Reinstatement premiums are earned when written.

Ironshore Insurance Limited
Notes to consolidated financial statements
(Expressed in U.S. dollars)

Acquisition expenses are costs that vary with, and are directly related to, the production of new and renewal business, and consist principally of commissions and brokerage expenses. These costs are deferred and amortized over the periods in which the related premiums are earned. Deferred acquisition costs are limited to their estimated realizable value based on the related unearned premiums. Anticipated loss and loss adjustment expenses based on historical and current experience and anticipated investment income related to those premiums are considered in determining the recoverability of deferred acquisition costs.

Certain reinsurance contracts are deemed not to transfer insurance risk in accordance with Financial Accounting Standards Board (“FASB”) Accounting Standard Codification (“ASC”) Topic 944 *Financial Services – Insurance* and are accounted for using the deposit method of accounting. Management exercises significant judgment in determining whether contracts should be accounted for as reinsurance contracts or deposit insurance contracts. It is possible that the Company could incur or cede losses on such contracts. Using the deposit method of accounting, for those contracts that contain an element of underwriting risk, the estimated profit margin is deferred and amortized over the contract term and is included in the Company’s underwriting results. When the estimated profit margin is explicit, the margin is reflected as fee income and adverse results on such contracts are reflected as incurred losses. When the estimated profit margin is implicit, the margin is reflected as an offset to paid losses and any adverse results are reflected as incurred losses. For those contracts that do not transfer an element of underwriting risk, the projected profit is reflected in the consolidated statements of operations over the estimated settlement period using the interest method and is included in investment income. Deposit accounting assets or liabilities are included in other assets or other liabilities, respectively, on the Company’s balance sheet.

Reinsurance

In the normal course of business, the Company may seek to mitigate underwriting risk that could cause unfavorable results by reinsuring certain amounts of risk with reinsurers. Reinsurance premiums ceded are expensed pro rata over the period the reinsurance coverage is provided. Prepaid reinsurance premiums represent the portion of premiums ceded on the unexpired terms of the policies purchased. Reinsurance ceding commissions are recognized in the consolidated statements of operations on a pro rata basis over the period the reinsurance coverage is provided. The portions of such commissions that will be earned in the future is deferred and recorded as deferred acquisition costs ceded on the balance sheet.

Reinsurance recoverable is presented on the balance sheet net of any reserves for uncollectible reinsurance. The method of determining the reinsurance recoverable on unpaid losses and loss adjustment expenses involves actuarial estimates in a manner consistent with the determination of unpaid losses and loss adjustment expenses.

Reserve for losses and loss adjustment expenses

The reserve for losses and loss adjustment expenses includes reserves for unpaid reported losses and for losses incurred but not reported. The reserve for unpaid reported losses and loss expenses is established by management based on reports from loss adjusters, ceding companies and insureds and represents the estimated ultimate cost of events or conditions that have been reported to, or specifically identified, by the Company. The reserve for incurred but not reported losses and loss adjustment expenses is established by management based on actuarially determined estimates of ultimate losses and loss expenses. Inherent in the estimate of ultimate losses and loss expenses are expected trends in claim severity and frequency and other factors which vary significantly as claims are settled. Accordingly, ultimate losses and loss expenses may differ materially from the amounts recorded in the consolidated financial statements. 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 recorded in the consolidated statements of operations in the periods in which they become known and are accounted for as changes in estimates.

Ironshore Insurance Limited
Notes to consolidated financial statements
(Expressed in U.S. dollars)

Investment

The Company adopted the fair value option in accordance with FASB ASC Topic 825 *Financial Instruments*. As a result unrealized gains and losses are recorded in net realized and unrealized gains (losses) on investments in the consolidated statements of operations. The Company believes that accounting for its investments as trading with all changes in fair value included in net income reduces an element of management judgment as the Company is not required to perform an analysis of its investments for other-than-temporary impairment.

Fair values of the Company's fixed maturity investments are based on quoted market prices, or when such prices are not available, by reference to broker or underwriter bid indications and/or internal pricing valuation techniques. Investment transactions are recorded on a trade date basis with balances pending settlement recorded separately in the balance sheet as receivable for investments sold or payable for investments purchased.

For mortgage-backed and other asset-backed debt securities, fair value includes estimates regarding prepayment assumptions, which are based on current market conditions. Amortized cost in relation to these securities is calculated using a constant effective yield based on anticipated prepayments and estimated economic lives of the securities. When actual prepayments differ significantly from anticipated prepayments, the effective yield is recalculated to reflect actual payments to date. Changes in estimated yield are recorded on a retrospective basis, which results in future cash flows being used to determine current book value.

Realized gains and losses on sales of investments are determined on the average cost basis.

Net investment income includes interest income on fixed maturity investments, recorded when earned and the amortization of premiums and discounts on investments and is recorded net of investment expenses. The amortization of premium and accretion of discount is computed using the effective interest rate method.

Fair value measurement

The Company follows FASB ASC Topic 820 *Fair Value Measurements and Disclosures* which defines fair value as the price received to transfer an asset or paid to transfer a liability in an orderly transaction between market participants as of the measurement date reflecting the highest and best use valuation concepts. ASC 820 also establishes a framework for measuring fair value using a hierarchy of fair value measurements that distinguishes market data between observable independent market inputs and unobservable market assumptions and requires additional disclosures about such fair value measurements.

Financial assets and liabilities are classified in their entirety based on the lowest level of input that is significant to the fair value measurement. The hierarchy gives the highest priority to unadjusted quoted prices in active markets for identical assets or liabilities (Level 1 measurements) and the lowest priority to unobservable inputs (Level 3 measurements).

The three levels of the fair value hierarchy are described further below:

Level 1: Quoted prices in active markets for identical assets/liabilities (unadjusted);

Level 2: Indirect observable inputs including quoted prices for similar assets/liabilities (adjusted) and market corroborated inputs;

Level 3: Unobservable inputs which reflect the underlying entity's interpretation of risk assumptions used by market participants.

The fair value measurement objective remains the same in an inactive market, i.e. the price that would be received in an orderly transaction that is not a forced liquidation or distressed sale as of the measurement date. The determination of fair value in a dislocated market depends on facts and circumstances and may require the use of significant judgment about whether individual transactions are forced liquidations or distressed sales. The guidance also provides that in determining the fair value for a financial asset, the use of a reporting entity's own assumptions about future cash flows and appropriately risk-adjusted discount rates is acceptable when relevant observable inputs are not available. It further indicates that regardless of the valuation technique used, an entity must include appropriate risk adjustments that market participants would make for nonperformance and liquidity risks. Finally, the guidance provides that broker quotes may be an appropriate input when measuring fair value but the nature of the quote should be considered when weighing the evidence available. The Company has considered the provisions of the guidance and has determined that its fair value measurement policies are consistent with the guidance.

Ironshore Insurance Limited
Notes to consolidated financial statements
(Expressed in U.S. dollars)

Short term investments

Short term investments, which are managed as part of the Company's investment portfolio, have an original maturity of one year or less when purchased, and are carried at cost which approximates fair value.

Cash and cash equivalents

The Company considers all investments with an original maturity of ninety days or less as cash equivalents.

Business combinations, goodwill and other intangible assets

The Company accounts for business combinations in accordance with FASB ASC Topic 805 *Business Combinations*, and goodwill and other intangible assets that arise from business combinations in accordance with FASB ASC Topic 350 *Intangibles – Goodwill and Other*. A purchase price that is in excess of the fair value of the net assets acquired arising from a business combination is recorded as goodwill, and is not amortized. Other intangible assets with a finite life are amortized over the estimated useful life of the asset. Other intangible assets with an indefinite useful life are not amortized.

Goodwill and other indefinite life intangible assets are tested for impairment at least annually. The impairment test has two steps. The first step identifies potential impairments by comparing the fair value of the reporting unit to its book value, including intangibles. If the fair value of the reporting unit exceeds the carrying amount, the intangible is not impaired and the second step is not required. If the carrying value is in excess of the fair value, the second step computes the possible impairment loss by comparing the implied fair value of the intangible with the carrying amount. If the implied fair value of the intangible is less than the carrying amount, the intangible is written down to its fair value with a corresponding expense being included in the Company's consolidated statements of operations.

The Company considers the recoverability of its intangible assets whenever a change in circumstances arises and in the event that an impairment exists, any excess unamortized balances are recorded in the consolidated statements of operations.

Noncontrolling interest

The Company accounts for noncontrolling interest in accordance with FASB ASC Topic 805 *Business Combinations* which establishes accounting and reporting standards that require that ownership interests in subsidiaries held by other parties be presented in the consolidated statement of shareholders' equity separately from the parent's equity and the consolidated net income attributable to noncontrolling interest be presented on the face of the consolidated statements of operations. The guidance also requires that changes in a parent's ownership interest while the parent retains controlling financial interest in its subsidiary be accounted for consistently. Disclosures in financial statements are required to identify and distinguish between the interests of the parent and noncontrolling owners.

Foreign exchange

The Company's reporting currency is the United States Dollar (U.S. dollars or \$). Monetary assets and liabilities denominated in currencies other than U.S. dollars are revalued at the exchange rates in effect as of the balance sheet date with the resulting foreign exchange gains and losses included in the consolidated statements of operations as net foreign exchange gains (losses). Revenues and expenses denominated in currencies other than U.S. dollars are translated at the average rate for the period. The financial statements of each of the Company's subsidiaries are initially measured using the entity's functional currency, which is determined based on its operating environment and its underlying cash flows.

Stock compensation

The Company accounts for its participation in Ironshore Inc.'s stock compensation plans in accordance with the fair value recognition provisions of ASC 718 "*Compensation – Stock Compensation*". Accordingly, the Company measures the compensation expense for share based awards based on the estimated fair value of the award on the date of grant, and such amount is included in the consolidated statements of operations over the requisite service period. Ironshore Inc. charges the Company for a portion of the expense associated with the stock-based employee compensation.

Ironshore Insurance Limited
Notes to consolidated financial statements
(Expressed in U.S. dollars)

Taxation

Income taxes have been provided in accordance with the provisions of FASB ASC Topic 740 *Income Taxes* on those operations which are subject to income taxes. Deferred tax assets and liabilities result from temporary differences between the amounts recorded in the consolidated financial statements and the tax basis of the Company's assets and liabilities. The effect on deferred tax assets and liabilities of a change in tax rates is recognized in income in the period that includes the enactment date. A valuation allowance against deferred tax assets is recorded if it is more likely than not that all, or some portion, of the benefits related to deferred tax assets will not be realized.

The Company reflects tax positions in accordance FASB ASC Topic 740, *Income Taxes*. Such tax positions are, based solely on their technical merits, more likely than not to be sustained upon examination by taxing authorities and reflect the largest amount of benefit, determined on a cumulative probability basis that is more likely than not to be realized upon settlement with the applicable taxing authority with full knowledge of all relevant information.

New Accounting Pronouncements

Variable Interest Entities

In June 2009, the FASB issued Statement No. 167, Amendments to FASB Interpretation No. 46(R,) and the FASB subsequently codified it as ASU 2009-17, updating FASB ASC Topic 810 *Consolidations* with the objective of improving financial reporting by enterprises involved with variable interest entities. This guidance is effective as of the beginning of each reporting entity's first annual reporting period that begins after November 15, 2009, for interim periods within that first annual reporting period, and for interim and annual reporting periods thereafter. The adoption of ASU 2009-17 has not impacted the Company's consolidated financial statements.

In January 2010, the FASB issued authoritative guidance updating ASC 820. This update requires additional disclosures regarding (1) significant transfers in and out of Levels 1 and 2 and the reasons that such transfers were made; (2) inputs and valuation techniques used to measure fair value for financial assets and liabilities that fall into either Level 2 or Level 3; (3) the activity within Level 3 fair value measurements, including information on a gross basis for purchases, sales, issuances, and settlements; and (4) disaggregation of financial assets and liabilities measured at fair value into classes of financial assets and liabilities. This guidance is effective for interim and annual reporting periods beginning after December 15, 2009, except for Level 3 reconciliation disclosures which are effective for interim and annual periods beginning after December 15, 2010. The adoption of this update has not had a material impact on the Company's consolidated financial statements.

In October 2010, the FASB issued new accounting guidance intended to address diversity in practice regarding the interpretation of which costs relating to the acquisition of insurance and reinsurance business qualify for deferral. The new guidance modifies the definition of the types of costs that can be capitalized. For example, the guidance specifies that insurance and reinsurance companies can no longer capitalize costs relating to unsuccessful business acquisition efforts. Similarly, costs associated with soliciting potential customers, market research, training and product development should be charged to expense as incurred. The new guidance, which is effective for fiscal years beginning after December 15, 2011, is not expected to have a material impact on the Company's consolidated financial statements.

3. Business Combinations

On July 1, 2009, Ironshore Holdings US and Rockwood Programs Holdings Inc. ("RPI") entered into a Stock Purchase Agreement ("SPA") with Special Agents Mutual Benefit Association ("SAMBA") to acquire Wright & Co ("W&C") for a net purchase price of \$2,322,189. Ironshore Holdings US acquired 60% and RPI acquired 40% of the issued and outstanding shares of W&C.

W&C is a program administrator that provides supplemental insurance programs to employees of the United States government. The Company underwrites the professional liability coverage administered by W&C.

Ironshore Holdings US provided a loan of \$1,400,000 to RPI in order to fund a portion of the purchase price. The loan bore interest at prime rate plus 4% and was guaranteed by Rockwood Programs, Inc. ("Rockwood") and Glenn Clark, President of RPI, jointly and severally in the event that RPI is unable to repay the loan. On April 9, 2010, RPI repaid the loan plus interest amounting to \$1,491,036. RPI provides certain services and manages the daily operations of W&C.

Ironshore Insurance Limited
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(Expressed in U.S. dollars)

Ironshore Holdings US, RPI and SAMBA also entered into an earn-out agreement on July 1, 2009 which detailed the contingent consideration included in the transaction. The SPA provided that an adjustment may be made to the purchase price based on W&C's revenues for the initial 12 months following the date of the acquisition together with interest at a rate of 2%. As of the date of acquisition, Ironshore anticipated that an earn-out payment of \$1,000,000 would be made and this amount was recognized as a liability as of that date with a corresponding amount being included in goodwill. On September 15, 2010, Ironshore Holdings US made a payment under the earn-out agreement of \$614,515 to SAMBA, representing the Company's 60% interest.

The fair value of the net assets acquired and allocation of purchase price is summarized as follows:

Total purchase price		\$9,646,049
Assets acquired		
Cash and cash equivalents	7,323,860	
Premium balances receivable	2,515	
Other assets	362,949	
Assets acquired	7,689,324	
Liabilities acquired		
Insurance and reinsurance balances payable	5,721,596	
Taxes payable	128,982	
Other liabilities	363,387	
Liabilities acquired	6,213,965	
Net assets acquired		1,475,359
Excess purchase price		\$8,170,690

The excess purchase price of \$8,170,690 includes the fair value of the trade name, customer list and goodwill acquired in the transaction. Goodwill with a fair value of \$5,061,690 was recorded as of the date of acquisition. Goodwill is deemed to have an indefinite useful life and will not be amortized but will be tested for impairment at least annually. The fair value of the trade name and customer list amounting to \$3,109,000 was recorded as a definite life intangible asset as of the date of acquisition and will be amortized over an estimated useful life of 10 years. During 2010, the Company recorded \$310,900 (2009: \$155,450) of amortization related to these intangibles.

The estimated remaining amortization expense for intangible assets is as follows:

2011		\$310,900
2012		310,900
2013		310,900
2014		310,900
2015 and thereafter		1,399,050
Total remaining amortization expense		\$2,642,650

RPI's interest was recorded as a noncontrolling interest with a fair value of \$3,858,418 of which \$590,142 represents its share of the net assets and \$3,268,276 represents its share of the intangibles and goodwill acquired in the transaction.

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On December 31, 2009, Ironshore Indemnity entered into a Renewal Rights and Assignment Agreement with Norman Spencer McKernan Inc. and its wholly owned subsidiary Condon & Skelly (“C&S”) to acquire the renewal rights of the business of C&S, an insurance agency, for a ten year term for a net purchase price of \$10,000,000. The insurance agency markets, quotes, underwrites and administers insurance policies issued by a third party insurer, covering risks related to antique, unique, collectible or exotic vehicles and their operators.

On December 31, 2009, Ironshore Indemnity also entered into the Program Agency Administration Agreement (“Agency Agreement”) to appoint Norman Spencer McKernan Inc., and C&S as agent for the production, underwriting, servicing and administration of the Personal Lines Automobile Coverage for the Collectible Vehicle Insurance (CVI) Program. The authority under the Agency Agreement is limited to the States where Ironshore Indemnity is fully authorized to write such lines of coverage. The purchase price, representing the fair value of the renewal rights acquired in the transaction was recorded as a definite life intangible asset as of the date of acquisition.

On September 28, 2010, the Agency Agreement was amended to extend the term of the agreement to July 1, 2021. This extension was granted to allow Ironshore Indemnity time to become fully authorized to write the lines of coverage offered by the CVI Program. Ironshore commenced underwriting the CVI Program in January 2011. The intangible asset will be amortized over an estimated useful life of 10.5 years, commencing on January 1, 2011.

The estimated remaining amortization expense for intangible assets is as follows:

2011	\$500,000
2012	1,000,000
2013	1,000,000
2014	1,000,000
2015 and thereafter	<u>6,500,000</u>
Total remaining amortization expense	<u><u>\$10,000,000</u></u>

On December 12, 2008, Ironshore Holdings US acquired the assets of Marine Re Inc. (“Marine Re”) for \$3,250,000 of which \$2,000,000 was paid in cash and \$1,250,000 was deferred. The deferred purchase price payment is subject to the collection of accounts receivable balances which were acquired as part of the asset acquisition on December 12, 2008. On December 31, 2009, the assets of Marine Re were transferred to a related party, Ironshore International Ltd (“IIL”) at book value. As of December 31, 2010, the accounts receivable balances were collected in full. Payments of \$500,000 and \$750,000 are due to be made on December 12, 2011 and 2014, respectively.

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4. Goodwill and other intangibles

Goodwill and other intangibles as of December 31, 2010 and 2009 are as follows:

	Goodwill	Other intangible assets	Total
Balance as of January 1, 2009			
Gross amount	-	\$23,181,021	\$23,181,021
Accumulated impairments /amortization	-	-	-
	-	23,181,021	23,181,021
Acquired during 2009	5,061,690	13,109,000	18,170,690
Amortization	-	(1,238,783)	(1,238,783)
Asset transferred to related party during 2009	-	(3,250,000)	(3,250,000)
Amortization on asset transferred to related party	-	1,083,333	1,083,333
Impairment losses	-	-	-
Balance as of December 31, 2009			
Gross amount	5,061,690	33,040,021	38,101,711
Accumulated impairments/amortization	-	(155,450)	(155,450)
	\$5,061,690	\$32,884,571	\$37,946,261
Acquired during 2010	-	-	-
Amortization	-	(310,900)	(310,900)
Impairment losses	-	-	-
Other (a)	1,221,675	-	1,221,675
Balance as of December 31, 2010			
Gross amount	6,283,365	33,040,021	39,323,386
Accumulated impairments/amortization	-	(466,350)	(466,350)
	\$6,283,365	\$32,573,671	\$38,857,036

(a) Represents deferred tax adjustment related to the acquisition of W&C.

During 2009, the acquisitions of goodwill and other intangible assets related to the Company's acquisition of a 60% interest in W&C and its acquisition of the renewal rights of the antique vehicles business of C&S.

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The gross carrying value and accumulated amortization by major category of other intangible asset as of December 31, 2010, is shown below:

	Other intangibles assets		
	Gross carrying value	Accumulated amortization	Total
Admitted licenses	\$11,316,066	-	\$11,316,066
Excess & surplus lines licenses	8,614,955	-	8,614,955
Indefinite life	19,931,021	-	19,931,021
Customer relationship, customer lists and trade name	3,109,000	(466,350)	2,642,650
Renewal rights	10,000,000	-	10,000,000
Definite life	13,109,000	(466,350)	12,642,650
	<u>\$33,040,021</u>	<u>\$(466,350)</u>	<u>\$32,573,671</u>

The useful life of intangible assets with finite lives ranges from 10 to 10.5 years, with an average amortization period of 10.25 years. Expected amortization of the intangible assets is shown below:

	Other intangibles assets
2011	\$810,900
2012	1,310,900
2013	1,310,900
2014	1,310,900
2015 and thereafter	7,899,050
Total remaining amortization expense	12,642,650
Indefinite life	19,931,021
Total	<u>\$32,573,671</u>

As described in Note 2, *Significant accounting policies*, the annual impairment test was performed and neither goodwill nor the intangible assets were deemed to be impaired.

5. Investments

The amortized cost, gross unrealized gains and losses and fair value of fixed maturity investments as of December 31, 2010 are as follows:

	Amortized Cost	Unrealized Gains	Unrealized Losses	Fair Value
U.S. government and government agency securities	\$279,828,822	\$7,805,751	\$(77,859)	\$287,556,714
Municipal securities	77,435,827	1,208,245	(451,903)	78,192,169
Corporate securities	817,848,299	19,739,853	(2,548,905)	835,039,247
U.S. asset-backed securities	147,536,419	1,650,247	(11,484,262)	137,702,404
U.S. mortgage-backed securities	682,080,087	11,380,121	(6,272,126)	687,188,082
Total fixed maturity investments	<u>\$2,004,729,454</u>	<u>\$41,784,217</u>	<u>\$(20,835,055)</u>	<u>\$2,025,678,616</u>

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The amortized cost, gross unrealized gains and losses and fair value of fixed maturity investments as of December 31, 2009 are as follows:

	Amortized Cost	Unrealized Gains	Unrealized Losses	Fair Value
U.S. government and government agency securities	\$344,304,999	\$4,692,752	\$(315,805)	\$348,681,946
Municipal securities	60,704,250	349,409	(1,549,994)	59,503,665
Corporate securities	486,259,935	9,838,524	(1,474,155)	494,624,304
U.S. asset-backed securities	143,345,434	2,765,482	(20,827,154)	125,283,762
U.S. mortgage-backed securities	591,725,276	8,513,041	(23,661,700)	576,576,617
Total fixed maturity investments	\$1,626,339,894	\$26,159,208	\$(47,828,808)	\$1,604,670,294

Included above are fixed maturity investments with a fair value of \$23,158,918 and \$21,253,776, which are on deposit with U.S. insurance regulators as of December 31, 2010 and 2009, respectively, to meet certain statutory requirements. The Company also maintains fixed maturity investments and cash amounting to \$536,845,605 and \$257,141,961 in trust accounts as collateral under the terms of certain insurance and reinsurance transactions as of December 31, 2010 and 2009, respectively.

On December 7, 2009, the Company entered into a \$50,000,000 standby letter of credit facility provided by Citibank Europe plc. As of December 31, 2010 and 2009, \$1,002,550 and \$191,650 respectively, of letters of credit were issued and outstanding under this facility for which \$2,909,606 and \$312,609 of fixed maturity investments were pledged as collateral.

The following represents an analysis of net realized gains (losses) on the sale of investments for the years ended:

	December 31, 2010		
	Realized gains	Realized losses	Net Realized gains (losses)
Fixed Maturity investments	\$14,005,954	\$(18,860,901)	\$(4,854,947)
Short term investments	63,980	(1,510)	62,470
	\$14,069,934	\$(18,862,411)	\$(4,792,477)
	December 31, 2009		
	Realized gains	Realized losses	Net Realized gains (losses)
Fixed Maturity investments	\$11,730,001	\$(47,575,494)	\$(35,845,493)
Short term investments	9,916	-	9,916
	\$11,739,917	\$(47,575,494)	\$(35,835,577)

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The amortized cost and fair value amounts for fixed maturity investments held as of December 31, 2010 and 2009, respectively, are shown by contractual maturity below. Actual maturity may differ from contractual maturity because certain borrowers may have the right to call or prepay certain obligations with or without call or prepayment penalties.

	December 31, 2010		December 31, 2009	
	Fair Value	Amortized Cost	Fair Value	Amortized Cost
Due in one year or less	\$46,299,473	\$45,228,982	\$90,044,074	\$88,543,878
Due after one year through five years	714,445,616	695,621,394	549,512,133	540,851,318
Due after five years through ten years	299,814,675	296,571,450	108,171,650	107,481,260
Due after ten years	39,504,784	39,529,450	27,071,222	28,088,008
U.S. mortgage-backed securities	787,911,664	780,241,759	704,587,453	717,909,387
U.S. asset-backed securities	137,702,404	147,536,419	125,283,762	143,466,043
Total fixed maturity investments	\$2,025,678,616	\$2,004,729,454	\$1,604,670,294	\$1,626,339,894

The following table sets forth certain information regarding the investment ratings of the Company's fixed maturity investment portfolio as of December 31, 2010. Investment ratings are as designated by Standard & Poor's Ratings Group or Moody's Investors Service.

	December 31, 2010	
	Fair Value	Amortized Cost
S&P Equivalent Rating ^(a)		
AAA	\$1,075,952,077	\$1,061,119,191
AA	182,046,392	180,210,826
A	469,916,909	458,619,678
BBB	141,910,803	143,016,926
Below BBB	145,564,504	151,486,872
Not rated	10,287,931	10,275,961
Total fixed maturity investments	\$2,025,678,616	\$2,004,729,454

(a) Carried at the lower of Standard & Poor's or Moody's rating, presented in Standard & Poor's equivalent rating.

Net investment income is derived from the following sources:

	2010	2009
Fixed maturity investments	\$60,636,381	\$46,979,257
Short term investments	98,724	9,215
Cash and cash equivalents	331,959	524,165
Total gross investment income	61,067,064	47,512,637
Investment expenses	(2,310,474)	(1,442,789)
Net investment income	\$58,756,590	\$46,069,848

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Fair value measurement

The following table presents the Company's fixed maturity investments that were accounted for at fair value as of December 31, 2010 and 2009, respectively, by level within the fair value hierarchy:

	Quoted Prices in Active Markets for Identical Assets	Significant Other Observable Inputs	Significant Unobservable Inputs	Fair Value
	(Level 1)	(Level 2)	(Level 3)	
2010				
<i>Assets - at fair value</i>				
U.S. government and government agency securities	\$98,355,611	\$189,201,105	-	\$287,556,716
Municipal securities	-	78,192,169	-	78,192,169
Corporate securities	-	701,717,675	133,321,571	835,039,246
U.S. asset-backed securities	-	129,132,617	8,569,787	137,702,404
U.S. mortgage-backed securities	-	641,622,984	45,565,097	687,188,081
Total fixed maturity investments	<u>\$98,355,611</u>	<u>\$1,739,866,550</u>	<u>\$187,456,455</u>	<u>\$2,025,678,616</u>
	Quoted Prices in Active Markets for Identical Assets	Significant Other Observable Inputs	Significant Unobservable Inputs	Fair Value
	(Level 1)	(Level 2)	(Level 3)	
2009				
U.S. government and government agency securities	\$74,479,250	\$274,202,696	-	348,681,946
Municipal securities	-	58,017,584	1,486,080	59,503,664
Corporate securities	-	491,670,852	2,953,452	494,624,304
U.S. asset-backed securities	-	124,864,738	419,024	125,283,762
U.S. mortgage-backed securities	-	576,576,618	-	576,576,618
Total fixed maturity investments	<u>\$74,479,250</u>	<u>\$1,525,332,488</u>	<u>\$4,858,556</u>	<u>\$1,604,670,294</u>

In accordance with accounting guidance regarding fair value measurements, the Company and its pricing services maximize the use of observable inputs ensuring that unobservable inputs are used only when observable inputs are not available. Level 1 securities include U.S. government and government agency securities. These securities are actively traded which is defined by the Company's pricing service as a security that has traded in the previous 7 days. Level 2 securities include other fixed maturity securities, such as municipal securities, corporate securities, U.S. asset-backed securities and U.S. mortgage-backed securities. The fair value of these securities was generally based on quoted prices for similar assets. The Company's investments classified as Level 3 include mortgage-backed securities, collateralized mortgage obligations and U.S. asset-backed securities. These securities are valued based solely on broker quotes where significant inputs that were utilized in determining the value are difficult to corroborate with observable market data.

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Level 3 Gains and Losses

The table below presents additional information about assets measured at fair value as of December 31, 2010 and 2009 for which significant Level 3 inputs were utilized to determine the fair value:

	Fixed maturities	
	2010	2009
Balance, as of beginning of year	\$4,858,556	\$18,523,533
Realized gains (losses)	41,999	(628,726)
Movement in unrealized gains	904,144	10,555,556
Purchases, sales and settlements	147,817,357	13,954,280
Net transfers in (out)	33,834,399	(37,546,087)
Balance, as of end of year	<u>\$187,456,455</u>	<u>\$4,858,556</u>

The vast majority of Level 3 assets are made up of securities for which the values were obtained from brokers where either significant inputs were utilized in determining the value that were difficult to corroborate with observable market data, or sufficient information regarding the specific inputs utilized by the broker was not available to support a Level 2 classification.

6. Reserves for losses and loss adjustment expenses

Reserves for losses and loss adjustment expenses are based in part on the estimation of case losses reported from brokers, insureds and ceding companies. The Company also uses statistical and actuarial methods to estimate ultimate expected losses and loss expenses. The period of time from the occurrence of a loss, the reporting of a loss to the Company and the settlement of the Company's liability may be several months or years. During this period, additional facts and trends may be revealed. As these factors become apparent, case reserves will be adjusted, sometimes requiring an increase or decrease in the overall reserves of the Company, and at other times requiring a reallocation of incurred but not reported reserves to specific case reserves. These estimates are reviewed regularly, and such adjustments, if any, are reflected in earnings in the period in which they become known. While management believes that it has made a reasonable estimate of ultimate losses, there can be no assurances that ultimate losses and loss expenses will not exceed the total reserves.

The following table represents the activity in the reserve for losses and loss adjustment expenses for the years ended December 31, 2010 and 2009, respectively:

	2010	2009
Gross reserves for losses and loss adjustment expenses, beginning of year	\$ 484,235,246	\$433,954,553
Less reinsurance recoverable balances, beginning of year	217,740,618	253,231,390
Net reserves for losses and loss adjustment expenses, beginning of year	266,494,628	180,723,163
Increase (decrease) in net losses and loss adjustment expenses incurred in respect of losses occurring in:		
Current year	405,385,550	190,654,620
Prior years	(7,336,397)	(15,558,346)
Total incurred losses and loss adjustment expenses	398,049,153	175,096,274
Less net losses and loss adjustment expenses paid in respect of losses occurring in:		
Current year	80,026,782	23,862,205
Prior years	51,276,061	65,462,604
Total net paid losses	131,302,843	89,324,809
Net reserve for losses and loss adjustment expenses, end of year	533,240,938	266,494,628
Plus reinsurance recoverable, end of year	281,189,560	217,740,618
Gross reserve for losses and loss adjustment expenses, end of year	<u>\$814,430,498</u>	<u>\$484,235,246</u>

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For the year ended December 31, 2010 and 2009, the net favorable development for the Company of \$7,336,397 and \$15,558,346 respectively, arose from the re-estimation of liabilities principally relating to property contracts.

As of December 31, 2010 and 2009, reinsurance recoverable and reserve for losses and loss adjustment expenses include amounts of \$102,912,411 and \$106,011,731, respectively, related to the acquisition of Ironshore Indemnity and Ironshore Specialty that are secured by conditional guarantees from the parents of the sellers.

7. Reinsurance

In certain cases, the risks written by the Company are wholly or partially reinsured with third-party reinsurers. Reinsurance ceded varies by location and line of business based on a number of factors, including market conditions. The benefits of ceding risks to third-party reinsurers include reducing exposure on individual risks, protecting against catastrophic risks, maintaining acceptable capital ratios and enabling the writing of additional business. Reinsurance ceded does not discharge the Company from its liabilities to the original policyholder in respect of the risk being reinsured.

The Company uses reinsurance to support its underwriting and retention guidelines as well as to control the aggregate exposure of the Company to a particular risk or class of risks. Reinsurance may be purchased at several levels ranging from reinsurance of risks assumed on individual contracts to reinsurance covering the aggregate exposure on a portfolio of policies issued by groups of companies.

a) Effects of reinsurance on premiums written and earned

The effects of reinsurance on premiums written and earned, and on losses and loss adjustment expenses, for the year ended December 31, 2010 is as follows:

	<u>Written</u>	<u>Earned</u>
Direct	\$773,764,200	\$630,463,315
Assumed	259,716,402	257,255,399
Ceded	(280,223,898)	(252,140,932)
Total	<u>\$753,256,704</u>	<u>\$635,577,782</u>
Losses and loss adjustment expenses:		
Gross losses and loss adjustment expenses incurred		\$522,767,796
Losses and loss adjustment expenses recoverable		<u>(124,718,643)</u>
Net losses and loss adjustment expenses incurred		<u>\$398,049,153</u>

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The effects of reinsurance on premiums written and earned, and on losses and loss adjustment expenses, for the year ended December 31, 2009 is as follows:

	<u>Written</u>	<u>Earned</u>
Direct	\$526,209,862	\$346,572,466
Assumed	217,148,467	182,527,746
Ceded	(238,697,661)	(137,525,052)
Total	<u>\$504,660,668</u>	<u>\$391,575,160</u>

Losses and loss adjustment expenses:	
Gross losses and loss adjustment expenses incurred	\$206,134,075
Losses and loss adjustment expenses recoverable	(31,037,801)
Net losses and loss adjustment expenses incurred	<u>\$175,096,274</u>

b) Credit risk

The Company evaluates the financial condition of its reinsurers and monitors concentration of credit risk arising from its exposure to individual reinsurers. Reinsurance programs are generally placed with reinsurers whose rating, at the time of placement, is A- or better rated by AM Best or the equivalent with other rating agencies. Exposure to a single reinsurer is also controlled with restrictions dependent on rating. As of December 31, 2010 and 2009, respectively, 74.4% and 71.8% of reinsurance recoverables (which includes loss reserves recoverable and recoverables on paid losses) were from reinsurers rated A- or better and included \$134,902,768 and \$86,703,203, respectively, of IBNR recoverable. Reinsurance recoverables by reinsurer are as follows:

	<u>December 31, 2010</u>		<u>December 31, 2009</u>	
	<u>Reinsurance Recoverable</u>	<u>% of Total</u>	<u>Reinsurance Recoverable</u>	<u>% of Total</u>
Top 10 Reinsurers	\$248,427,538	85.2%	\$206,459,281	90.6%
Other reinsurers balances > \$1 million	37,870,892	13.0%	18,241,807	8.0%
Other reinsurers balances < \$1 million	5,429,919	1.8%	3,059,049	1.4%
Total	<u>\$291,728,349</u>	<u>100.0%</u>	<u>\$227,760,137</u>	<u>100.0%</u>

Reserves for reinsurance recoverables deemed uncollectible are based on an estimate of the amount of the reinsurance recoverable balance that will ultimately not be recovered due to reinsurer insolvency, contractual dispute or some other reason. The valuation of this reserve for uncollectible reinsurance includes a detailed review of the credit ratings of the reinsurance recoverable by reinsurer on a continuous basis with any resulting adjustments recorded in the consolidated statements of operations in the period that collection issues are identified. As of December 31, 2010 and 2009, the Company has not made any allowance for estimated uncollectible premiums receivable or losses recoverable.

8. Share capital

(a) Authorized and issued

The Company's authorized share capital is 2,000,000 ordinary shares with par value of \$1.00 each. Issued and outstanding share capital as of December 31, 2010 and 2009, respectively, is 1,000,000 ordinary shares with a par value of \$1.00 each. During the years ended December 31, 2010 and 2009, the Company received \$nil and \$240,000,000, respectively, of contributed surplus from Ironshore Inc. and during the years ended December 31, 2010 and 2009, the Company returned \$nil and \$nil, respectively, of contributed surplus to Ironshore Inc.

(b) Dividends

The Company did not declare any dividends during the years ended December 31, 2010 and 2009.

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9. Retirement Plans

The Company maintains defined contribution retirement plans. Contributions are based on the participants' eligible compensation. During 2010 and 2009, the Company expensed \$3,481,765 and \$2,646,253, respectively, related to these retirement plans.

10. Taxation

(a) Bermuda

Under current Bermuda law, Ironshore Insurance and Ironshore Reinsurance (dissolved on December 29, 2010) are exempt from all Bermuda income, withholding and capital gains taxes. At the present time, no such taxes are levied in Bermuda. In the event that such taxes are imposed, Ironshore Insurance would be exempt until March 28, 2016 pursuant to the Bermuda Exempted Undertakings Tax Protection Act 1966, and Amended Act of 1987.

(c) United States

The Company's U.S. subsidiaries are subject to federal, state, and local corporate income taxes and other taxes applicable to U.S. operations. A valuation allowance has been established for the Company's net deferred tax asset related to its U.S. operations, as management believes that the realization of the tax benefits from these deferred tax assets is uncertain. Ironshore Reinsurance elected to be a 953(d) reporting company, which results in the Company being treated as a domestic corporation for U.S. tax purposes.

The Company is not subject to income taxation other than as stated above. There can be no assurance that there will not be changes in applicable laws, regulations or treaties, which might require the Company to change the way it operates or become subject to taxation.

The components of the provision for income taxes attributable to operations consist of the following:

Current tax expense:	2010	2009
U.S. Federal	\$(782,679)	\$(11,460)
U.S. State & local	(140,764)	1,432,204
Total	<u>\$(923,443)</u>	<u>\$1,420,744</u>
Deferred tax expense:	2010	2009
U.S. Federal	1,302,032	(1,306)
Total	<u>1,302,032</u>	<u>(1,306)</u>
Provision for income taxes	<u>\$378,589</u>	<u>\$1,419,438</u>

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Deferred income taxes reflect the tax impact of temporary differences between the carrying amounts of assets and liabilities for financial reporting and income tax purposes. Significant components of the net deferred tax liabilities were as follows:

Deferred tax assets:	2010	2009
Discounting of loss reserves	\$2,418,197	\$1,042,900
Unearned premiums	4,153,252	2,970,418
Deferred acquisition costs	9,858,426	6,679,069
Nondeductible Compensation	6,452,664	7,824,600
Net operating losses	12,692,366	5,485,784
Unrealized losses on investments losses	1,685,703	1,685,703
Other deferred tax assets	3,294,366	3,400,944
Total deferred tax assets	40,554,974	29,089,418
Valuation allowance	(36,950,265)	(27,178,475)
Deferred tax assets net of valuation allowance	\$3,604,709	\$1,910,943
Deferred tax liabilities:	2010	2009
Amortization of intangibles	(2,624,139)	(944,500)
Investments	(3,928,555)	(1,390,722)
Total deferred tax liabilities	(6,552,694)	(2,335,222)
Net deferred tax liabilities	\$(2,947,985)	\$(424,279)

The provision for income taxes resulted in effective rates that varied from the U.S. statutory federal income tax rate as follows:

	2010	2009
Expected income tax provision at 34% rate	\$35,708,793	\$39,443,282
State income taxes (net of federal benefit)	(2,353,823)	1,000,190
Foreign tax	(42,180,660)	(57,027,637)
Valuation allowance	9,771,790	18,042,265
Other	(567,511)	(38,662)
Total income tax provision	\$378,589	\$1,419,438

As of December 31, 2010, the Company's U.S. subsidiaries have \$23,256,886 (2009: \$10,137,654) of U.S. federal net operating loss carryovers and \$44,342,735 (2009: \$18,895,209) of U.S. state and local net operating loss carryovers that expire in the years 2028 to 2030.

During 2010 and 2009, the Company had no unrecognized benefits from uncertain tax positions. The Company will recognize interest and penalties related to income tax matters in income tax expense. The Company does not anticipate any significant changes in the amount of unrecognized tax benefits during the next 12 months. The Company's U.S. federal and state income tax returns for fiscal years 2007 to 2010 remain open to examination.

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11. Debt obligations

On May 4, 2010, the Company issued \$250 million of Senior Notes at an issue price of 99.17%, generating net proceeds of \$246,300,000. The Senior Notes bear interest at a rate of 8.5%, payable semi-annually in arrears on May 15 and November 15 of each year, beginning November 15, 2010. Unless previously redeemed, the Senior Notes will mature on May 15, 2020. The Company may redeem the Senior Notes prior to maturity subject to the payment of a “make-whole” premium. The Senior Notes also include certain interest rate adjustment clauses based on changes in S&P and Moody’s ratings and debt to capital ratios. The Company was in compliance with all of these clauses as of December 31, 2010.

Interest expense on the Senior Notes includes interest payable, amortization of offering discount and amortization of debt offering expenses. The offering discount and the debt offering expenses are amortized over the period of time during which the Senior Notes are outstanding. The Company incurred interest expense on the Senior Notes of \$13,783,160 for the year ended December 31, 2010.

12. Commitments and contingencies

(a) Concentration of credit risk

The creditworthiness of a counterparty is evaluated by the Company, taking into account credit ratings assigned by independent agencies. The credit approval process involves an assessment of factors, including, among others, the counterparty, country and industry credit exposure limits. The areas where significant concentrations of credit risk may exist includes reinsurance recoverables (see Note 7), investments and cash and cash equivalent balances.

The Company underwrites a significant amount of its business through brokers. Credit risk exists should any of these brokers be unable to fulfill their contractual obligations with respect to the payments of insurance and reinsurance balances owed to the Company. During the years ended December 31, 2010 and 2009, the following brokers were used to generate greater than 10% of the Company’s consolidated gross written premiums:

Broker	% of Gross Premiums Written December 31, 2010	% of Gross Premiums Written December 31, 2009
Marsh	13.21%	7.61%
Aon Benfield	11.98%	12.81%

The Company’s investment portfolio is managed in accordance with guidelines designed to ensure specific investment strategies are met. These guidelines include standards of diversification which limit the allowable holdings of any single issue. There were no investments in any entity in excess of 10% of the Company’s shareholders’ equity as of December 31, 2010 and 2009, other than investments issued or guaranteed by the U.S. government, its agencies or Government-Sponsored Enterprises.

The Company’s cash and cash equivalents are on deposit with various financial institutions. Credit risk arises from the failure of the counterparty to perform according to the terms of a contract. The Company’s deposits are with reputable banks to minimize this risk and they are located in the U.S., and Bermuda.

(b) Employment agreements

The Company has entered into employment agreements with certain individuals that provide for option awards, executive benefits and severance payments under certain circumstances. The Company has paid sign-on bonuses to certain executives of the Company which include claw back features if the employees cease their employment before various periods up to 5 years. During 2010 and 2009, future compensation expenses of \$865,000 and \$nil, respectively, were paid and recorded in other assets and are being expensed pro rata over the retention period.

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(c) Operating leases

The Company has entered into various operating lease agreements to lease office space and fixtures and fittings that expire up to 2022. During 2010 and 2009, total rent expenses of \$3,909,364 and \$3,578,700, respectively, were recorded in general and administrative expenses. The future minimum lease payments in the aggregate as of December 31, 2010 are as follows:

	December 31, 2010
2011	\$5,271,191
2012	5,296,370
2013	5,381,998
2014	5,247,181
2015	5,322,031
Later years	15,042,511
Total minimum future lease commitments	\$41,561,282

(d) Letters of Credit

On December 7, 2009, the Company entered into a \$50,000,000 fully collateralized letter of credit facility provided by Citibank Europe plc. As of December 31, 2010 and 2009, \$1,002,550 and \$191,650, respectively, of letters of credit were issued and outstanding under this facility for which \$2,909,606 and \$312,609, respectively, of fixed maturity investments were pledged as collateral.

(e) Litigation

The Company is subject to litigation and arbitration in the normal course of its business. These lawsuits and arbitrations principally involve claims on policies of insurance and contracts of reinsurance and are typical for the Company and for the property and casualty insurance and reinsurance industry in general. Such legal proceedings are considered in connection with the Company's loss and loss expense reserves. In addition to litigation relating to insurance and reinsurance claims, the Company and its subsidiaries are subject to lawsuits and regulatory actions in the normal course of business. The status of any such legal actions is actively monitored by management. If management believed, based on available information, that an adverse outcome upon resolution of a given legal action was probable and the amount of that adverse outcome was reasonable to estimate, a loss would be recognized and a related liability recorded. No such liabilities were recorded by the Company as of December 31, 2010 and 2009.

13. Related party transactions

For the years ended December 31, 2010 and 2009, stock compensation expense charged by Ironshore Inc. to the Company amounted to \$4,659,633 and \$4,199,230, respectively. This charge is included in general and administrative expenses and additional paid-in capital.

During the years ended December 31, 2010 and 2009, the Company incurred expenses of \$13,884,707 and \$9,726,730 and directors fees of \$1,312,500 and \$1,393,750, respectively, on behalf of Ironshore Inc.

The Company purchases operating services and support at cost from Ironshore Inc. During the years ended December 31, 2010 and 2009, the Company incurred expenses of \$5,386,683 and \$5,892,978, respectively, related to these services. As of December 31, 2010 and 2009, the Company was owed \$100,406,696 and \$9,306,922, respectively, in respect of these services and this amount is included in amounts receivable from related parties. This amount is unsecured, non-interest bearing and payable upon demand.

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The Company purchases operating services and support at cost from Ironshore Services Inc., an affiliated company. During the years ended December 31, 2010 and 2009, the Company incurred expenses of \$39,258,223 and \$18,318,802, respectively, related to these services. As of December 31, 2010 and 2009, the Company was owed \$9,803,780 and \$4,091,570, respectively, by Ironshore Services Inc. and this amount is included in amounts receivable from related parties. This amount is unsecured, non-interest bearing and payable upon demand.

The Company supplies operating services and support to an affiliated company, IIL. These services are offered by the Company at cost plus 10%. During the years ended December 31, 2010 and 2009, the Company incurred expenses of \$1,337,315 and \$1,098,820, respectively, on behalf of IIL, in relation to these services. The Company also purchases operating services and support at cost for IIL. During the years ended December 31, 2010 and 2009, the Company incurred expenses of \$22,014 and \$114,736, respectively, related to these services. As of December 31, 2010 and 2009, the Company was owed \$1,614,513 and \$143,466, respectively, by IIL and this amount is included in amounts receivable from related parties. This amount is unsecured, non-interest bearing and payable upon demand.

On December 31, 2009, the Company sold a customer list to IIL at its fair value of \$3,250,000 (see Note 3).

Effective January 1, 2009, Ironshore Insurance entered into a reinsurance agreement with ICCL. This agreement provides that Ironshore Insurance assumes a 75% quota share of all insurance and reinsurance risks earned by ICCL. In addition to the insurance and reinsurance risks, Ironshore Insurance assumes 75% of ICCL's foreign exchange gains or losses, investment returns and operating expenses. Ironshore Insurance pays ICCL commission on all amounts ceded as well as a 15% profit commission. For the years ended December 31, 2010 and 2009, ICCL ceded net premiums earned of \$93,017,952 and \$26,360,396 respectively, and losses of \$57,439,905 and \$15,237,304 respectively, were incurred by Ironshore Insurance under these quota share agreements. As of December 31, 2010 and 2009, loss reserves included \$71,462,498 and \$14,851,570 respectively, and unearned premium reserves included of \$57,370,131 and \$43,527,545, respectively, related to the quota share with ICCL.

On March 19, 2009, Ironshore Insurance entered into a shareholder's agreement with Starr Underwriting Agencies, LLC. ("SUAL") to conduct specialty insurance and reinsurance business in Bermuda through the Iron-Starr Excess.

On April 1, 2009, Iron-Starr Excess entered into a Program Manager Agreement (the "Agreement") with Ironshore Insurance and SIRL. Iron-Starr Excess acts as an agent in the offering, issuance and administration of insurance policies written on an equal subscription basis by Ironshore Insurance and SIRL in Bermuda and other jurisdictions. Under the terms of the PMA, administrative fees for the services provided by the Agency to Ironshore Insurance are fixed at 15% of the net premiums written. Administrative fees for services provided by the Agency to SIRL were fixed at 15% of the net premiums written for the year ended December 31, 2009 and the lower of 15% of the net premiums written and 50% of general and administrative costs incurred by the Agency excluding bonus and equity based compensation expenses for the year ended December 31, 2010. During the years ended December 31, 2010 and 2009, Ironshore Insurance incurred administrative fees of \$3,812,648 and \$1,581,720, respectively. The PMA was amended and restated on December 29, 2010, and Iron-Starr Excess became a consolidated entity of Ironshore.

On May 28, 2009, Iron-Starr Excess entered into a Claims Service Agreement ("CSA") with Ironshore Insurance and SIRL. Under the CSA, the Agency provides claims management and consulting services with respect to the policies issued pursuant to the Agreement. Ironshore Insurance and SIRL each have 50% liability, on a several basis in respect of claims on policies issued under the Agreement. Iron-Starr Excess is reimbursed for all compensation, benefits and out of pocket expenses it incurs in the performance of its obligations under the CSA. During the years ended December 31, 2010 and 2009, Ironshore Insurance incurred claim services fees of \$298,980 and \$nil, respectively. The CSA was amended and restated on December 29, 2010, and Iron-Starr Excess became a consolidated entity of Ironshore.

During the years ended December 31, 2010 and 2009, Ironshore Insurance paid operating costs of \$6,735,750 and \$5,871,436, respectively, on behalf of the Agency. As of December 31, 2010 and 2009, amounts of \$803,215 and \$1,165,296, respectively, were due from the Agency to Ironshore Insurance in respect of these payments. Amounts due from the Agency to Ironshore as of December 31, 2010 eliminate on consolidation.

During 2009, Ironshore Insurance also advanced \$900,000 to the Agency to fund its operations during the set-up phase. The Agency repaid this advance prior to December 31, 2009.

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Ironshore Inc.'s founding investors, Tara Partners Fund LLC and Tara Partners Fund II LLC (collectively, "Tara"), are affiliated with a member of the Company's Board of Directors. This individual is also a founder and director of Integro Ltd. ("Integro"), an insurance broker. During the years ended December 31, 2010 and 2009, Ironshore wrote \$11,579,060 and \$8,733,100, respectively, of premiums that have been brokered by Integro, and incurred commission expense of \$1,645,579 and \$548,356, respectively. In addition, during the years ended December 31, 2010 and 2009, Ironshore paid commission expense of \$550,419 and \$78,747, respectively, to Integro to purchase various insurance policies on its behalf from third party insurers.

On January 12, 2009, Ironshore entered into a sublease with Integro to sublease certain office space in New York City. During the years ended December 31, 2010 and 2009, the Company incurred rental expense of \$810,900 and \$608,174, respectively, in respect of this sublease and \$143,908 and \$111,824, respectively, in respect of utilities and maintenance.

Under the terms of an agreement with a former officer, the Company repurchased 17,883 shares on October 29, 2009 for \$236,813 and repurchased 24,667 shares on October 25, 2010 for \$311,152

14. Statutory financial data

Bermuda

The Company's Bermuda insurance and reinsurance subsidiaries are subject to the requirements of the Act. Under the Act, Ironshore Insurance and Ironshore Reinsurance (dissolved December 29, 2010) are required to prepare Statutory Financial Statements and to file a Statutory Financial Return. The Insurance Act also requires these subsidiaries to maintain certain measures of solvency and liquidity during the year. Declarations of dividends from retained earnings and distributions from additional paid-in capital are subject to these solvency and liquidity requirements being met. As of December 31, 2010 and 2009, these requirements were met.

Under The Act, the Bermuda subsidiaries are restricted with respect to the payment of dividends for amounts greater than 25% of the prior year's statutory capital and surplus. A signed affidavit by at least two members of the Board of Directors attesting that a dividend in excess of this amount would not cause the Company to fail to meet its relevant margins is required.

As of December 31, 2010 and 2009, Ironshore Insurance was required to maintain a minimum statutory capital and surplus of \$320.2 million and \$224.2 million, respectively. As of December 31, 2010 and 2009, this subsidiary had statutory capital and surplus of approximately \$1,228 million and \$1,164 million, respectively. The declaration of dividends from retained earnings and distributions from additional paid-in capital are limited to the extent that the solvency and liquidity requirements are met.

Ironshore Insurance is subject to the Bermuda Solvency Capital Requirement ("BSCR") which is a standard mathematical model designed to give the Bermuda Monetary Authority ("BMA") an advanced method for assessing an insurer's capital adequacy. Underlying the BSCR is the belief that all insurers should operate on an ongoing basis with a view to maintaining their capital at a prudent level in excess of the minimum solvency margin otherwise prescribed under the Act. The BMA requires all Class 4 insurers to maintain their capital at a target level which is set at 120% of the minimum amount calculated in accordance with the BSCR or an approved in-house model. Ironshore Insurance was in compliance with the BSCR requirements as of December 31, 2010 and 2009.

During 2010, the BMA made amendments to the Insurance Act with a view to enhancing Bermuda's insurance and reinsurance regulatory regime. Of particular importance and significance to the Company and Ironshore Insurance are the following:

- a group-wide supervisory regime was introduced with the principal purpose of enabling the BMA to form a comprehensive view of the overall exposure of an insurance group;
- the scope of the BMA's powers was extended allowing them to make rules in relation to prudential standards to include insurance reserves and eligible capital requirements;
- and new notification provisions were introduced requiring insurers to notify the BMA in respect of a change of controlling shareholder, changes to controllers and officers or any proposed material change in their business.

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There is presently no certainty as to when group supervision will be implemented by the BMA and which companies will be included. However the Company has recently been notified that the BMA, having considered the matters set out in the 2010 amendments to the Act, believes it should be Ironshore's group supervisor.

United States

Ironshore Indemnity and Ironshore Specialty file financial statements prepared in accordance with statutory accounting practices prescribed or permitted by U.S. insurance regulators. Statutory net income and statutory surplus, as reported to the insurance regulatory authorities, differ in certain respects from the amounts prepared in accordance with GAAP. The main differences between statutory net income and GAAP net income relate to deferred acquisition costs, deferred income and deferred income taxes. In addition to deferred acquisition costs, deferred income and deferred income tax assets, other differences between statutory surplus and GAAP shareholders' equity are unrealized appreciation or decline in value of investments and non-admitted assets.

Ironshore Indemnity is required to maintain a minimum combined statutory surplus of \$1.5 million. As of December 31, 2010 and 2009, the statutory surplus was \$93.8 million and \$83.6 million, respectively, and the statutory net income (loss) was \$1.7 million and \$(11) thousand for the years ended December 31, 2010 and 2009, respectively.

The maximum dividend Ironshore Indemnity can pay is restricted by regulatory requirements of the State of Minnesota and is limited to the greater of 10% of the insurer's surplus as regards policyholders on December 31 of the preceding year or the net income, not including realized capital gains, for the 12-month period ending on December 31, of the preceding year. Until the balance in unassigned funds is positive, any dividend requires Department of Commerce approval. As of December 31, 2010 and 2009, Ironshore Indemnity could not pay any dividend without prior regulatory approval.

Ironshore Specialty is required to maintain a minimum combined statutory surplus of \$1.3 million. As of December 31, 2010 and 2009, the statutory surplus was \$273.9 million and \$165.3 million, respectively, and the statutory net income (loss) was \$5.1 million and \$(2.5) million for the years ended December 31, 2010 and 2009, respectively.

The maximum dividend Ironshore Specialty can pay is restricted by regulatory requirements of the State of Arizona and is limited to the lesser of 10% of statutory surplus as of the end of the preceding year or the statutory net investment income for the preceding year, with larger dividends payable only upon prior regulatory notice and non-disapproval. As of December 31, 2010 and 2009, the maximum dividend payout that can be made without prior regulatory approval is approximately \$2.4 million and \$nil, respectively.

15. Subsequent events - unaudited

Subsequent events have been evaluated up to and including April 29, 2011, the date of issuance of these consolidated financial statements.

On March 11, 2011, an earthquake and tsunami hit northeast Japan. At this time, there is insufficient information upon which to base an estimate of losses arising from this event. This earthquake was a significant event and the Company is reviewing its in-force contracts and preliminary loss information from clients. The Company does not anticipate that losses arising from this event will have a material impact on the Company's shareholder's equity.