Audited Financial Statements

DaVinci Reinsurance Ltd.

December 31, 2009 and 2008

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REPORT OF INDEPENDENT AUDITORS

TO THE BOARD OF DIRECTORS AND SHAREHOLDERS OF

DAVINCI REINSURANCE LTD.

We have audited the accompanying balance sheets of DaVinci Reinsurance Ltd. as of December 31, 2009 and 2008, and the related statements of operations, changes in shareholders' equity and comprehensive income, 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 financial statements referred to above present fairly, in all material respects, the financial position of DaVinci Reinsurance Ltd. at December 31, 2009 and 2008, and the results of its operations and its cash flows for the years then ended in conformity with accounting principles generally accepted in the United States.

As described in Note 3, on April 1, 2009, the Company adopted FSP FAS 115-2, *Recognition and Presentation of Other-Than-Temporary Impairments* (Codified in FASB ASC Topic *Investments - Debt and Equity Securities*).

Ernst & Young Ltd.

Hamilton, Bermuda
March 26, 2010

DAVINCI REINSURANCE LTD.

BALANCE SHEETS

AT DECEMBER 31, 2009 AND 2008
(in thousands of United States dollars)

Assets	2009	2008
Fixed maturity investments available for sale, at fair value (Amortized cost $1,340,792 and $19,186 at December 31, 2009 and 2008, respectively) (Note 3)	$ 1,346,345	$ 19,448
Investment in RIHL, under equity method (Note 3)	-	404,646
Short term investments, at fair value (Note 3)	259,453	962,206
Other investments, at fair value (Note 3)	66,418	67,625
Total investments	1,672,216	1,453,925
Cash and cash equivalents	19,547	35,310
Accrued investment income	7,310	1,699
Premiums receivable (Note 8)	93,323	92,856
Ceded reinsurance balances (Note 5)	9,875	7,565
Losses recoverable (Notes 5 and 7)	138	141
Deferred acquisition costs	17,705	15,915
Receivable for investments sold	28	37
Other secured assets (Note 6)	15,616	29,928
Other assets (Notes 4 and 12)	558	640
Total assets	$ 1,836,316	$ 1,638,016
Liabilities and Shareholders' Equity		
Liabilities		
Reserve for claims and claim expenses (Notes 7 and 8)	$ 194,061	$ 292,892
Reserve for unearned premiums	90,593	82,938
Reinsurance balances payable	4,101	2,887
Amounts due to affiliates, net (Note 8)	57,495	25,176
Accounts payable and accrued liabilities	662	406
Other secured liabilities (Note 6)	15,500	30,460
Other liabilities (Notes 4 and 12)	227	6,405
Total liabilities	362,639	441,164
Shareholders' Equity (Note 9)		
Common shares: $1.00 par value - 4,480,000 shares authorized; 3,658,525 issued and outstanding at December 31, 2009 (2008 - 3,705,505)	3,659	3,706
Additional paid-in capital	907,518	907,471
Accumulated other comprehensive income	5,553	5,349
Retained earnings	556,947	280,326
Total shareholders' equity	1,473,677	1,196,852
Total liabilities and shareholders' equity	$ 1,836,316	$ 1,638,016

See accompanying notes to the financial statements

DAVINCI REINSURANCE LTD.

STATEMENTS OF OPERATIONS

FOR THE YEARS ENDED DECEMBER 31, 2009 AND 2008
(in thousands of United States dollars)

	2009	2008
Revenues		
Gross premiums written (Notes 5 and 8)	$ 391,959	$ 367,079
Net premiums written (Note 5)	$ 332,104	$ 341,197
Increase in net unearned premiums	(5,345)	(8,837)
Net premiums earned (Notes 5 and 8)	326,759	332,360
Net investment income (Note 3)	44,347	20,545
Net foreign exchange (losses) gains	(3,324)	611
Equity in earnings of RIHL (Note 3)	9,168	4,789
Other loss (Notes 6 and 12)	(13,004)	(2,361)
Net realized gains on investments (Note 3)	10,911	4,739
Total other-than-temporary impairments (Note 3)	(1,089)	(23,499)
Portion recognized in other comprehensive income (Note 3)	-	-
Net other-than-temporary impairments (Note 3)	(1,089)	(23,499)
Total revenues	373,768	337,184
Expenses		
Net claims and claim expenses incurred (Notes 5, 7 and 8)	(36,529)	182,293
Acquisition expenses	40,477	34,488
Operational expenses (Note 8)	88,955	39,444
Corporate expenses	183	191
Total expenses	93,086	256,416
Net income	$ 280,682	$ 80,768

See accompanying notes to the financial statements

DAVINCI REINSURANCE LTD.

STATEMENTS OF CHANGES IN SHAREHOLDERS' EQUITY AND COMPREHENSIVE INCOME

FOR THE YEARS ENDED DECEMBER 31, 2009 AND 2008
(in thousands of United States dollars)

	2009	2008
Common shares		
Balance - January 1	$ 3,706	$ 3,774
Issuance of common shares (Note 9)	91	34
Redemption of common shares (Note 9)	(138)	(102)
Balance - December 31	3,659	3,706
Additional paid-in capital		
Balance - January 1	907,471	1,007,471
Adjustment to common shares outstanding	47	-
Return of capital (Note 9)	-	(100,000)
Balance - December 31	907,518	907,471
Accumulated other comprehensive income		
Balance - January 1	5,349	7,525
Cumulative effect of change in accounting principle (1)	(70)	-
Change in net unrealized gains (losses) on investments	274	(2,176)
Balance - December 31	5,553	5,349
Retained earnings		
Balance - January 1	280,326	206,456
Cumulative effect of change in accounting principle (1)	70	-
Net income	280,682	80,768
Dividends declared	(4,131)	(6,898)
Balance - December 31	556,947	280,326
Total shareholders' equity	$ 1,473,677	$ 1,196,852
Comprehensive income		
Net income	$ 280,682	$ 80,768
Change in net unrealized gains (losses) on investments	274	(2,176)
Comprehensive income	$ 280,956	$ 78,592
Disclosure regarding net unrealized gains (losses) (Note 3)		
Total realized and net unrealized holding gains (losses) on investments and net-other-than temporary impairments	$ 10,096	$ (20,936)
Net realized gains on investments	(10,911)	(4,739)
Net other-than-temporary impairments recognized in earnings	1,089	23,499
Change in net unrealized gains (losses) on investments	$ 274	$ (2,176)

(1) Cumulative effect adjustment to opening retained earnings as of April 1, 2009, related to the recognition and presentation of other-than-temporary impairments, as required by Financial Accounting Standards Board ("FASB") Accounting Standards Codification ("ASC") Topic Investments - Debt and Equity Securities.

See accompanying notes to the financial statements

DAVINCI REINSURANCE LTD.

STATEMENTS OF CASH FLOWS

FOR THE YEARS ENDED DECEMBER 31, 2009 AND 2008
(in thousands of United States dollars)

	2009	2008
Cash flows provided by operating activities:		
Net income	$ 280,682	$ 80,768
Adjustments to reconcile net income to net cash provided by operating activities:		
Amortization	2,125	(912)
Equity in undistributed earnings of RIHL	(9,168)	(4,789)
Net realized gains on investments	(10,911)	(4,739)
Net other-than-temporary impairments	1,089	23,499
Change in:		
Accrued investment income	(5,611)	1,985
Reinsurance balances, net	747	(23,821)
Ceded reinsurance balances	(2,310)	1,151
Deferred acquisition costs	(1,790)	(1,244)
Reserve for claims and claim expenses, net	(98,828)	55,674
Reserve for unearned premiums	7,655	7,686
Amounts due to affiliates, net	32,319	(14,838)
Other, net	(22,078)	23,861
Net cash provided by operating activities	173,921	144,281
Cash flows used in investing activities:		
Purchases of investments available for sale	(3,305,044)	(1,028,701)
Proceeds from sales and maturities of investments available for sale	1,991,143	1,288,859
Proceeds from redemptions of investment in RIHL	407,597	60,000
Purchases of investment in RIHL	-	-
Net sales (purchases) of short term investments	702,753	(350,174)
Net proceeds from other secured assets	-	4,000
Net sales (purchases) of other investments	17,998	(27,637)
Net cash used in investing activities	(185,553)	(53,653)
Cash flows used in financing activities:		
Net redemption of common shares	-	(68)
Return of capital	-	(100,000)
Secured asset financing	-	(4,000)
Dividends paid	(4,131)	(6,898)
Net cash used in financing activities	(4,131)	(110,966)
Net decrease in cash and cash equivalents	(15,763)	(20,338)
Cash and cash equivalents, beginning of year	35,310	55,648
Cash and cash equivalents, end of year	$ 19,547	$ 35,310

See accompanying notes to the financial statements

NOTE 1. ORGANIZATION

DaVinci Reinsurance Ltd. (the "Company") was incorporated under the laws of Bermuda in October 2001 and provides property catastrophe and specialty reinsurance coverages to insurers and reinsurers on a worldwide basis. The Company is a majority-owned subsidiary of DaVinciRe Holdings Ltd. ("DaVinci"), a Bermuda company. DaVinci is a minority-owned subsidiary of Renaissance Other Investments Holdings Ltd. ("ROIHL"), a Bermuda company, which is a wholly-owned subsidiary of RenaissanceRe Holdings Ltd. ("RenaissanceRe"), also a Bermuda company.

NOTE 2. SIGNIFICANT ACCOUNTING POLICIES

Basis of presentation

The financial statements have been prepared in accordance with accounting principles generally accepted in the United States ("GAAP"). 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 at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ materially from those estimates. The major estimates reflected in the Company's financial statements include, but are not limited to, the reserve for claims and claim expenses, losses recoverable, estimates of written and earned premiums, fair value, including the fair value of investments, financial instruments and derivatives, and impairment charges.

Premiums and related expenses

Premiums are recognized as income, net of any applicable retrocessional coverage purchased, over the terms of the related contracts and policies. Premiums written are based on contract and policy terms and include estimates based on information received from both insureds and ceding companies. Subsequent differences arising on such estimates are recorded in the period in which they are determined. Reserve for unearned premiums represents the portion of premiums written that relate to the unexpired terms of contracts and policies in force. Such reserves are computed by pro-rata methods based on statistical data or reports received from ceding companies. Reinstatement premiums are estimated after the occurrence of a significant loss and are recorded in accordance with the contract terms based upon paid losses and case reserves. Reinstatement premiums are earned when written.

Acquisition costs, consisting principally of commissions, brokerage and premium tax expenses incurred at the time a contract or policy is issued, are deferred and amortized over the period in which the related premiums are earned. Deferred policy acquisition costs are limited to their estimated realizable value based on the related unearned premiums. Anticipated claims and claim 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.

NOTE 2. SIGNIFICANT ACCOUNTING POLICIES, cont'd.

Claims and claim expenses

The reserve for claims and claim expenses includes estimates for unpaid claims and claim expenses on reported losses as well as an estimate of losses incurred but not reported ("IBNR"). The reserve is based on individual claims, case reserves and other reserve estimates reported by insureds and ceding companies as well as management estimates of ultimate losses. Inherent in the estimates of ultimate losses are expected trends in claim severity and frequency and other factors which could vary significantly as claims are settled. The Company does not have the benefit of a significant amount of its own historical experience with its specialty reinsurance line. Accordingly, the setting and reserving for incurred losses in this line of business could be subject to greater variability.

Ultimate losses may vary materially from the amounts provided in the 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 reflected in the statements of operations in the period in which they become known and are accounted for as changes in estimates.

Reinsurance

Amounts recoverable from reinsurers are estimated in a manner consistent with the claim liability associated with the reinsured policies. If the Company determines that adjustments to earlier estimates are appropriate, such adjustments are recorded in the period in which they are determined. Losses recoverable on dual trigger reinsurance contracts require the Company to estimate its ultimate losses applicable to these contracts as well as estimate the ultimate amount of insured industry losses that will be reported by the applicable statistical reporting agency, as per the contract terms. Amounts recoverable from reinsurers are recorded net of a valuation for estimated uncollectible recoveries.

Assumed and ceded reinsurance contracts that lack a significant transfer of risk are treated as deposits.

Investments, cash and cash equivalents

Fixed Maturity Investments

Investments in fixed maturities are classified as available for sale and are reported at fair value. Investment transactions are recorded on the trade date with balances pending settlement reflected in the balance sheet as a receivable for investments sold or a payable for investments purchased. Net investment income includes interest and dividend income together with amortization of market premiums and discounts and is net of investment management and custody fees. The amortization of premium and accretion of discount for fixed maturity securities is computed using the effective yield method. For mortgage-backed securities and other holdings for which there is prepayment risk, prepayment assumptions are evaluated quarterly and revised as necessary. Any adjustments required due to the change in effective yields and maturities are recognized on a prospective basis through yield adjustments. Fair values of 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. The net unrealized appreciation or depreciation on these fixed maturity investments is included in accumulated other comprehensive income.

NOTE 2. SIGNIFICANT ACCOUNTING POLICIES, cont'd.

Realized gains or losses on the sale of fixed maturity investments are determined on the basis of the first in first out cost method and include adjustments to the cost basis of fixed maturity investments for declines in value that are considered to be other-than- temporary.

Other-Than-Temporary Impairment Effective April 1, 2009

The Company recognizes other-than-temporary impairments in earnings for its impaired fixed maturity securities available for sale (i) for which the Company has the intent to sell the security or (ii) it is more likely than not that the Company will be required to sell the debt security before its anticipated recovery and (iii) for those securities which have a credit loss. In assessing whether a credit loss exists, the Company compares the present value of the cash flows expected to be collected from the security with the amortized cost basis of the security. In instances in which a determination is made that an impairment exists but the Company does not intend to sell the security and it is not more likely than not that the Company will be required to sell the security before the anticipated recovery of its remaining amortized cost basis, the impairment is separated into (i) the amount of the total impairment related to the credit loss and (ii) the amount of the total impairment related to all other factors. The amount of the total other-than-temporary impairment related to the credit loss is recognized in earnings. The amount of the total other-than-temporary impairment related to all other factors is recognized in other comprehensive income. In periods after the recognition of other-than-temporary impairments on the Company's fixed maturity securities available for sale, the Company accounts for such securities as if they had been purchased on the measurement date of the other-than-temporary impairment at an amortized cost basis equal to the previous amortized cost basis less the other-than-temporary impairment recognized in earnings. For debt securities in which other-than-temporary impairments were recognized in earnings, the difference between the new amortized cost basis and the cash flows expected to be collected will be amortized into net investment income.

Other-Than-Temporary Impairment Process Prior to April 1, 2009

Under the pre-existing guidance, which was in effect for 2008 and the three months ended March 31, 2009, the Company assessed, on a quarterly basis, whether declines in the fair value of its fixed maturity investments available for sale represented impairments that were other-than-temporary based on several factors. The factors the Company considered in the assessment of a security included: (i) the time period during which there had been a significant decline below cost; (ii) the extent of the decline below cost; (iii) the Company's intent and ability to hold the security; (iv) the potential for the security to recover in value; (v) an analysis of the financial condition of the issuer; and (vi) an analysis of the collateral structure and credit support of the security, if applicable. Where the Company determined that there was an other-than-temporary decline in the fair value of the security, the cost of the security was written down to its fair value and the unrealized loss at the time of determination was reflected in the Company's statements of operations.

NOTE 2. SIGNIFICANT ACCOUNTING POLICIES, cont'd.

The majority of the Company's fixed maturity investments available for sale are managed by external investment managers in accordance with specific investment mandates and guidelines. The investment managers are directed to manage the Company's investments to maximize total investment return in accordance with these investment mandates and guidelines. While the Company has adequate capital and liquidity to support its operations and to hold its fixed maturity investments available for sale which were in an unrealized loss position until they recover in value, the Company has not prohibited or restricted its investment managers from selling these investments and its investment managers actively trade the Company's investments. The Company was therefore unable to represent or certify that it had the intent or ability to hold these investments until they recovered in value. As a consequence, under the pre-existing guidance which was in effect for 2008 and the three months ended March 31, 2009, the Company impaired essentially all of its fixed maturity investments available for sale that were in an unrealized loss position at each quarterly reporting date.

Short Term Investments

Short term investments, which are managed as part of the Company's investment portfolio and have a maturity of one year or less when purchased, are carried at fair value. Cash equivalents include money market instruments with a maturity of ninety days or less when purchased.

Renaissance Investment Holdings Ltd. ("RIHL")

For the year ended December 31, 2008, the Company's investments included an interest in RIHL. The Company redeemed its interest in RIHL during 2009 at the then current net asset value (see Note 3). RIHL was formed to enhance administrative efficiency and take advantage of the increased benefits and reduced costs ordinarily associated with the management of large investment portfolios of different subsidiaries in the same group. In addition, the administrative efficiency afforded by the use of RIHL facilitated the establishment of the Company's collateralized letter of credit facility on advantageous terms that the Company believed would otherwise not have been available. Through RIHL, the Company invested in a diversified portfolio of highly liquid debt securities which were recorded at fair value. RIHL was assigned a rating of AAAf/S2 by Standard & Poor's Rating Agency ("S&P") and 100% of the securities held through RIHL had been assigned a rating of A or higher by S&P. Third party service providers performed custodial functions in respect of RIHL, including valuation of the investment assets held through RIHL. External investment managers managed the assets held through RIHL, pursuant to written investment guidelines.

The Company's ownership in RIHL was recorded using the equity method. The Company's share of RIHL's net income is included in equity in earnings of RIHL in the statements of operations. At December 31, 2008, the Company's share of RIHL's other comprehensive income is included in the statements of changes in shareholders' equity. Any decline in the value of the Company's share of RIHL considered by management to be other-than-temporary is charged to earnings in the period in which it is determined.

RIHL, at its sole discretion, may require any shareholder to surrender some, or all of such shareholder's shares for redemption upon 30 days prior written notice. In addition, RIHL shall redeem all outstanding shares by a date, no later than December 31, 2038.

NOTE 2. SIGNIFICANT ACCOUNTING POLICIES, cont'd.

Other Investments

Other investments are carried at fair value with interest and dividend income, income distributions and realized and unrealized gains and losses included in net investment income. The fair value of other investments is generally established on the basis of the net asset valuations provided by the investment manager, third party administrator, recent financial information or available market data to estimate fair value. In certain cases, management's judgment may also be required to estimate fair value. Actual final valuations may differ, perhaps materially so, from the Company's estimates and these differences are recorded in the period they become known as a change in estimate. The Company's estimate of the fair value of catastrophe bonds are based on quoted market prices, or when such prices are not available, by reference to broker or underwriter bid indications.

Derivatives

The Company enters into derivative instruments such as futures, options, swaps, forward contracts and other derivative contracts in order to manage its foreign currency exposure, obtain exposure to a particular financial market, for yield enhancement, or for trading and speculation. The Company accounts for its derivatives in accordance with Financial Accounting Standards Board ("FASB") Accounting Standards Codification ("ASC") Topic *Derivatives and Hedging*, which requires all derivatives to be recorded at fair value on the Company's balance sheet as either assets or liabilities, depending on their rights or obligations, with changes in fair value reflected in current earnings. The Company does not currently apply hedge accounting. The fair value of the Company's derivatives are estimated by reference to quoted prices or broker quotes, where available, or in the absence of quoted prices or broker quotes, the use of industry or internal valuation models.

Fair value

The Company accounts for certain of its assets and liabilities at fair value in accordance with FASB ASC Topic *Fair Value Measurements and Disclosures*. FASB ASC Topic *Fair Value Measurements and Disclosures* clarifies the definition of fair value, establishes a framework for measuring fair value and expands disclosures about fair value measurements. In addition, the guidance 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 to unobservable data. Fair value is the price that would be received upon the sale of an asset or paid to transfer a liability in an orderly transaction between open market participants at the measurement date. The Company recognizes the change in unrealized gains and losses arising from changes in fair value in its statements of operations, with the exception of changes in unrealized gains and losses on its fixed maturity investments available for sale, which are recognized as a component of accumulated other comprehensive income in shareholders' equity.

NOTE 2. SIGNIFICANT ACCOUNTING POLICIES, cont'd.

Foreign exchange

The Company's functional currency is the United States ("U.S.") dollar. Revenues and expenses denominated in foreign currencies are translated at the prevailing exchange rate at the transaction date. Monetary assets and liabilities denominated in foreign currencies are translated at exchange rates in effect at the balance sheet date, which may result in the recognition of exchange gains or losses which are included in the determination of net income.

Recently issued accounting pronouncements

Accounting Standards Codification

In June 2009, the FASB issued Statement No. 168, *The FASB Accounting Standards Codification™ and the Hierarchy of Generally Accepted Accounting Principles, a replacement of FASB Statement No. 162* ("FAS 168"). Effective for financial statements issued for interim and annual periods ending after September 15, 2009 the FASB ASC (the "Codification") is now the authoritative source of U.S. GAAP. The Codification changes the structure of authoritative guidance to a Topic based model versus the previous model of Original Pronouncements, modified by Emerging Issues Task Force Abstracts, FASB Staff Positions, etc. Among other things, the Codification is expected to: reduce the amount of time and effort required to solve an accounting research issue; mitigate the risk of noncompliance through improved usability of the literature; provide accurate information with real-time updates as Accounting Standards Updates are released; and assist the FASB with research and convergence efforts. The adoption of the Codification did not impact the Company's statements of operations and financial condition.

Accounting for Transfers of Financial Assets

In June 2009, the FASB issued Statement No. 166, *Accounting for Transfers of Financial Assets - an amendment of FASB Statement No. 140,* and the FASB subsequently codified it as Accounting Standard Update ("ASU") 2009-16, updating ASC Topic 860 *Transfers and Servicing*. The objective of ASU 2009-16 is to improve the relevance, representational faithfulness, and comparability of the information that a reporting entity provides in its financial statements about a transfer of financial assets; the effects of a transfer on its financial position, financial performance, and cash flows; and a transferor's continuing involvement, if any, in transferred financial assets. ASU 2009-16 must be applied as of the beginning of the reporting entity's first annual reporting period that begins after November 15, 2009, for interim periods within that first annual period and for interim and annual reporting periods thereafter. Earlier application is prohibited. ASU 2009-16 must be applied to transfers occurring on or after the effective date. Additionally, the disclosure provisions of ASU 2009-16 should be applied to transfers that occurred both before and after the effective date. The Company does not expect the potential impacts of the adoption of ASU 2009-16 on its statements of operations and financial condition to be material.

NOTE 2. SIGNIFICANT ACCOUNTING POLICIES, cont'd.

Investments in Certain Entities That Calculate Net Asset Value per Share

In September 2009, the FASB issued Accounting Standards Update ("ASU") No. 2009-12, *Investments in Certain Entities That Calculate Net Asset Value per Share (or its Equivalent)* ("ASU 2009-12"), which amends FASB ASC Topic *Fair Value Measurements and Disclosures*. ASU 2009-12 provides additional guidance on estimating the fair value of certain alternative investments, such as hedge funds, private equity investments and venture capital funds. The updated guidance allows the fair value of such investments to be determined using the net asset value ("NAV") as a practical expedient, unless it is probable the investment will be sold at a value other than the NAV. In addition, the guidance requires disclosures by major category of investment regarding the attributes of the investments within the scope of the guidance, regardless of whether the fair value of the investment is measured using the NAV or other fair value technique. ASU 2009-12 shall be effective for interim and annual periods ending after December 15, 2009. Early application is permitted in financial statements for earlier interim and annual periods that have not been issued. If an entity elects to early adopt the measurement amendments in this update, the entity is permitted to defer the adoption of the disclosure provisions until periods ending after December 15, 2009. The Company adopted ASU 2009-12 in the fourth quarter of 2009 and the adoption of this guidance did not have a material impact on the Company's statements of operations and financial condition.

(amounts in tables expressed in thousands of United States dollars)

NOTE 3. INVESTMENTS

Fixed Maturity Investments Available for Sale

The following table summarizes the amortized cost, fair value and related unrealized gains and losses and non-credit other-than-temporary impairments of fixed maturity investments available for sale at December 31, 2009:

		Included in Accumulated Other Comprehensive Income			
	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value	Non-Credit Other-Than-Temporary Impairments (1)
U.S. treasuries	$ 247,234	$ -	$ (327)	$ 246,907	$ -
Agencies	120,739	287	(64)	120,962	-
Non-U.S. government (Sovereign debt)	14,626	8	(5)	14,629	-
FDIC guaranteed corporate	523,371	3,271	(276)	526,366	-
Non-U.S. government-backed corporate	129,462	880	(713)	129,629	-
Corporate	305,360	4,896	(2,404)	307,852	-
	$ 1,340,792	$ 9,342	$ (3,789)	$ 1,346,345	$ -

(1) Represents the non-credit component of other-than-temporary impairments recognized in accumulated other comprehensive income since the adoption of guidance related to the recognition and presentation of other-than-temporary impairments under FASB ASC Topic *Financial Instruments – Debt and Equity Securities*, during the second quarter of 2009, adjusted for subsequent sales of securities. It does not include the change in fair value subsequent to the impairment measurement date.

The following table summarizes the amortized cost, fair value and related unrealized gains and losses of fixed maturity investments available for sale at December 31, 2008:

		Included in Accumulated Other Comprehensive Income		
	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
Corporate	$ 17,738	$ 262	$ -	$ 18,000
Mortgage-backed	1,448	-	-	1,448
	$ 19,186	$ 262	$ -	$ 19,448

(amounts in tables expressed in thousands of United States dollars)

NOTE 3. INVESTMENTS, cont'd.

Contractual maturities of fixed maturity investments available for sale at December 31, 2009 are as follows. Expected maturities will differ from contractual maturities because borrowers may have the right to call or prepay obligations with or without call or prepayment penalties.

	Amortized Cost	Fair Value
Due after one through five years	$ 1,215,543	$ 1,222,175
Due after five through ten years	125,249	124,170
	$ 1,340,792	$ 1,346,345

Net investment income

The components of net investment income for the years ended December 31, 2009 and 2008 are as follows:

	2009	2008
Fixed maturity investments	$ 24,603	$ 16,511
Short term investments	975	17,753
Other investments	20,636	(13,640)
Cash and cash equivalents	186	1,430
	46,400	22,054
Investment expenses	(2,053)	(1,509)
Net investment income	$ 44,347	$ 20,545

(amounts in tables expressed in thousands of United States dollars)

NOTE 3. INVESTMENTS, cont'd.

Net realized gains on the sale of fixed maturity investments are determined on the basis of the first in first out cost method and for fixed maturity investments available for sale include adjustments to the cost basis of investments for declines in value that are considered to be other-than-temporary. Unrealized gains (losses) on the Company's fixed maturity investments available for sale, are recorded in accumulated other comprehensive income on the Company's balance sheet.

The Company's net realized gains (losses), net other-than-temporary impairments and the change in net unrealized gains (losses) on investments for the years ended December 31, 2009 and 2008 are as follows:

	2009	2008
Gross realized gains	$ 15,212	$ 16,952
Gross realized losses	(4,301)	(12,213)
Net realized gains on fixed maturity investments	10,911	4,739
Net other-than-temporary impairments	(1,089)	(23,499)
Change in unrealized gains (losses) on investments included in accumulated other comprehensive income (1)	5,361	(2,923)
Total realized and change in net unrealized gains (losses) on investments	$ 15,183	$ (21,683)

(1) Excludes cumulative effect adjustment of $0.1 million to opening retained earnings as of April 1, 2009, related to the recognition and presentation of other-than-temporary impairments, as required by FASB ASC Topic *Investments - Debt and Equity Securities.*

The following table provides an analysis of the length of time the Company's fixed maturity investments available for sale in an unrealized loss have been in a continual unrealized loss position. Prior to the adoption of guidance related to the recognition and presentation of other-then-temporary impairments, which became effective for the Company on April 1, 2009, the Company had essentially no fixed maturity investments available for sale in an unrealized loss position:

	Less than 12 Months		12 Months or Greater		Total	
	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses	Fair Value	Unrealize d Losses
U.S. treasuries	$220,637	$ (327)	$ -	$ -	$ 220,637	$ (327)
Agencies	61,904	(64)	-	-	61,904	(64)
Non-U.S. government (Sovereign debt)	5,825	(5)	-	-	5,825	(5)
FDIC guaranteed corporate	111,968	(276)	-	-	111,968	(276)
Non-U.S. government-backed corporate	39,523	(713)	-	-	39,523	(713)
Corporate	195,423	(2,404)	-	-	195,423	(2,404)
	$635,280	$ (3,789)	$ -	$ -	$ 635,280	$ (3,789)

NOTE 3. INVESTMENTS, cont'd.

At December 31, 2009 and 2008, the Company held no fixed maturity investments available for sale that were in an unrealized loss position for twelve months or greater. The Company performed reviews of its investments for the year ended December 31, 2009 and 2008, respectively, in order to determine whether declines in the fair value below the amortized cost basis of its fixed maturity investments available for sale were considered other-than-temporary in accordance with the applicable guidance, as discussed below.

At December 31, 2009, $164.5 million of cash and investments at fair value were on deposit with, or in trust accounts for the benefit of various counterparties.

Other-Than-Temporary Impairment Process Prior to April 1, 2009

Under the pre-existing guidance, which was in effect for 2008 and the three months ended March 31, 2009, the Company assessed, on a quarterly basis, whether declines in the fair value of its fixed maturity investments available for sale represented impairments that were other-than-temporary based on several factors. The factors the Company considered in the assessment of a security included: (i) the time period during which there had been a significant decline below cost; (ii) the extent of the decline below cost; (iii) the Company's intent and ability to hold the security; (iv) the potential for the security to recover in value; (v) an analysis of the financial condition of the issuer; and (vi) an analysis of the collateral structure and credit support of the security, if applicable. Where the Company determined that there was an other-than-temporary decline in the fair value of the security, the cost of the security was written down to its fair value and the unrealized loss at the time of determination was reflected in the Company's consolidated statements of operations.

The majority of the Company's fixed maturity investments available for sale are managed by external investment managers in accordance with specific investment mandates and guidelines. The investment managers are directed to manage the Company's investments to maximize total investment return in accordance with these investment mandates and guidelines. While the Company has adequate capital and liquidity to support its operations and to hold its fixed maturity investments available for sale which were in an unrealized loss position until they recover in value, the Company has not prohibited or restricted its investment managers from selling these investments and its investment managers actively traded the Company's investments. The Company was therefore unable to represent or certify that it had the intent or ability to hold these investments until they recovered in value. As a consequence, under the pre-existing guidance, the Company impaired essentially all of its fixed maturity investments available for sale that were in an unrealized loss position at each quarterly reporting date. For the three months ended March 31, 2009, and the year ended December 31, 2008, respectively, the Company recorded other-than-temporary impairments of $0.1 million and $23.5 million, respectively. As of each of March 31, 2009 and December 31, 2008, respectively, the Company had essentially no fixed maturity investments available for sale in an unrealized loss position.

NOTE 3. INVESTMENTS, cont'd.

Other-Than-Temporary Impairment Process Effective April 1, 2009

Pursuant to the guidance effective April 1, 2009, the Company revised its quarterly process for assessing whether declines in the fair value of its fixed maturity investments available for sale represent impairments that are other-than-temporary. The process now includes reviewing each fixed maturity investment available for sale that is impaired and determining: (i) if the Company has the intent to sell the debt security or (ii) if it is more likely than not that the Company will be required to sell the debt security before its anticipated recovery; and (iii) assessing whether a credit loss exists, that is, where the Company expects that the present value of the cash flows expected to be collected from the security are less than the amortized cost basis of the security.

In assessing the Company's intent to sell securities, the Company's procedures may include actions such as discussing planned sales with its third party investment managers, reviewing sales that have occurred shortly after the balance sheet date, and consideration of other qualitative factors that may be indicative of the Company's intent to sell or hold the relevant securities. For the year ended December 31, 2009, the Company recognized $1.1 million, of other-than-temporary impairments due to the Company's intent to sell these securities as of December 31, 2009.

In assessing whether it is more likely than not that the Company will be required to sell a security before its anticipated recovery, the Company considers various factors including its future cash flow forecasts and requirements, legal and regulatory requirements, the level of its cash, cash equivalents, short term investments and fixed maturity investments available for sale in an unrealized gain position, and other relevant factors. For the year ended December 31, 2009, the Company recognized $Nil of other-than-temporary impairments due to required sales.

In evaluating credit losses, the Company considers a variety of factors in the assessment of a security including: (i) the time period during which there has been a significant decline below cost; (ii) the extent of the decline below cost and par; (iii) the potential for the security to recover in value; (iv) an analysis of the financial condition of the issuer; (v) the rating of the issuer; (vi) the implied rating of the issuer based on an analysis of option adjusted spreads; (vii) the absolute level of the option adjusted spread for the issuer; and (viii) an analysis of the collateral structure and credit support of the security, if applicable.

(amounts in tables expressed in thousands of United States dollars)

NOTE 3. INVESTMENTS, cont'd.

Once the Company determines that it is possible that a credit loss may exist for a security, the Company performs a detailed review of the cash flows expected to be collected from the issuer. The Company estimates expected cash flows by applying estimated default probabilities and recovery rates to the contractual cash flows of the issuer, with such default and recovery rates reflecting long-term historical averages adjusted to reflect current credit, economic and market conditions, giving due consideration to collateral and credit support, if applicable, and discounting the expected cash flows at the purchase yield on the security. In instances in which a determination is made that an impairment exists but the Company does not intend to sell the security and it is not more likely than not that the Company will be required to sell the security before the anticipated recovery of its remaining amortized cost basis, the impairment is separated into: (i) the amount of the total other-than-temporary impairment related to the credit loss; and (ii) the amount of the total other-than-temporary impairment related to all other factors. The amount of the other-than-temporary impairment related to the credit loss is recognized in earnings. The amount of the other-than-temporary impairment related to all other factors is recognized in other comprehensive income. For the year ended December 31, 2009, the Company recognized $Nil of credit related other-than-temporary impairments which were recognized in earnings and $Nil related to other factors which were recognized in other comprehensive income.

At December 31, 2009, the Company did not hold any fixed maturity investments whereby an other-than-temporary impairment was related to credit losses recognized in earnings for which a portion of an other-than-temporary impairment was recognized in accumulated other comprehensive income for the year ended December 31, 2009.

Other investments

The table below shows the Company's portfolio of other investments at December 31, 2009 and 2008:

	2009	2008
Senior secured bank loan fund	$ 54,089	$ 39,012
Catastrophe bonds	12,329	28,613
Total other investments	$ 66,418	$ 67,625

Interest income, income distributions and realized and unrealized gains and losses on other investments are included in net investment income and totaled $20.6 million (2008 - negative $13.6 million) of which $16.8 million was related to net unrealized gains (2008 - net unrealized losses $17.3 million).

(amounts in tables expressed in thousands of United States dollars)

NOTE 3. INVESTMENTS, cont'd.

Measuring the Fair Value of Other Investments Using Net Asset Valuations

The table below shows the Company's portfolio of other investments measured using net asset valuations:

	Fair Value	Unfunded Commitment	Redemption Frequency	Redemption Notice Period
Senior secured bank loan fund	$ 54,089	$ -	Monthly	Monthly

Senior secured bank loan funds – The Company's investment in a senior secured bank loan fund primarily invests in bank loans and other senior debt instruments. The fair value of the investment has been estimated using the net asset value per share of the fund. The investments are redeemable in whole, or in part, on a monthly basis.

RIHL

The Company elected to redeem its interest in RIHL at the net asset value during 2009. The aggregate redemption proceeds totaled $407.6 million. The proceeds from the redemption in RIHL were invested in a diversified portfolio of highly liquid debt securities, with essentially 100% of the securities having been assigned a rating of A or higher by nationally recognized rating agencies.

At December 31, 2008, the Company owned 25.3% of RIHL. RIHL had been assigned a rating of AAAf/S2 by S&P and 100% of the securities held by RIHL had been assigned a rating of A or higher by S&P. The Company's share of RIHL's net assets at December 31, 2008, was:

		Included in Accumulated Other Comprehensive Income		
	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
Short term investments	$ 77,851	$ -	$ -	$ 77,851
Accrued interest	1,852	-	-	1,852
Pending trades, net	(9,418)	-	-	(9,418)
Fixed maturity investments	329,274	5,087	-	334,361
	$ 399,559	$ 5,087	$ -	$ 404,646

(amounts in tables expressed in thousands of United States dollars)

NOTE 3. INVESTMENTS, cont'd.

The Company's equity in earnings of RIHL and change in unrealized (losses) gains on its investment in RIHL for the years ended December 31, 2009 and 2008, are as follows:

	2009	2008
Net investment income	$ 3,332	$ 22,540
Net realized gains	6,257	495
Net other-than-temporary impairments	(421)	(18,246)
Equity in earnings of RIHL	$ 9,168	$ 4,789
Change in unrealized (losses) gains on investment in RIHL included in accumulated other comprehensive income	(5,087)	747
Total equity in earnings of RIHL and change in unrealized gains on investment in RIHL	$ 4,081	$ 5,536

NOTE 4. FAIR VALUE MEASUREMENTS

The use of fair value to measure certain assets and liabilities with resulting unrealized gains or losses is pervasive within the Company's financial statements, and is a significant accounting policy and estimate for the Company. Fair value is defined under accounting guidance currently applicable to the Company to be the price that would be received upon the sale of an asset or paid to transfer a liability in an orderly transaction between open market participants at the measurement date. The Company recognizes the change in unrealized gains and losses arising from changes in fair value in its statements of operations, with the exception of changes in unrealized gains and losses on its fixed maturity investments available for sale, which are recognized as a component of accumulated other comprehensive income in shareholders' equity.

FASB ASC Topic *Fair Value Measurements and Disclosures* prescribes a fair value hierarchy that prioritizes the inputs to the respective valuation techniques used to measure fair value. The hierarchy gives the highest priority to unadjusted quoted prices in active markets for identical assets or liabilities (Level 1) and the lowest priority to unobservable inputs (Level 3). The three levels of the fair value hierarchy are described below:

- Fair values determined by Level 1 inputs utilize unadjusted quoted prices obtained from active markets for identical assets or liabilities for which the Company has access. The fair value is determined by multiplying the quoted price by the quantity held by the Company;

- Fair values determined by Level 2 inputs utilize inputs other than quoted prices included in Level 1 that are observable for the asset or liability, either 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; and

(amounts in tables expressed in thousands of United States dollars)

NOTE 4. FAIR VALUE MEASUREMENTS, cont'd.

- Level 3 inputs are based on unobservable inputs for the asset or liability, and include situations 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.

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.

In order to determine if a market is active or inactive for a security, the Company considers a number of factors, including, but not limited to, the spread between what a seller is asking for a security and what a buyer is bidding for the same security, the volume of trading activity for the security in question, the price of the security compared to its par value (for fixed maturity investments), and other factors that may be indicative of market activity.

There have been no material changes in the Company's valuation techniques in the period represented by these financial statements.

Below is a summary of the assets and liabilities that are measured at fair value on a recurring basis and also represents the carrying amount on the Company's balance sheet at December 31, 2009:

	Total	Level 1	Level 2	Level 3
Fixed maturity investments available for sale	$ 1,346,345	$ 246,907	$ 1,099,438	$ -
Short term investments	259,453	-	259,453	-
Other investments	66,418	-	66,418	-
Other secured assets	15,616	-	15,616	-
Other assets and (liabilities) (1)	323	-	(227)	550
	$ 1,688,155	$ 246,907	$ 1,440,698	$ 550

(1) Other assets of $Nil, $Nil and $0.6 million are included in Level 1, Level 2 and Level 3, respectively.
Other liabilities of $Nil, $0.2 million and $Nil are included in Level 1, Level 2 and Level 3, respectively.

Fixed maturity investments included in Level 1 consist of the Company's investments in U.S. treasuries. Fixed maturity investments included in Level 2 are U.S. agencies, non-U.S. government, corporate, FDIC guaranteed corporate and non-U.S. government-backed corporate fixed maturity investments.

NOTE 4. FAIR VALUE MEASUREMENTS, cont'd.

The Company's fixed maturity investments available for sale portfolio is priced using broker quotations and pricing services, such as index providers and pricing vendors. The pricing vendors provide pricing for a high volume of liquid securities that are actively traded. For securities that do not trade on an exchange, the pricing services generally utilize market data and other observable inputs in matrix pricing models to determine prices. Prices are generally verified using third party data. Prices obtained from broker quotations are considered non-binding, however they are based on observable inputs and by observing secondary trading of similar securities obtained from active, non-distressed markets. The Company considers these Level 2 inputs as they are corroborated with other externally obtained information.

Short term investments are considered Level 2 and fair values are generally determined using amortized cost which approximates fair value and, in certain cases, in a manner similar to the Company's fixed maturity investments available for sale noted above.

The Company's other investments included in Level 2 are the Company's investments in catastrophe bonds and a highly liquid senior secured bank loan fund. Fair value estimates for the majority of the Company's other investments included in Level 2 are derived using net asset valuations provided by third parties such as the relevant investment manager or administrator, recent financial information issued by the applicable investee entity or available market data to estimate fair value. In certain cases, management's judgment may also be required to estimate fair value.

Below is a reconciliation of the beginning and ending balances, for the periods shown, of assets and liabilities measured at fair value on a recurring basis using Level 3 inputs. Interest and dividend income are included in net investment income and are excluded from the reconciliation.

	Other assets and liabilities (1)
Balance - January 1	$ 640
Total unrealized gains	
Included in net investment income	-
Included in other loss	-
Total realized losses	
Included in net investment income	-
Included in other loss	(14,817)
Total foreign exchange gains	-
Net purchases, issuances and settlements	14,727
Net transfers in and/or out of Level 3	-
Balance - December 31	$ 550

(1) Balance at December 31, 2009 includes $0.6 million of other assets and $Nil of other liabilities.

(amounts in tables expressed in thousands of United States dollars)

NOTE 4. FAIR VALUE MEASUREMENTS, cont'd.

The Fair Value Option for Financial Assets and Financial Liabilities

The Company has elected to account for certain assets and liabilities at fair value under FASB ASC Topic *Financial Instruments*. These assets and liabilities were previously accounted for under applicable GAAP that resulted in a carrying value that approximated fair value, and as such, there were no material changes to the reported value of these assets and liabilities upon adoption of the fair value option. The Company has elected to use the guidance under FASB ASC Topic *Financial Instruments,* as it represents the most current authoritative GAAP. Below is a summary of the balances the Company has elected to account for at fair value at December 31, 2009 and 2008:

	2009	2008
Other investments	$ 66,418	$ 67,625
Other secured assets	15,616	29,928
Other assets and liabilities	323	1,435

Included in net investment income for the year ended December 31, 2009 is $16.8 million (2008 - $17.3 million) of net unrealized gains related to the changes in fair value of other investments. Net unrealized gains related to the changes in the fair value of other secured assets and other assets and liabilities recorded in other income was $0.7 million and $Nil, respectively, for the year ended December 31, 2009 (2008 - $1.2 million and $Nil, respectively).

Reinsurance Contracts Accounted for at Fair Value

The Company assumes and cedes certain reinsurance contracts that are accounted for at fair value under the fair value election option. The fair value of these contracts is obtained through the use of internal valuation models. These contracts are recorded on the Company's balance sheet in other assets and other liabilities and totaled $0.6 million and $Nil, respectively (2008 - $0.6 million and $Nil, respectively). During 2009, the Company recorded losses of $14.8 million (2008 - $3.2 million) which are included in other loss and represents changes in the fair value of these contracts.

NOTE 5. CEDED REINSURANCE

The Company purchases reinsurance and other protection to manage its risk portfolio and reduce its exposure to large losses. The Company currently has in place contracts that provide for recovery from reinsurers of a portion of certain claims and claim expenses, generally in excess of various retentions or on a proportional basis. In addition to loss recoveries, certain of the Company's ceded reinsurance contracts provide for recoveries of additional premiums, reinstatement premiums and for lost no-claims bonuses, which are incurred when losses are ceded to other reinsurance contracts. The Company remains liable to the extent that any reinsurance company fails to meet its obligations. A portion of the Company's ceded reinsurance was ceded to Renaissance Reinsurance Ltd. ("Renaissance Reinsurance"), a wholly-owned subsidiary of RenaissanceRe (see Note 8).

(amounts in tables expressed in thousands of United States dollars)

NOTE 5. CEDED REINSURANCE, cont'd.

The effect of reinsurance and retrocessional activity on net premiums written and earned and on net claims and claim expenses incurred for the years ended December 31, 2009 and 2008 was as follows:

	2009	2008
Premiums written		
Assumed	$ 391,959	$ 367,079
Ceded	(59,855)	(25,882)
Net premiums written	$ 332,104	$ 341,197
Premiums earned		
Assumed	$ 384,303	$ 359,393
Ceded	(57,544)	(27,033)
Net premiums earned	$ 326,759	$ 332,360
Claims and claim expenses		
Gross claims and claim expenses incurred	$ (36,529)	$ 182,293
Claims and claim expenses recovered	-	-
Net claims and claim expenses incurred	$ (36,529)	$ 182,293

NOTE 6. OTHER SECURED ASSETS AND OTHER SECURED LIABILITIES

Other secured assets and other secured liabilities represent contractual rights and obligations under a purchase agreement, contingent purchase agreement and credit derivatives agreement (collectively, the "Agreements") with a major bank to sell certain securities within the Company's catastrophe-linked securities portfolio ("Cat-Linked Securities"). Under the terms of the Agreements, the Company originally sold its ownership interest in Cat-Linked Securities with a par amount of $34.5 million to the bank for $34.5 million during 2007. In 2008, the Company sold additional Cat-Linked Securities with a par amount of $10.5 million to the bank for $10.5 million. During 2009, Cat-Linked Securities with a par amount of $15.0 million matured (2008 - $14.5 million). The Agreements allow the Company to repurchase these securities at par and obligate the Company to repurchase the securities under certain circumstances including catastrophe triggering events and events of default. As a result of this transaction, the Company is receiving the spread over LIBOR on the remaining $15.5 million of Cat-Linked Securities, less a financing fee.

The Company accounted for the sale of the Cat-Linked Securities under the Agreements as a secured borrowing with a pledge of collateral under the provisions of FASB ASC Topic *Transfers and Servicing*, and accordingly recognized no gain or loss upon the transaction date. The credit derivatives agreement is accounted for at fair value with changes in fair value recognized in other loss. As a result of the Agreements, the Company reclassified its previously recorded Cat-Linked Securities, recognized an other secured asset which totaled $15.6 million at December 31, 2009, representing the fair value of the pledged collateral and credit derivatives agreement, and recognized a $15.5 million liability, representing its obligation to repurchase the Cat-Linked Securities at par. The Company recognized $1.8 million of other income in its statements of operations in 2009 (2008 - $0.9 million) from this transaction, representing the spread over LIBOR less the financing fee on the Cat-Linked Securities for the year ended December 31, 2009, inclusive of the change in the fair value of the credit derivatives agreement.

Under the terms of the Agreements, the Company may sell other catastrophe-linked securities.

NOTE 7. RESERVE FOR CLAIMS AND CLAIM EXPENSES

The Company uses statistical and actuarial methods to estimate ultimate expected claims and claim expenses. The period of time from the reporting of a loss to the Company and the settlement of the Company's liability may be many years. During this period, additional facts and trends will 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 IBNR reserves to specific case reserves or additional case reserves. These estimates are reviewed regularly, and such adjustments, if any, are reflected in the results of operations in the period in which they become known and are accounted for as changes in estimates. Adjustments to the Company's claims and claim expense reserves can impact current year net income by increasing net income if the estimates of prior year claims and claim expense reserves prove to be overstated or by decreasing net income if the estimates of prior year claims and claim expense reserves prove to be insufficient.

The Company's estimates of claims and claim expenses are also based in part upon the estimation of claims resulting from natural and man-made disasters such as hurricanes, earthquakes, tsunamis, winter storms, terrorist attacks and other catastrophic events. Estimation by the Company of claims resulting from catastrophic events is inherently difficult because of the potential severity of property catastrophe claims. Additionally, the Company does not have the benefit of a significant amount of its own historical experience with its specialty reinsurance line. Therefore, the Company uses both proprietary and commercially available models, as well as historical (re)insurance industry claims experience, for purposes of evaluating future trends and providing an estimate of ultimate claims costs.

(amounts in tables expressed in thousands of United States dollars)

NOTE 7. RESERVE FOR CLAIMS AND CLAIM EXPENSES, cont'd.

Activity in the liability for unpaid claims and claim expenses is summarized for the years ended December 31, 2009 and 2008 as follows:

	2009	2008
Net reserves as of January 1	$ 292,751	$ 237,077
Net incurred related to:		
Current year	31,948	237,365
Prior years	(68,477)	(55,072)
Total net incurred	(36,529)	182,293
Net paid related to:		
Current year	6,013	63,400
Prior years	56,286	63,219
Total net paid	62,299	126,619
Total net reserves as of December 31	193,923	292,751
Losses recoverable as of December 31	138	141
Total gross reserves as of December 31	$ 194,061	$ 292,892

During 2009, the Company's prior years favorable development of $68.5 million was principally attributable to a reduction in ultimate net losses associated with certain events, including the 2008 hurricanes, Gustav and Ike; the 2005 hurricanes, Katrina, Rita and Wilma; the 2007 European windstorm Kyrill; the 2007 California wildfires; the 2007 flooding in the U.K.; and the 2004 hurricanes, Charley, Frances, Ivan and Jeanne, due to better than expected reported claims activity, and with respect of the 2004 and 2005 hurricanes, the adoption of a new actuarial technique using reported loss development factors to estimate the ultimate losses for these events.

During 2008, the Company's prior years favorable development of $55.1 million was principally as a result of a comprehensive review of the Company's expected ultimate net losses associated with the 2005 hurricanes, Katrina, Rita and Wilma, which resulted in a decrease in the estimated ultimate net losses from these hurricanes.

NOTE 8. RELATED PARTY TRANSACTIONS AND MAJOR CUSTOMERS

The Company entered into reinsurance agreements with Renaissance Reinsurance in each year from 2002 to 2009 and also entered into reinsurance agreements with Glencoe Insurance Ltd. ("Glencoe"), a wholly-owned subsidiary of RenaissanceRe, to assume a portion of Glencoe's property business in each year from 2002 to 2007. During 2009, net premiums earned assumed with Renaissance Reinsurance were $4.1 million (2008 - Renaissance Reinsurance and Glencoe were $2.7 million). In addition, during 2009, net claims and claim expenses incurred under these agreements with Renaissance Reinsurance and Glencoe were negative $1.4 million (2008 - $5.9 million). At December 31, 2009, outstanding reserves for claims and claim expenses assumed under these agreements with Renaissance Reinsurance and Glencoe were $6.5 million (2008 - $9.5 million), unearned premium reserves for these agreements were $Nil (2008 - $0.5 million) and premiums receivable were $Nil (2008 - $0.6 million).

A subsidiary of the Company's ultimate parent has made a $10.0 million equity investment in Tower Hill Holdings Inc. ("Tower Hill"), a $5.0 million loan to Tower Hill Insurance Group ("Tower Hill Insurance"), the outstanding balance of which was repaid during 2008, a managing general agency under common ultimate ownership with Tower Hill and a $50.0 million equity investment in Tower Hill Insurance Group, LLC, Tower Hill Claims Services, LLC and Tower Hill Claims Management, LLC (collectively, the "Tower Hill Companies"). The Company has entered into reinsurance agreements with certain subsidiaries and affiliates of Tower Hill and has also entered into reinsurance agreements with respect to business produced by Tower Hill Insurance. These reinsurance agreements include excess of loss reinsurance and four net retained personal property quota share agreements for 2009 and 2008. For the year ended December 31, 2009, the Company recorded $16.3 million (2008 - $10.0 million) of gross premium written assumed from Tower Hill and its subsidiaries and affiliates related to the above mentioned contracts. Gross premiums earned totaled $13.5 million (2008 - $8.6 million) and expenses incurred were $1.4 million (2008 - $0.9 million) for the year ended December 31, 2009 related to these contracts. The Company had a net related outstanding receivable balance of $9.0 million as of December 31, 2009 (2008 - $5.2 million).

Under the terms of a management agreement, Renaissance Underwriting Managers Ltd. ("Renaissance Underwriting Managers"), a wholly-owned subsidiary of RenaissanceRe, has contracted to provide all of the Company's management, underwriting, investment management and administrative functions, for which it is paid a fee that is a percentage of premium and a profit commission. For the year ended December 31, 2009, the Company recorded a related expense of $87.3 million (2008 - $38.2 million). Of this amount, $57.5 million is recorded in amounts due to affiliates at December 31, 2009 (2008 - $23.7 million). Amounts due to affiliates are non-interest-bearing and payable in accordance with the terms of the management agreement. As per the management agreement, $42.6 million (2008 - $27.5 million) of the amounts due to affiliates represents deferred profit commission which is not currently due but will be accrued to offset future underwriting year deficits, should they occur, subject to a maximum dollar amount. Additionally, the Company is required to reimburse Renaissance Underwriting Managers for other directly identifiable costs. For the years ended December 31, 2009 and 2008, no such directly identifiable costs were allocated to the Company.

During the year ended December 31, 2009, the Company received 90.9% (2008 - 89.4%) of its reinsurance gross premiums written from three reinsurance brokers (2008 - four). During November 2008, AON Corporation ("AON") acquired the Benfield Group Limited ("Benfield"), resulting in the combined entity, AON Benfield, accounting for 62.0% of the Company's reinsurance gross premiums written in 2008. Subsidiaries and affiliates of AON Benfield, Marsh Inc. and the Willis Group accounted for approximately 60.8%, 21.8% and 8.3%, respectively, of the Company's premiums written in 2009.

(amounts in tables expressed in thousands of United States dollars)

NOTE 9. SHAREHOLDERS' EQUITY

The aggregate authorized capital of the Company is 4,480,000 common shares. The Company's authorized $1.0 par value common shares at December 31, 2009 and 2008 are segregated into share classes as follows:

	Number of Shares					
	Authorized	Outstanding 2008	Issued	Redeemed	Outstanding 2009	Par Value 2009
Class A	230,000	160,624	90,765	-	251,389	$ 252
Class AA	3,000,000	3,000,000	-	-	3,000,000	3,000
Class B	230,000	190,441	-	-	190,441	190
Class C	100,000	-	-	-	-	-
Class D	230,000	67,505	-	(71)	67,434	68
Class E	230,000	6,180	-	(961)	5,219	5
Class F	460,000	280,755	-	(136,713)	144,042	144
	4,480,000	3,705,505	90,765	(137,745)	3,658,525	$ 3,659

	Number of Shares					
	Authorized	Outstanding 2007	Issued	Redeemed	Outstanding 2008	Par Value 2008
Class A	230,000	158,696	1,928	-	160,624	$ 161
Class AA	3,000,000	3,000,000	-	-	3,000,000	3,000
Class B	230,000	187,396	3,045	-	190,441	190
Class C	100,000	-	-	-	-	-
Class D	230,000	39,290	28,215	-	67,505	68
Class E	230,000	33,252	71	(27,143)	6,180	6
Class F	460,000	355,366	884	(75,495)	280,755	281
	4,480,000	3,774,000	34,143	(102,638)	3,705,505	$ 3,706

Class A shares have full voting rights. All Class AA shares are owned by DaVinci and are entitled to 99.8% of the economic interest of the Company and 0.1% of the voting rights of the Company. Class B and D shares have voting rights that are limited to 9.9% for each class. Class E and F shares are non-voting. Other than the Class AA shares, all shares have equal dividend and participation rights. However, special dividends have been and may be awarded to the Class AA shareholders, to cover the debt servicing cost of DaVinci, upon approval from the Board of Directors. In the event of a mandatory redemption instituted by the Company, Class D, E and F shares are redeemable first, followed by Class B shares. Additionally, Class B shares have certain rights requiring them to be redeemed only in proportion to Class A shares. In the event of a share issuance involving a new shareholder, either a joiner agreement must be executed by the new shareholder, or a new shareholder agreement would be required and must be signed by all shareholders. Additionally, the existing shareholders have the right of first refusal for any new share issuances.

NOTE 9. SHAREHOLDERS' EQUITY, cont'd.

Shareholders are party to a shareholders agreement (the "Shareholders Agreement") which provides the shareholders, excluding ROIHL, with certain redemption rights that enable each shareholder to notify DaVinci of such shareholder's desire for DaVinci to repurchase up to half of such shareholder's aggregate number of shares held, subject to certain limitations, such as limiting the aggregate of all share repurchase requests to 25% of DaVinci's capital in any given year and satisfying all applicable regulatory requirements. If total shareholder requests exceed 25% of DaVinci's capital, the number of shares repurchased will be reduced among the requesting shareholders pro-rata, based on the amounts desired to be repurchased. Shareholders desiring to have the DaVinci repurchase their shares must notify DaVinci before March 1 of each year. The repurchase price will be based on GAAP book value as of the end of the year in which the shareholder notice is given, and the repurchase will be effective as of such date. Payment will be made by April 1 of the following year, following delivery of the audited financial statements for the year in which the repurchase was effective. The repurchase price is subject to a true-up for development on outstanding loss reserves after settlement of all claims relating to the applicable years.

Certain third party shareholders of DaVinci submitted repurchase notices on or before the required annual redemption notice date of March 1, 2009, in accordance with the Shareholders Agreement. The repurchase notices submitted on or before March 1, 2009 were for shares of DaVinci with a GAAP book value of $173.6 million at December 31, 2009. Effective January 1, 2010, DaVinci redeemed the shares for $173.6 million, less a $17.6 million reserve holdback.

Certain shareholders of DaVinci submitted repurchase notices on or before the March 1, 2008 repurchase notice date. The repurchase notice was for shares with a GAAP book value of $145.5 million at December 31, 2008. On January 30, 2009, RenaissanceRe, on behalf of DaVinci, purchased the shares for $145.5 million, less a $21.8 million reserve holdback.

On February 19, 2008, as provided in the Shareholders Agreement, DaVinci repurchased 75,495 Class F common shares for $100.0 million, representing GAAP book value per share. The amount paid in excess of par value was recorded as a reduction to additional paid-in capital.

Refer to Note 13 for additional common share transactions occurring subsequent to December 31, 2009.

NOTE 10. TAXATION

Under current Bermuda law, the Company is not subject to any income or capital gains taxes. In the event that such taxes are imposed, the Company would be exempted from any such tax until March 2016 pursuant to the Bermuda Exempted Undertakings Tax Protection Act of 1966, and Amended Act of 1987.

NOTE 11. STATUTORY REQUIREMENTS

Under the Insurance Act 1978, amendments thereto and Related Regulations of Bermuda (the "Act"), the Company is required to prepare statutory financial statements and to file in Bermuda a statutory financial return. The Act also requires the Company to maintain certain measures of solvency and liquidity. At December 31, 2009, the statutory capital and surplus of the Company was $1,455.9 million (2008 - $1,180.9 million) and the amount required to be maintained was $166.1 million (2008 - $170.6 million). In addition, a minimum liquidity ratio must be maintained whereby relevant assets, as defined by the Act, must exceed 75% of relevant liabilities. At December 31, 2009 and 2008, the liquidity ratio was met.

Under the Act, the Company is classified as a Class 4 insurer, and is therefore restricted as to the payment of dividends in the amount of 25% of the prior year's statutory capital and surplus, unless at least two members of the Board of Directors attest that a dividend in excess of this amount would not cause the Company to fail to meet its relevant margins. During 2009, the Company declared and paid cash dividends of $4.1 million (2008 - $6.9 million) to DaVinci.

In 2008, new statutory legislation was enacted in Bermuda, which included, among other things, the Bermuda Solvency Capital Requirement ("BSCR") which is a standard mathematical model designed to give the Bermuda Monetary Authority ("BMA") more advanced methods for determining 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 Company is currently completing its 2009 BSCR, and at this time believes it will exceed the target level of required capital.

NOTE 12. DERIVATIVE INSTRUMENTS, COMMITMENTS AND CONTINGENCIES

<u>Derivatives</u>

The Company enters into derivative instruments such as futures, options, swaps, forward contracts and other derivative contracts in order to manage its foreign currency exposure, obtain exposure to a particular financial market or for yield enhancement. The Company accounts for its derivatives in accordance with FASB ASC Topic *Derivatives and Hedging*, which requires all derivatives to be recorded at fair value on the Company's balance sheet as either assets or liabilities, depending on the rights or obligations of the derivatives, with changes in fair value reflected in current earnings. The Company does not currently apply hedge accounting in respect of any positions reflected in its financial statements. The fair value of the Company's derivatives are estimated by reference to quoted prices or broker quotes, where available, or in the absence of quoted prices or broker quotes, the use of industry or internal valuation models.

The Company's guidelines permit, subject to approval, investments in derivative instruments such as futures, which may be used to assume risk or for hedging purposes.

NOTE 12. DERIVATIVE INSTRUMENTS, COMMITMENTS AND CONTINGENCIES, cont'd.

Underwriting Related Foreign Currency Contracts

The Company's functional currency is the U.S. dollar. The Company writes a portion of its business in currencies other than U.S. dollars and may, from time to time, experience foreign exchange gains and losses, other income (loss) and incur underwriting income (losses) in currencies other than U.S. dollars, which will in turn affect the Company's financial statements. All changes in exchange rates, with the exception of non-U.S. dollar denominated investments classified as available for sale, are recognized currently in the Company's statements of operations.

The Company's foreign currency policy with regard to its underwriting operations is generally to hold foreign currency assets, including cash, investments and receivables that approximate the foreign currency liabilities, including claims and claim expense reserves and reinsurance balances payable. When necessary, the Company may use foreign currency forward and option contracts to minimize the effect of fluctuating foreign currencies on the value of non-U.S. dollar denominated assets and liabilities associated with its underwriting operations. At December 31, 2009, the total notional amount in U.S. dollars of the Company's underwriting related foreign currency contracts was $17.0 million (2008 - $32.0 million). For the year ended December 31, 2009, the Company incurred a loss of $0.9 million (2008 - $5.2 million) on its foreign currency forward and option contracts related to its underwriting operations. The fair value of these contracts as of December 31, 2009 was a net liability of $0.2 million (2008 - $4.2 million). Changes in the fair value of the Company's foreign currency derivatives are recognized in the Company's statements of operations.

Reinsurance Derivatives

Refer to Note 4 for "Reinsurance Contracts Accounted for at Fair Value".

The Company has also entered into Agreements with a major bank to sell certain securities within the Company's Cat-Linked Securities, while retaining the underlying risk through a credit derivatives agreement. Please refer to Note 6 for additional information.

Concentration of credit risk

Instruments which potentially subject the Company to concentration of credit risk, consist principally of investments, cash, premiums receivable and reinsurance balances. The Company limits the amount of credit exposure to any one financial institution and except for U.S. Government securities, none of the Company's investments exceeded 10% of shareholders' equity at December 31, 2009. See Notes 5 and 7 for information with respect to losses recoverable.

NOTE 12. DERIVATIVE INSTRUMENTS, COMMITMENTS AND CONTINGENCIES, cont'd.

Letters of credit

RenaissanceRe, the Company's ultimate parent, maintains a facility which, as of December 31, 2009, makes available to its operating subsidiaries and joint ventures letters of credit having an aggregate face amount not to exceed $1.4 billion. The operating subsidiaries or joint ventures may draw down from the facility as required, so long as they provide eligible collateral and there are no specific allocations of the facility to certain operating subsidiaries or joint ventures. At December 31, 2009, RenaissanceRe's bankers have issued letters of credit of approximately $944.4 million in favor of certain ceding companies of which approximately $116.3 million (2008 - $119.3 million) relates to the Company. The letters of credit are secured by cash and investments of similar amounts.

Indemnifications and warranties

In the ordinary course of its business, the Company may enter into contracts or agreements that contain indemnifications or warranties. Future events could occur that lead to the execution of these provisions against the Company. Based on past experience, management currently believes that the likelihood of such an event is remote.

Litigation

The Company can be subject to claims litigation involving disputed interpretations of policy coverages. Lawsuits, involving claims on policies issued by the Company are typical to the insurance industry in general and in the normal course of business and are considered in its claims and claim expenses reserves. In addition to claims litigation, the Company can be subject to lawsuits and regulatory actions in the normal course of business that do not arise from or directly relate to claims on insurance policies. This category of business litigation may involve allegations of underwriting or claims-handling errors or misconduct, employment claims, regulatory activity or disputes arising from our business ventures. Any such litigation or arbitration contains an element of uncertainty, and the inherent uncertainty in such matters may have increased recently and will likely continue to increase. Currently, the Company believes that no individual, normal course litigation or arbitration to which the Company is presently a party is likely to have a material adverse effect on its financial condition, business or operations.

NOTE 13. 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 26, 2010, the date the financial statements were issued.

Certain third party shareholders of DaVinci submitted repurchase notices on or before the required annual redemption notice date of March 1, 2010, in accordance with the Shareholders Agreement. The repurchase notices submitted on or before March 1, 2010 were for shares of DaVinci with a GAAP book value of $87.3 million at December 31, 2009.

On March 9, 2010, DaVinci amended the pledge agreement supporting its $200.0 million revolving credit facility and, as a result, the Company was required to pledge cash and cash equivalents and fixed maturity investments available for sale with a fair value, of $35.0 million and $199.1 million, respectively.