Financial Statements of

VALAIS RE LTD.

December 31, 2009 and 2008

VALAIS RE LTD.

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KPMG
PO Box 493
Century Yard
Grand Cayman KY1-1106
CAYMAN ISLANDS

Telephone: +1 345 949-4800
Fax: +1 345 949-7164
Internet: www.kpmg.ky

Independent Auditors' Report to the Shareholder

We have audited the accompanying financial statements of Valais Re Ltd. (the "Company"), which comprise the balance sheets as at December 31, 2009 and 2008 and the related statements of (loss)/income and (accumulated deficit)/retained earnings, comprehensive (loss)/income and cash flows for the year ended December 31, 2009 and period from April 11, 2008 (date of incorporation) to December 31, 2008, and a summary of significant accounting policies and other explanatory notes.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in conformity with accounting principles generally accepted in the United States of America. This responsibility includes: designing, implementing and maintaining internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error; selecting and applying appropriate accounting policies; and making accounting estimates that are reasonable in the circumstances.

Auditors' Responsibility

Our responsibility is to express an opinion on these financial statements based on our audits. We conducted our audits in accordance with International Standards on Auditing. Those standards require that we comply with relevant ethical requirements and plan and perform the audits to obtain reasonable assurance whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on our judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, we consider internal control relevant to the Company's preparation and fair presentation of the financial statements in order to design 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. An audit also includes evaluating the appropriateness of accounting principles used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Opinion

In our opinion, the financial statements present fairly, in all material respects, the financial position of the Company as at December 31, 2009 and 2008 and its financial performance and its cash flows for the year ended December 31, 2009 and period from April 11, 2008 (date of incorporation) to December 31, 2008 in conformity with accounting principles generally accepted in the United States of America.

(continued)

KPMG, a Cayman Islands partnership and a member firm of the
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Independent Auditors' Report to the Shareholder (continued)

Emphasis of Matter

Without qualifying our opinion, we draw attention to Notes 4 and 5 to the financial statements. As at December 31, 2008 the financial statements include investments valued at US$92,480,552 and derivative financial instruments valued at US$2,518,261 whose values are estimated using the valuation method discussed in Note 2(b)(i) in the absence of readily ascertainable market values. However, because of the inherent uncertainty of valuation, those estimated values may differ significantly from the values that would have been used had a ready market for these financial instruments existed or had another valuation method been adopted, and the differences could be material. This emphasis of matter is not applicable to the year ended December 31, 2009 as readily ascertainable market values were available for these investments.

KPMG

June 28, 2010

VALAIS RE LTD.

Balance Sheets

December 31, 2009 and 2008
(stated in United States dollars)

	Note		2009	2008
Assets				
Cash and cash equivalents	3		162,358	15,335,524
Investments	4,11		113,529,718	92,480,552
Interest receivable			327,559	495,281
Reinsurance premiums receivable			5,729,985	5,696,394
Prepaid expenses			23,935	619
Total assets		US$	119,773,555	114,008,370
Liabilities and shareholder's equity				
Liabilities				
Accounts payable and accrued expenses	10		261,277	239,933
Interest payable	6		963,114	1,100,883
Unearned premiums			4,669,519	4,669,088
Derivative financial instruments	5,11		9,834,494	2,518,261
Provision for outstanding losses	2(d)		0	0
			15,728,404	8,528,165
Notes payable	6		104,000,000	104,000,000
Shareholder's equity				
Share capital	7		5,000	5,000
Other comprehensive income			16,106,648	0
(Accumulated deficit)/retained earnings			(16,066,497)	1,475,205
			45,151	1,480,205
Total liabilities and shareholder's equity		US$	119,773,555	114,008,370

See accompanying notes to financial statements.

Approved on behalf of the Board of Directors on June 28, 2010

DENA THOMPSON
________________________________ Director

LINDA HADDLETON
________________________________ Director

VALAIS RE LTD.

Statements of (Loss)/Income and (Accumulated Deficit)/Retained Earnings

Year ended December 31, 2009 and the period from April 11, 2008 (date of incorporation) to December 31, 2008
(stated in United States dollars)

	Note	2009	2008
Underwriting income			
Reinsurance premiums assumed		11,225,032	13,866,461
Movement in unearned premiums		(431)	(4,669,088)
Net underwriting income		11,224,601	9,197,373
Net (loss)/gain on financial instruments			
Net (loss)/gain on derivative financial instruments	5	(34,101,070)	31,417,232
		(34,101,070)	31,417,232
Investment income/(loss)			
Net investment income/(loss)	8	17,516,146	(28,299,468)
		17,516,146	(28,299,468)
Expenses			
Interest expense	6	(12,085,316)	(8,170,421)
Initial offering costs	10	0	(2,583,063)
Administration expenses	9, 10	(96,063)	(86,448)
		(12,181,379)	(10,839,932)
Net (loss)/income for year/period		(17,541,702)	1,475,205
Retained earnings at beginning of year		1,475,205	0
(Accumulated deficit)/retained earnings at end of year/period	US$	(16,066,497)	1,475,205

See accompanying notes to financial statements.

VALAIS RE LTD.

Statements of Comprehensive (Loss)/Income

Year ended December 31, 2009 and the period from April 11, 2008 (date of incorporation) to December 31, 2008
(stated in United States dollars)

		2009	2008
Net (loss)/income for year/period		(17,541,702)	1,475,205
Other comprehensive income/(loss):			
Unrealised holding gain/(loss) on available-for-sale investments arising during the period		27,477,334	(32,078,838)
Adjustment to the carrying value of other than temporary impaired investments		0	32,078,838
Reclassification adjustment for net realised gain on disposal of investments included in net (loss)/income		(11,370,686)	0
		16,106,648	0
Comprehensive (loss)/income for year/period	US$	(1,435,054)	1,475,205

See accompanying notes to financial statements.

VALAIS RE LTD.

Statements of Cash Flows

Year ended December 31, 2009 and the period from April 11, 2008 (date of incorporation) to December 31, 2008
(stated in United States dollars)

		2009	2008
Cash provided by/(applied in):			
Operating activities			
Net (loss)/income for year/period		(17,541,702)	1,475,205
Items not affecting cash:			
Realised gain on sale of investments		(11,370,686)	0
Net movement in unrealised loss on derivative financial instruments		7,316,233	2,518,261
Net amortisation on investments		(793)	(63,135)
Adjustment to the carrying value of other than temporary impaired investments		0	32,078,838
Add/(deduct) net changes in non-cash operating balances:			
Interest receivable		167,722	(495,281)
Reinsurance premiums receivable		(33,591)	(5,696,394)
Prepaid expenses		(23,316)	(619)
Accounts payable and accrued expenses		21,344	239,933
Interest payable		(137,769)	1,100,883
Unearned premiums		431	4,669,088
		(21,602,127)	35,826,779
Investing activities			
Purchase of investments		(43,555,075)	(139,405,146)
Proceeds upon maturity of investments		49,984,036	14,908,891
		6,428,961	(124,496,255)
Financing activities			
Proceeds from the issue of notes payable		0	104,000,000
Issuance of share capital		0	5,000
		0	104,005,000
(Decrease)/increase in cash and cash equivalents during year/period		(15,173,166)	15,335,524
Cash and cash equivalents at beginning of year/period		15,335,524	0
Cash and cash equivalents at end of year/period	**US$**	**162,358**	**15,335,524**
Supplementary information on cash flows from operating activities			
Interest received		6,312,850	3,220,954
Interest paid	US$	12,223,085	7,069,538

See accompanying notes to financial statements.

1. Incorporation and background information

Valais Re Ltd. (the "Company") was incorporated under the Companies Law of the Cayman Islands on April 11, 2008 and has been issued a Restricted Class "B" Insurance Licence under Section 4 of the Cayman Islands Insurance Law.

The Company was formed for the sole purpose of issuing Notes under a Principal At-Risk Variable Rate Note Program to provide Flagstone Reinsurance Limited and Flagstone Reássurance Suisse SA (together "Ceding Reinsurer") with a program for obtaining insurance coverage for certain events within a Covered Area as defined by the Retrocession Agreements entered into by both parties. Specifically, the Retrocession Agreements provide for catastrophic excess of loss indemnification to the Ceding Reinsurer for losses incurred by the Ceding Reinsurer under the Subject Business, as defined in the Retrocession Agreement from the peril of hurricanes, earthquakes, typhoons, windstorms and other perils within the Covered Area. The Company will enter into a separate Retrocession Agreement for each series of Notes issued.

At the inception of the Retrocession Agreements, the Company reinsured 47.62% of losses in excess of the initial trigger amount of US$364,000,000 ("Class C Initial Attachment Point") and up to US$448,000,000 ("Class C Initial Exhaustion Point") and 59.81% of losses in excess of the initial trigger amount of US$660,000,000 ("Class A Initial Attachment Point") and up to US$767,000,000 ("Class A Initial Exhaustion Point"). The aggregate amounts of payments to be made by the Company to the Ceding Reinsurer under the Retrocession Agreements are limited at all times to the original principal amount of the Notes, issued and outstanding.

A reset of the Attachment Point and Exhaustion Point based on updated exposure data is performed quarterly and in the event of a loss occurrence. The most recent update occurred March 2, 2010 and the Class C Attachment Point was reset at US$429,000,000, the Class C Exhaustion Amount was reset at US$531,000,000 and the retrocession percentage was reset at 39.22%. The Class A Attachment Point was reset at US$788,000,000, the Class A Exhaustion Amount was reset at US$923,000,000 and the retrocession percentage was at 47.41%. The Risk Period associated with each Retrocession Agreement is May 31, 2008 to May 30, 2011. The Annual Risk Periods are from May 31, 2008 to May 30, 2009, May 31, 2009 to May 30, 2010 and May 31, 2010 to May 30, 2011, although the final risk period may be extended by up to twenty four months by the Ceding Reinsurer.

1. Incorporation and background information (continued)

At December 31, 2009, US$64,000,000 Series 2008-1 Class A Principal At-Risk Variable Rate Notes due June 6, 2011 ("Class A Notes"), US$40,000,000 Series 2008-1 Class C Principal At-Risk Variable Rate Notes due June 6, 2011 ("Class C Notes") together ("Notes") were issued and remained outstanding. The Notes are listed on the Bermuda Stock Exchange. The Company utilised the proceeds from the issue of the Notes as detailed in Note 6 to secure its obligations to the Ceding Reinsurer under the Retrocession Agreements. The proceeds were deposited into two separate Collateral Accounts established under the Indenture between the Company and the Indenture Trustee. Funds in the Collateral Accounts will be invested in Directed Investments assigned in favour of the Indenture Trustee for the benefit of the Ceding Reinsurer, Swap Counterparty and the Noteholders respectively. The Retrocession Agreements' inception date is May 30, 2008. The Notes are secured pursuant to an Indenture Agreement (the "Indenture Agreement") as of May 30, 2008 between the Company and The Bank of New York as trustee for the holders of the Notes (the "Indenture Trustee").

The amount of principal and coupon that holders of any Notes outstanding at December 31, 2009 shall receive on the maturity date (throughout the life of the Notes) depends in part on whether a loss event occurs. The Notes are not principal protected. The Noteholder may lose, in part or in whole, amounts invested in the Notes as the result of a loss event occurring. The reduction in Note principal is reflective of the actual losses incurred by the Ceding Reinsurer as a result of a loss event. However, the Class A Notes are exposed to loss events on an annual aggregate basis and the Class C Notes are exposed to loss events on a per occurrence basis.

At December 31, 2009 and 2008 the Company had no employees. The registered office of the Company is located at, Ugland House, P.O. Box 309, Grand Cayman KY1-1104, Cayman Islands. The functional currency of the Company is the United States dollar and not the local currency of the Cayman Islands reflecting the fact that all of the Company's assets and liabilities are denominated in United States dollars. The financial statements are presented in United States dollars.

2. Significant accounting policies

These financial statements are prepared in conformity with accounting principles generally accepted in the United States of America ("US GAAP").

On July 1, 2009, the Financial Accounting Standards Board ("FASB") issued the FASB Accounting Standards Codification ("FASB ASC" or "Codification") as a single-source of authoritative accounting principles recognized by the FASB to be applied by non-governmental entities in the preparation of financial statements in conformity with US GAAP. The Codification became the exclusive authoritative reference for interim and annual periods ending after September 15, 2009. Updates to the Codification Standards are issued as Accounting Standard Updates (ASU's) by the FASB. The adoption of the Codification does not impact the Company's financial statements except for references made to authoritative accounting literature in the footnotes.

2. Significant accounting policies (continued)

(a) Use of estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of income and expenses during the year. Actual results could differ from those estimates.

(b) Fair value measurements

In accordance with the authoritative guidance on fair value measurements and disclosures under US GAAP, the Company discloses the fair value of its investments and derivative financial instruments in a hierarchy that prioritizes the inputs to valuation techniques used to measure the fair value. The fair value of a financial asset or liability is defined using an "exit price" definition. It is the amount that would be received to sell the asset or the amount that would be paid to transfer a liability in an orderly transaction between market participants at the measurement date. The hierarchy gives the highest priority to valuations based upon unadjusted quoted prices in active markets for identical assets or liabilities (level 1 measurement) and the lowest priority to valuations based upon unobservable inputs that are significant to the valuation (level 3 measurements). The guidance establishes three levels of the fair value hierarchy as follows:

Level 1: Valuation is based upon quoted prices for identical instruments traded in active markets.

Level 2: Valuation is based upon quoted prices for similar instruments in active markets, quoted prices for identical or similar instruments in markets that are not active, and model based valuation techniques for which all significant assumptions are observable in the market.

Level 3: Valuation is based upon valuation techniques that use significant inputs that are unobservable or are generated from model-based techniques that use significant assumptions not observable in the market. These unobservable assumptions reflect the company's own assumptions about the assumptions market participants would use in pricing the assets or liabilities.

2. Significant accounting policies (continued)

(b) Fair value measurements (continued)

(i) Valuation techniques

Investments

The Company's investments are included in either Level 1 or Level 2 of the fair value hierarchy.

The investments comprise floating rate asset and mortgage backed securities for which (i) the market is not considered to be active and (ii) are valued based on quoted market prices or dealer quotations or alternative pricing sources supported by observable inputs. These investments are typically priced utilising industry standard models that consider various assumptions which include time value, yield curves, volatility factors, prepayment spreads, defaults rates, as well as other relevant economic measures. Substantially all of these assumptions are readily observable in the marketplace, can be derived from observable data or supported by observable levels at which transactions are executed in the marketplace.

Level 2 investments may also be adjusted to reflect illiquidity and/or non-transferability, with the amount of such discount estimated in the absence of market information.

Derivative Instruments

Derivative instruments can be exchange-traded or privately negotiated over-the-counter ("OTC").

The Company's derivative financial instruments comprise of a Swap Agreement for each series of Notes (each comprising a total return swap and interest rate swap) and as at December 31, 2009 are included in Level 2 of the fair value hierarchy. The Company records the derivatives at the fair value provided by the Swap Counterparty which in turn calculates the fair value taking into account the balances due to and from the Company at December 31, 2009, in accordance with the terms of the Swap Agreements. The fair value provided by the Swap Counterparty represents an implied value through primarily observable inputs used as a base point of reference.

2. Significant accounting policies (continued)

(c) Reinsurance premiums assumed and unearned premiums

Premiums paid by the Ceding Reinsurer to the Company in accordance with the terms of the Retrocession Agreements are recorded on the accrual basis. Instalment Premium, being equal to 8.00% for Class A Notes and 14.50% for Class C Notes per annum, is recognized as income on a pro-rata basis over the term of each Annual Risk Period. Initial and annual expense premium received, being reimbursement of specific administrative expenses is recognized as income over the period. Any portion of the reinsurance premiums relating to periods after the balance sheet date are deferred and included in unearned premiums in the balance sheets.

(d) Provision for outstanding losses

The Company will record as a provision for outstanding losses, amounts notified by the Ceding Reinsurer when the Ceding Reinsurer indicates that they have a reserve which breaches the layer reinsured by the Company as discussed in note 1. The Company will record an expense for losses once it receives a proof of loss claim (as defined in the Retrocession Agreements) and the required letter from an independent claims reviewer in accordance with the Retrocession Agreements. At December 31, 2009 the Company had not been notified of a reserve breaching the Company's layer by the Ceding Reinsurer and as such, no provision for outstanding losses has been recorded.

(e) Investments

All proceeds received from the issue of the Notes are transferred to distinct Collateral Accounts in favour of the Indenture Trustee for investment in accordance with the terms of the Indenture Agreement. The investments are categorised as available-for-sale, and are recorded in the balance sheets at fair value.

Any unrealised gains or losses, calculated by reference to the amortised cost of the investment, as appropriate, is disclosed as accumulated other comprehensive income a component of shareholder's equity in the balance sheets. Where there is a decline in the fair market value of an investment below cost or amortised cost, and the Company does not have the intent and ability to hold the investment for a period of time sufficient to allow the anticipated recovery in fair market value, the cost or amortised cost, as appropriate is adjusted. Any adjustments to cost or amortised cost are recorded in the statements of (loss)/ income and (accumulated deficit)/retained earnings.

2. Significant accounting policies (continued)

(e) Investments (continued)

Gains and losses on sales and maturities of securities are computed based on specific identification of the adjusted cost of each security and included in net investment income/(loss) on the statements of (loss)/income and (accumulated deficit)/retained earnings. Amortization of premiums and accretion of discounts are computed by the effective yield method and included in net investment income/(loss) in the statements of (loss)/income and (accumulated deficit)/retained earnings.

In April 2009, the FASB issued FSP FAS 115-2 and FAS 124-2, *Recognition and Presentation of Other-Than-Temporary Impairments* (FASB ASC 320, *Investments – Debt and Equity Securities*). FSP FAS 115-2 and FAS 124-2 amend other-than-temporary impairment guidance for debt securities to make guidance more operational and to improve the presentation and disclosure of other-than-temporary impairments on debt and equity securities. The FSP does not amend existing recognition and measurement guidance related to other-than-temporary impairments of equity securities. FSP FAS 115-2 and FAS 124-2 are effective for interim and annual periods ending after June 15, 2009, with earlier adoption permitted for periods ending after March 15, 2009. The adoption of FSP FAS 115-2 and FAS 124-2 did not have an impact on the Company's financial statements.

(f) Notes payable

Notes payable are classified as a financial liability and are recorded at principal value until such time as the Ceding Reinsurer notifies the Company that they have a reserve which would, if they elect to make a claim against the Company, breach the layer reinsured by the Company. At such time a temporary principal reduction will be made against the Notes and a corresponding amount will be credited to the statement of income and retained earnings. The principal value of the Notes will be adjusted according to the claim, if any, that is made or reinstated to the full amount if no claim is made by the Ceding Reinsurer under the Retrocession Agreements.

(g) Derivative financial instruments

As part of the Company's investment strategy, which includes hedging exposure to interest rate and market risks relating to its investment in available for sale securities, the Company has entered into a Swap Agreement for each series of Notes (each comprising of a total return swap and interest rate swap).

2. Significant accounting policies (continued)

(g) Derivative financial instruments (continued)

The Company recognises all derivative instruments as either assets or liabilities in the balance sheets and measure those instruments at fair value. The accounting for realised and unrealised gains and losses associated with changes in fair value of derivatives depends on its hedge designation and whether the hedge is highly effective in achieving offsetting changes in the fair value of the asset or liability hedged. The realised and unrealised gains and losses on derivatives not designated as hedging instruments are included in net (loss)/gain on derivative financial instruments in the statement of (loss)/income and (accumulated deficit)/retained earnings. Derivative financial instruments that do not qualify for hedge accounting are accounted for and classified as trading instruments. At December 31, 2009 and 2008 there were no derivative financial instruments that qualified for hedge accounting.

Effective January 1, 2009, the Company has adopted amendments to authoritative guidance included in FASB ASC 815-10, Derivatives and Hedging ("ASC 815"), on disclosures about derivative instruments and hedging activities (formerly SFAS No. 161). FASB ASC 815-10-15-2 and FASB ASC 815-10-65-1 require enhanced disclosures addressing: a) how and why an entity uses derivative instruments, b) how derivative instruments and related hedged items are accounted for and c) how derivative instruments and related hedged items affect an entity's financial position, financial performance and cash flows. The adoption of the additional disclosure requirements did not materially impact the Company's financial statements. The disclosures required by ASC 815 are provided in note 5 to these financial statements.

(h) Initial offering costs

Expenses incurred in connection with the issuance of the Notes and execution of the Retrocession Agreements have been expensed and included in the statements of (loss)/ income and (accumulated deficit)/retained earnings on the date of the offering.

(i) Cash and cash equivalents

For the purposes of the statement of cash flows, cash and cash equivalents include current accounts and other highly liquid assets with original maturities of three months or less.

(j) Interest income/expenses

Interest income and expenses are recognised in the statements of (loss)/income and (accumulated deficit)/retained earnings on an accrual basis.

(k) Expenses

All expenses are recognised in the statements of (loss)/income and (accumulated deficit)/retained earnings on an accrual basis.

(stated in United States dollars)

2. Significant accounting policies (continued)

(l) Taxation

There is presently no taxation imposed on income or premiums by the Government of the Cayman Islands. If any form of taxation were to be enacted, the Company has been granted an exemption therefrom until the year 2027. Consequently there is no provision for taxation in these financial statements.

The Company has adopted the authoritative guidance for uncertainty in income taxes included in FASB ASC 740, Income Taxes ("ASC 740") (formerly FASB Interpretation No. 48), as amended by Accounting Standards Update ("ASU") 2009-06, Implementation Guidance on Accounting for Uncertainty in Taxes and Disclosures Amendments for Non-public Entities. This guidance requires the Company to recognize a tax benefit from an uncertain position only if it is more likely than not that the position is sustainable, based solely on its technical merits and consideration of the relevant taxing authority's widely understood administrative practices and precedents. If this threshold is met, the Company should measure the tax benefit as the largest amount of benefit that is greater than fifty percent likely of being realized upon ultimate settlement. The Company has determined that there was no effect on the financial statements from the adoption of this authoritative guidance.

(m) Subsequent events

On December 31, 2009, the Company adopted the FASB amendments to general standards included in FASB ASC 855-10, Subsequent Events ("ASC 855"), on accounting for and disclosures of events that occur after balance sheet date but before the financial statements are issued or are available to be issued (formerly SFAS No. 165). ASC 855 is effective for interim or fiscal periods ending after June 15, 2009. The adoption of this guidance did not materially impact the Company's financial statements. See note 12, Subsequent Events, for further discussion.

3. Cash and cash equivalents

		2009	2008
Cash at bank		150,337	133,204
Collateral Accounts		0	15,202,320
Note payment account		12,021	0
	US$	162,358	15,335,524

Cash and cash equivalents within the Collateral Accounts (note 4) serve as collateral assigned as security for the Company's obligation to the Ceding Reinsurer pursuant to the Retrocession Agreements.

(stated in United States dollars)

4. Investments

The proceeds from the issue of the respective Notes were transferred to distinct Collateral Accounts in favour of the Indenture Trustee, and were utilised to purchase investments permitted under the Indenture (the "Directed Investments").

The Directed Investments are available solely to satisfy any obligations of the Company to the Ceding Reinsurer under the respective Retrocession Agreements and, only after the fulfilment of such obligations, to secure payments in respect of the respective Swap Agreements and principal amounts of the respective Notes.

Directed investments in respect of the Collateral Accounts for the Notes will be invested in any one or more of (i) debt securities with a term not to exceed forty-three years from the date of investments or contractual commitment to invest therein issued or fully guaranteed or insured by the United States government or any agency thereof, (ii) commercial paper finally payable 183 days or less from the date of original issuance and with a rating from Moody's of at least P-1 and, if rated by S&P, of at least A-1 at the time of investment or contractual commitment to invest therein, (iii) other debt securities with an expected final maturity not to exceed forty-three years from the date of investment or contractual commitment to invest therein and with a rating from Moody's of at least Aaa and, if rated by S&P, of at least AAA at the time of investment or contractual commitment to invest therein and (iv) money market funds rated in the highest investment category by Moody's or S&P and whose distributions to, or for the benefit of, the Company would not be subject to tax by any jurisidiction. The Directed Investments are subject to other criteria as mandated by the Indenture.

Directed Investments associated in relation to the Collateral Accounts include initial Directed Investments and Top-Up Investments (if relevant) as specified in the Swap Agreements.

2009	Maturity	Amortised cost	Unrealised gain	Unrealised loss	Fair value
Collateral for Class A Notes:					
Bear Stearns Coml Mtg	June 11, 2040	2,779,713	300,727	0	3,080,440
LB-UBS Coml Mtg	July 17, 2040	9,783,048	3,431,528	0	13,214,576
GS Mtg Secs TR 2007-C6	August 10, 2045	10,058,694	3,840,355	0	13,899,049
Citigroup Coml	December 10, 2049	6,697,614	2,460,847	0	9,158,461
Collateral for Class C Notes:					
Morgan Stanley Cap	January 15, 2016	6,560,495	2,058,259	0	8,618,754
Merrill Lynch Mtg	June 12, 2016	8,096,002	1,319,246	0	9,415,248
Bear Stearns Coml Mtg	June 11, 2040	1,860,928	201,328	0	2,062,256
LB-UBS Coml Mtg	July 20, 2040	8,030,707	2,490,152	0	10,520,859
United States Treasury	June 6, 2011	43,555,869	4,206	0	43,560,075
	US$	97,423,070	16,106,648	0	113,529,718

(stated in United States dollars)

4. Investments (continued)

2008	Maturity	Amortised cost	Unrealised gain	Unrealised loss	Fair value
Collateral for Class A Notes:					
Federal Home Loan Bank	January 21, 2009	9,689,591	0	(235)	9,689,356
Commercial Mtg Pass	September 15, 2039	11,469,843	0	(4,484,882)	6,984,961
Bear Stearns Coml Mtg	June 11, 2040	3,254,027	0	(474,314)	2,779,713
LB-UBS Coml Mtg	July 17, 2040	14,559,314	0	(4,776,266)	9,783,048
GS Mtg TR 2007-C6	August 10, 2045	14,694,766	0	(4,636,072)	10,058,694
Credit Suisse Coml Mtg	January 15, 2049	13,759,582	0	(4,397,491)	9,362,091
Citigroup Coml	December 10, 2049	9,546,085	0	(2,848,471)	6,697,614
Collateral for Class C Notes:					
Federal Home Loan Bank	January 21, 2009	5,379,772	0	(130)	5,379,642
Morgan Stanley Cap	January 15, 2016	9,717,809	0	(3,157,314)	6,560,495
Merrill Lynch Mtg	June 12, 2016	9,988,926	0	(1,892,924)	8,096,002
Bear Stearns Coml Mtg	June 11, 2040	2,178,466	0	(317,538)	1,860,928
LB-UBS Coml Mtg	July 20, 2040	10,621,053	0	(2,590,346)	8,030,707
Wachovia BK Coml Mtg	April 15, 2047	9,700,156	0	(2,502,855)	7,197,301
		124,559,390	0	(32,078,838)	92,480,552
Adjustment to the carrying value of other than temporary impaired investments		(32,078,838)	0	32,078,838	0
	US$	92,480,552	0	0	92,480,552

At December 31, 2009 and 2008, management considered the nature and number of investments in an unrealised loss position, the cause of their impairment, the severity and duration of their impairment and other relevant information available and concluded that the impairments were other than temporary in nature. The Company utilised the proceeds from the issue of the Notes to purchase the Directed Investments and on the maturity date of the Notes the investments will be disposed to pay off the Noteholders. In addition, in the event of a loss event, the investments will need to be disposed. As such it questioned the Company's ability to hold investments in an unrealised loss position until the investments recover. As a result of this, the Company recorded an adjustment to the carrying value of investments as at December 31, 2008 which has been provided for in the statements of (loss)/income and (accumulated deficit)/retained earnings for the period ended December 31, 2008.

5. Derivative financial instruments

On May 30, 2008 the Company entered into separate Swap Agreements for each series of Notes with BNP Paribas (the "Swap Counterparty") maturing on June 6, 2011. Under the Swap Agreements, the Swap Counterparty is obligated to pay interest equal to the product of LIBOR and the sum of the net amount of the principal value of Notes outstanding. In exchange for such payments the Company will pay to the Swap Counterparty all investment earnings on the Directed Investments held in the Collateral Accounts.

For any Directed Investment purchased, the Swap Counterparty pays to the Company accrued interest on such securities, calculated on the date the security is purchased. The excess of the Additional Spread Payments as defined by the Swap Agreements over the interest payment amounts required for the Noteholders are paid by the Company to the Swap Counterparty.

To the extent that there is any realised investment loss on the Directed Investments, the Swap Counterparty will pay the Company an amount equal to such realised investment loss. To the extent that there is any realised investment gain on the investments, the Company will pay to the Swap Counterparty an amount equal to such realised investment gain.

On the last business day of each month the Swap Counterparty determines in good faith the market value of all Directed Investments (included accrued interest). If this amount together with cash in the Collateral Accounts (together referred to as the "Estimated Portfolio Return Amount") is less than 95% of the notional amount of the Notes, the Swap Counterparty pays to the Company via deposit of cash to the Collateral Accounts, an amount equal to the difference between the notional amount of the Notes and the Estimated Portfolio Return Amount. Such payments are referred to as "Top-Up Amounts" and may be used to purchase Directed Investments as defined in the Swap Agreements. If at any month end, the Estimated Portfolio Return Amount is greater than 102% of the notional amount of the Notes, the difference will be repaid by the Company to the Swap Counterparty, but only from the proceeds of the disposal price of Directed Investments purchased via Top-Up Amounts.

At December 31, 2008 the Company's investments were in an unrealised loss position of US$32,078,838 and a corresponding impairment charge was recognised in the statement of (loss)/income and (accumulated deficit)/retained earnings. The unrealised losses on the investments would ordinarily result in the Company recognising a derivative financial asset; however, as a result of the Top-Up Amounts paid to the Company by the Swap Counterparty, there is a net derivative financial liability reflected on the balance sheet at December 31, 2008. Any Top-Up Amount that is reinvested in the Collateral Accounts will be paid to the Swap Counterparty upon sale or maturity of those assets.

(stated in United States dollars)

5. Derivative financial instruments

Volume of derivative activities

At December 31, 2009, the volume of the Company's derivative activities not accounted for as hedging instruments, based on their notional amounts and number of contracts, categorised by primary underlying risk, are as follows:

		Notional amounts	Number of contracts
Market price risk			
Total return swaps	US$	104,000,000	2
Interest rate risk			
Interest rate swaps	US$	104,000,000	2

Impact of derivatives on the balance sheets and statements of (loss)/income and (accumulated deficit)/retained earnings

The following table identifies the fair value of derivative contracts not accounted for as hedging instruments included in the balance sheets as derivative contracts, categorized by primary underlying risk, at December 31, 2009. Balances are presented on a gross basis. The following table also identifies the net gain and loss amounts included in the statements of (loss)/income and (accumulated deficit)/retained earnings, categorised by primary underlying risk, for the year ended December 31, 2009.

	Derivative assets	Derivative liabilities	Amount of gain/(loss)
Market price risk			
Total return swaps	0	9,529,717	(34,291,574)
Interest rate risk			
Interest rate swaps	0	304,777	190,504
US$	0	9,834,494	(34,101,070)

(stated in United States dollars)

5. Derivative financial instruments (continued)

		2009	2008
Net (loss)/gain on derivative financial instruments:			
Net movement in unrealised loss on derivatives		(7,316,233)	(2,518,261)
Swap expense paid		(27,966,589)	(3,378,614)
Swap income received		1,181,752	37,314,107
	US$	(34,101,070)	31,417,232

6. Notes payable

On May 30, 2008, the Company issued US$64,000,000 Class A and US$40,000,000 Class C Notes with a scheduled maturity date of June 6, 2011. The Notes may be extended to June 6, 2013 at the option of the Ceding Reinsurer upon notification of a Loss Event.

The Company's obligation to pay the original principal amount of the Notes will be reduced by an amount equal to the amount of any payment by the Company to the Ceding Reinsurer or any amount owed to the Ceding Reinsurer under the Retrocession Agreements. Should the Ceding Reinsurer notify the Company of a claim, the Company will make an allowance against the Notes as calculated above as a temporary principal reduction until such time as the claim is finalised when a permanent adjustment will be made. At December 31, 2009 an allowance of US$ Nil, (2008 US$Nil) has been made against the Notes.

Interest on the Notes is payable quarterly in arrears, on the first day of each quarter commencing August 30, 2008 at a rate of LIBOR plus 8.00% per annum for the Class A Notes and 14.50% per annum for the Class C Notes.

As indicated in Note 1, the Notes are secured pursuant to an Indenture. Under the Indenture the Company has assigned and pledged to the Indenture Trustee as security for the payment of the principal amount of and interest on the respective Series of Notes, all of the Company's right, title and interest in and to: (a) the respective Retrocession Agreement, including the right to receive all payments due and payable from the Ceding Reinsurer thereunder (excluding any rights to the Initial Issuance Payment and any Supplemental Payments); (b) the respective Collateral Accounts; (c) the respective Swap Agreement; (d) the Administration Agreement, Claims Reviewer Agreement, Loss Reserve Specialist Agreement, Escrow Agreement and any other agreement specified in the applicable Pricing Supplement (collectively (a) – (d), "Indenture Capital"). There is expressly excluded from the security interest granted by the Company to the Indenture Trustee on behalf of the applicable Noteholders, any interest of the Company in (i) the Expense Account, (ii) amounts representing the Company's ordinary share capital and (iii) the amount of US$1,500 paid on each Issuance Date.

(stated in United States dollars)

6. Notes payable (continued)

Notwithstanding the foregoing, pursuant to the Indenture, neither the Indenture Trustee nor any Noteholder will have the right to enforce or otherwise realise upon the Indenture Trustee's security interest in the rights of the Company with respect to the Reinsurance Trust Collateral until all of the Company's obligations under the respective Retrocession Agreement (including, without limitation, its potential liability for claims to be paid thereunder) have been satisfied or terminated in accordance with the terms thereof. Accordingly the Noteholders bear the risk of losses sustained by the Company.

7. Share capital

		2009	2008
Authorised:			
5,000 shares of par value US$1 each	US$	5,000	5,000
Allotted, called up and fully paid:			
5,000 shares	US$	5,000	5,000

The allotted share capital is held by HSBC Bank (Cayman) Limited ("HSBC") as Trustee under the terms of the Declaration of Trust between HSBC and the Company.

8. Net investment income/(loss)

		2009	2008
Interest income on investments		6,144,667	3,716,235
Amortisation of investments		793	63,135
Adjustment to the carrying value of other than temporary impaired investments		0	(32,078,838)
Realised gain on sale of investments		11,370,686	0
	US$	17,516,146	(28,299,468)

(stated in United States dollars)

9. Administration expenses

	Note		2009	2008
Professional fees			58,538	50,626
Management fees	10		24,625	29,960
Miscellaneous expenses			12,900	5,862
		US$	96,063	86,448

10. Balances and transactions with related parties

The following balances and transactions are a result of management and administration services provided by an entity related to the Company via ownership of the Company's ordinary shares and common directors:

	2009	2008
Balance sheets		
Accounts payable and accrued expenses	0	15,460
Statements of (loss)/income and (accumulated deficit)/ retained earnings		
Management fees	24,625	29,960
Initial offering costs	0	30,000

(stated in United States dollars)

11. Financial instruments

Fair value

At December 31, 2009 and 2008 the Company's assets and liabilities recorded at fair value have been categorised based upon a fair value hierarchy in accordance with SFAS 157. See note 2(b) for a discussion of the Company's policies.

The following table presents the financial instruments measured at fair value on a recurring basis carried on the balance sheets by caption and by Level within the valuation hierarchy as of December 31, 2009 and 2008:

2009		Level 1	Level 2	Level 3	Total
Assets:					
Investments		43,560,075	69,969,643	0	113,529,718
Total assets	US$	43,560,075	69,969,643	0	113,529,718
Liabilities:					
Derivative financial instruments		0	(9,834,494)	0	(9,834,494)
Total liabilities	US$	0	(9,834,494)	0	(9,834,494)

2008		Level 1	Level 2	Level 3	Total
Assets:					
Investments		0	92,480,552	0	92,480,552
Total assets	US$	0	92,480,552	0	92,480,552
Liabilities:					
Derivative financial instruments		0	0	(2,518,261)	(2,518,261)
Total liabilities	US$	0	0	(2,518,261)	(2,518,261)

(stated in United States dollars)

11. Financial instruments (continued)

The classification of a financial instrument within Level 3 is based upon the significance of the unobservable inputs to the overall fair value measurement. The following table includes a roll forward of the amounts for the year ended December 31, 2009 for financial instruments measured at fair value on a recurring basis classified within Level 3.

	Fair Value Measurements using Level 3 inputs				
	Balance 1/1/2009	Net Purchases and Sales	Net transfer out	Gains/(Losses) included in Net Income	Balance 31/12/2009
Liabilities:					
Derivative financial instruments	US$ (2,518,261)	0	2,518,261	0	0

The net movement in unrealised loss on derivatives for the period ended December 31, 2009 is included in the statements of (loss)/income and (accumulated deficit)/retained earnings.

Market risk

Market risk is the risk that changes in interest rates will affect the positions held by the Company. The Company is exposed to market risk on financial instruments that are valued at market prices. Further a risk exists that the Company may not be able to readily dispose of its investments when it chooses and also that the price obtained on disposal may be below that at which the investment is included in the Company's financial statements. The Company has mitigated the market risk of its Directed Investments by entering into Swap Agreements as discussed in Note 5.

Credit risk

Credit risk is the risk of counterparty default. Financial assets which potentially subject the Company to concentrations of credit risk consist primarily of cash and cash equivalents, Directed Investments, derivative financial instruments, interest receivable and reinsurance premiums receivable under the Retrocession Agreements. Credit risk is limited due to the Company's cash and cash equivalents and interest receivable, which are US$ denominated, being held with a high credit quality financial institution. The credit risk on Directed Investments is mitigated by entering into the Swap Agreements. The Company manages any exposure to credit risk on its reinsurance premiums receivable from the Ceding Reinsurer by dealing only with insurers with good ratings. The Noteholders are also exposed to credit risk. The factor subjecting the Noteholder to credit risk is the financial stability of the Company's Swap Counterparty and its ability to meet any amount owed in relation to Swap Agreements.

11. Financial instruments (continued)

Credit risk (continued)

The Company manages any exposure to credit risk on these financial instruments by dealing only with a Swap Counterparty with a good rating. As at December 31, 2009 the credit rating of the Swap Counterparty issued by S&P and Moody's is AA (2008: AA) and Aa1 (2008: Aa1) respectively. Subsequent to year end Moody's downgraded the credit rating from Aa1 to Aa2.

During the period ended December 31, 2008, S&P cut the credit-rating outlook of the Swap Counterparty to "negative". The Swap Counterparty has continued to make payments when due. The Company does not anticipate any material losses as a result of this risk.

12. Subsequent events

Subsequent events were evaluated by the Company up until June 28, 2010, which is the date that the financial statements were available to be issued.