MS Frontier Reinsurance Limited

ANNUAL REPORT 2013

MSIG

MS Frontier Re

A Member of MS&AD INSURANCE GROUP

MS&AD Insurance Group

The merger of Mitsui Marine & Fire Insurance Co. and The Sumitomo Marine & Fire Insurance Limited in 2001 formed Mitsui Sumitomo Insurance Company, Limited ("MSI"). Together with its affiliates and subsidiaries (known collectively as "MSIG") the Group has become one of the leading non-life insurance companies in Japan.

In 2010 MSIG, Aioi Insurance Company, Limited and Nissay Dowa General Insurance Company, Limited integrated and established the new group "MS&AD Insurance Group" ("MS&AD").

For the year ended March 31, 2014 MS&AD wrote Net Premium of over US$27 billion (Yen 2,812 billion) and has total assets of over US$164 billion (Yen 16,878 billion).

This year's annual report has been provided in electronic format for you to read online or print at your convenience. It has been designed to use minimal ink and paper should you decide to print this document.

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MS Frontier Reinsurance Limited

MS Frontier Reinsurance Ltd (MSF Re) was established in 1997 and re-launched in 2002 as a wholly owned subsidiary of Mitsui Sumitomo Insurance Company.

Following reorganization in 2012, MSF Re became the sole reinsurance company for the Group.

Message from the President & CEO

To our business partners,

I would like to report on the activities and performance of MS Frontier Reinsurance Limited for the year ended December 31, 2013.

I am delighted to inform you that MS Frontier Re continued to generate positive results year on year and achieved its best result since the beginning of its operation, with a profit of $88m a 35% increase from 2012 ($65m).

The journey we started in 2012 with the major reorganization of our business has continued to strengthen us in 2013. We took steps to service our clients and business partners under a single MS Frontier Re brand. This move has allowed us to strategically align our business and functions to deliver growth and profitability while providing security for our policyholders, maintaining a strong financial position and positive return to our shareholders.

Overall we have enjoyed a very successful year in 2013. Our Gross Earned Premium amounted to $193m (2012 245m) reduced due to MS Re run-off with an underlying growth of 32% on MS Frontier Re book; despite the industry wide rate reduction. Total investment assets stood at to $836m (2012: $885m). Shareholders equity has grown to $925m (2012: $843m) an increase of 10% in the year.

Our profitability was driven by the strong performance of our Catastrophe business which is the core of what we do. We have refocused on other new non Cat lines to offer stability and diversity to our book.

The new lines of business we have written in Bermuda and our Labuan branch in Malaysia has progressed very well, making a profit in the first year of operation, under the MS Frontier Re brand.

2013 was a benign year for severe property losses affecting MS Frontier Re and our market leading underwriting ratios reflect our superior performance in challenging trading conditions. We pride ourselves on the capital strength and assurance we offer to our clients and continue to manage our losses and reserves efficiently to satisfy our shareholder and clients alike.

To manage this operation requires excellent people and an efficient operational structure. We have been careful to recruit and develop the best teams of people in all our functional areas and this is coupled with our long established goal to manage our whole operation to the highest standards of oversight and control. The management of risk is the very essence of underwriting and everything we do at MS Frontier Re. We have established and maintain rigorous controls and procedures to ensure that everybody in the organisation understands and practices a very high degree of quality control in all that we do.

The business that we write requires very sophisticated and complex systems to manage the ever increasing volume and complexity of data. We have continuously invested in improving and updating our IT networks and systems to be at the forefront of developments in the analysis of data which can aid our underwriters in a very competitive market.

Looking forward to 2014, continuing competition from existing and alternative sources of capital will present our greatest challenge. We are however well prepared and have diversified our book of business. We are expanding into new markets and lines to offer our partners the stability and assurance of MS Frontier Re and its backing by our parent group MS&AD, one of the largest Insurance groups in the world.

As a final note I would like to sincerely thank our business partners for all their continuous support, which has helped MS Frontier Re to be well positioned for success in 2013 and beyond. I would also like to thank our world-class teams in all our offices for their past and future efforts.

Toshiya Naito
President and Chief Executive Officer

"We pride ourselves on the capital strength and assurance we offer to our clients and continue to manage our losses and reserves efficiently to satisfy our shareholder and clients alike."

Business Summary

5 Year Historical Highlights

in Millions of US Dollars

	2009	2010	2011	2012	2013
Net Premium Earned	231.1	242.2	215.5	204.0	179.1
Investment Income	19.3	19.8	17.9	17.8	16.2
Net Income	86.2	75.4	(75.1)	64.8	88.0
Shareholders' Equity	621.9	700.2	670.6	843.4	925.1

Ratios

	2009	2010	2011	2012	2013
Expense	33.7%	34.0%	35.8%	34.8%	35.4%
Loss	39.8%	43.5%	110.4%	45.0%	22.4%
Combined	73.5%	77.5%	146.2%	79.8%	57.8%

Underwriting

MS Frontier Re
Revenue Segmentation by Region

Asia/ ME/ Oceania **15%**
Europe **25%**
Americas **52%**
Other **8%**

Rating Profile of Fixed Income Investments

- Sovereign **18%**
- AAA & AA+ **47%**
- AA & AA- **13%**
- A+ & A **16%**
- BBB **6%**

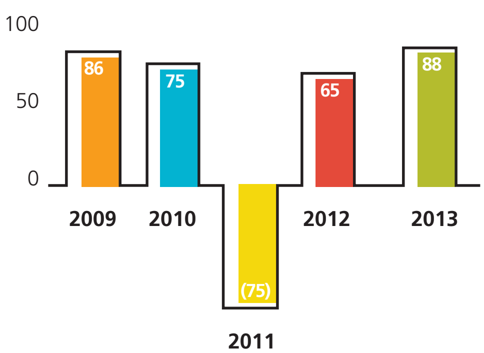
Investment portfolio by type

- US Corporate **16%**
- Non US Corporate **22%**
- US Treasuries **20%**
- Non US Govt & Agencys **17%**
- Short Term Investments **4%**
- US Agencies **8%**
- Municipals **4%**
- Structured Deposits **2%**
- Equity Fund **4%**
- Asset-backed securities **3%**

Revenue Growth

in Millions of US Dollars

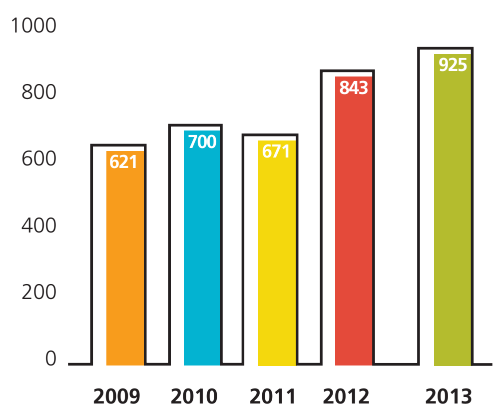
Net Income



Shareholders' Funds Growth

in Millions of US Dollars

Shareholders' Equity



**Includes MSRe*

Ratings

A Excellent	A+ Strong
AM Best rating	**Standard & Poor's rating**

Financial Statements

Independent Auditors' Report

The Board of Directors

MS Frontier Reinsurance Limited

We have audited the accompanying consolidated financial statements of MS Frontier Reinsurance Limited and its subsidiaries, which comprise the consolidated balance sheets as of December 31, 2013 and 2012, and the related consolidated statements of income, changes in shareholders' equity, and cash flows for the years then ended, and the related notes to the consolidated financial statements.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these consolidated financial statements in accordance with U.S. generally accepted accounting principles; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

Auditors' Responsibility

Our responsibility is to express an opinion on these consolidated financial statements based on our audits. We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditors' judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the consolidated 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 entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements.

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

Opinion

In our opinion, the consolidated financial statements referred to above present fairly in all material respects, the financial position of MS Frontier Reinsurance Limited and its subsidiaries as of December 31, 2013 and 2012, and the results of their operations and their cash flows for the years then ended in accordance with U.S. generally accepted accounting principles.

KPMG Audit Limited

Chartered Professional Accountants

Hamilton, Bermuda

May 19, 2014

Consolidated Balance Sheets

Years ended December 31, 2013 and 2012 (Expressed in United States Dollars)

	2013	2012
Assets		
Cash and cash equivalents (Note 3)	$ 278,170,173	$ 230,336,106
Investments (Note 3)	835,992,826	885,424,007
Accrued interest receivable	5,326,752	6,177,222
Reinsurance balances receivable (Note 8)	47,719,970	64,821,226
Losses recoverable	27,770,237	37,758,751
Funds withheld	39,630,766	45,345,712
Deferred acquisition expenses	8,175,733	12,359,049
Deferred reinsurance premium	1,053,257	14,275,585
Deferred tax (Note 9)	153,947	202,905
Prepaid expenses (Note 8)	2,531,499	2,799,531
Other Assets	223,983	365,761
Investment pending settlement	5,749,542	-
Capital assets (Note 6)	3,612,772	2,824,468
Total assets	$1,256,111,457	$1,302,690,323
Liabilities		
Outstanding losses and loss expenses (Notes 7 and 8)	$ 268,833,472	$ 352,704,260
Unearned premiums (Note 8)	45,515,405	67,670,409
Reinsurance balances payables	8,741,476	17,136,940
Accounts payable and accrued expenses (Note 8)	7,901,503	7,206,238
Corporation tax payable	6,084	6,535
Investment pending settlement	-	14,606,263
Total liabilities	330,997,940	459,330,645
Shareholder's equity		
Share capital (Note 11)	294,588,584	294,588,584
Contributed surplus (Note 11)	250,000,000	250,000,000
Accumulated other comprehensive income	9,023,775	15,291,490
Retained earnings	371,501,158	283,479,604
Total shareholder's equity	925,113,517	843,359,678
Total liabilities and shareholder's equity	$1,256,111,457	$1,302,690,323

See accompanying notes to the consolidated financial statements

Consolidated Statements of Income and Comprehensive Income

Years ended December 31, 2013 and 2012 (Expressed in United States Dollars)

	2013	2012
Income		
Premiums assumed (Note 8)	$ 172,205,236	$ 235,176,821
Change in unearned premiums	21,227,354	9,602,925
Premiums earned	193,432,590	244,779,746
Premiums ceded (Notes 5 and 8)	(1,869,349)	(40,185,312)
Change in prepaid reinsurance	(12,505,089)	(556,806)
Ceded premiums earned	(14,374,438)	(40,742,118)
Net premiums earned	179,058,152	204,037,628
Catastrophe bond income	202,485	705,039
Net investment income (Note 3)	16,203,536	17,760,498
Net (loss) gain on sale of investments (Note 3)	(1,525,976)	4,577,348
Other income	587,852	689,680
Foreign exchange (loss) gain	(1,929,238)	1,612,176
Total income	192,596,811	229,382,369
Expenses		
Losses and loss expenses incurred (Notes 7 and 8)	40,068,651	91,724,928
Acquisition expenses	30,096,099	40,377,566
General and administrative expenses (Note 8)	33,332,146	30,547,757
Total expenses	103,496,896	162,650,251
Income before taxes	89,099,915	66,732,118
Income taxes (Note 9)	1,078,361	1,944,814
Net income	88,021,554	64,787,304
Other comprehensive income		
Unrealized (losses) gains arising during year	(10,979,628)	10,412,889
Foreign currency translation adjustment gain	3,185,937	2,154,855
Less: reclassification adjustment for loss (gain) included in net income	1,525,976	(4,577,348)
Other comprehensive (loss) income	(6,267,715)	7,990,396
Comprehensive income	$ 81,753,839	$ 72,777,700

See accompanying notes to the consolidated financial statements

Consolidated Statements of Changes in Shareholder's Equity

Years ended December 31, 2013 and 2012 (Expressed in United States Dollars)

	2013	2012
Share capital		
Balance at beginning and end of year (Note 11)	$ 294,588,584	$ 294,588,584
Contributed surplus		
Balance at beginning and end of year	250,000,000	150,000,000
Contributions in the year	-	100,000,000
Balance at end of year	250,000,000	250,000,000
Accumulated other comprehensive income		
Balance at beginning of year	15,291,490	7,301,093
Unrealized gains and losses on available for sale securities	(9,453,652)	5,835,542
Foreign currency translation adjustment	3,185,937	2,154,855
Balance at end of year	9,023,775	15,291,490
Retained earnings		
Balance at beginning of year	283,479,604	218,692,300
Net income	88,021,554	64,787,304
Balance at end of year	371,501,158	283,479,604
Total shareholder's equity	$ 925,113,517	$ 843,359,678

See accompanying notes to the consolidated financial statements

Consolidated Statements of Cash Flows

Years ended December 31, 2013 and 2012 (Expressed in United States Dollars)

	2013	2012
Cash flows from operating activities		
Net income	$ 88,021,554	$ 64,787,304
Adjustments to reconcile net income to net cash provided by operating activities:		
Amortization of investments	2,470,759	2,799,970
Depreciation of capital assets	1,259,873	843,540
Net loss (gain) on sale of investments	1,525,976	(4,577,348)
Gain on sale of capital assets	58,728	–
Other than temporary impairment	–	(829,648)
Accrued interest receivable	850,470	424,189
Reinsurance balances receivable	17,101,256	(13,050,051)
Funds withheld	5,714,946	(17,468,559)
Deferred acquisition expenses	4,183,316	5,046,805
Deferred reinsurance premium	13,222,328	(1,849,443)
Prepaid expenses and other assets	409,810	(807,937)
Outstanding losses and loss expenses	(73,882,274)	(8,766,366)
Unearned premiums	(22,155,004)	(5,444,315)
Reinsurance balances payable	(8,395,464)	2,217,671
Deferred tax asset	48,958	2,077,867
Corporation tax	(451)	(4,260)
Investment pending settlement	(20,355,805)	14,606,263
Accounts payable and accrued expenses	695,265	3,854,894
Cash provided by operating activities	10,774,241	43,860,576
Cash flows from investing activities		
Purchase of investments	(1,266,994,066)	(897,406,613)
Proceeds from sale of investments	1,188,835,253	657,466,025
Proceeds from maturities of investments	116,038,573	94,064,597
Purchase of capital assets	(2,504,655)	(1,278,573)
Proceeds from sale of capital assets	362,085	137,109
Capital injection	–	100,000,000
Cash used by investing activities	35,737,190	(47,017,455)
Effects of currency translation adjustment	1,322,636	(780,323)
Net increase in cash and cash equivalents	47,834,067	(3,937,202)
Cash and cash equivalents at beginning of year	230,366,106	234,273,308
Cash and cash equivalents at end of year	$ 278,170,173	$ 230,336,106

See accompanying notes to the consolidated financial statements

Notes to the Consolidated Financial Statements

December 31, 2013 and 2012

1. General

MS Frontier Reinsurance Limited was incorporated under the laws of Bermuda on September 9, 1997 and is licenced as a Class 3B and Long Term Class A reinsurer under the Insurance Act, 1978 of Bermuda and related regulations to write all classes of property and casualty business and long-term business, respectively. Unless the context otherwise requires, the "Company" refers to MS Frontier Reinsurance Limited (MS Frontier Re) and its wholly owned subsidiaries, MS Frontier Modeling Research Pte Ltd. (MSFMR), a company incorporated in Singapore and Mitsui Sumitomo Reinsurance Limited (MSRe), a company incorporated in Ireland.

MS Frontier Re is a wholly owned subsidiary of Mitsui Sumitomo Insurance Company Limited, which is the main trading subsidiary of Mitsui Sumitomo Insurance Group Holdings Inc., a company incorporated in Japan.

MS Frontier Re participates in various excess of loss property catastrophe reinsurance contracts, regional short-tailed proportional and risk excess of loss business, predominantly from Europe and Asia (excluding Japan). Property catastrophe reinsurance covers unpredictable events such as hurricanes, windstorms, hailstorms, earthquakes, fires, industrial explosions, freezes, floods and other man-made or natural disasters. Because the Company has large aggregate exposures to these risks, the Company expects that its claims experience will be characterized by relatively low frequency and high severity claims. The occurrence of claims from catastrophic events is likely to result in substantial volatility in the Company's financial results for any particular period. The Company endeavours to manage its exposures to catastrophic events by limiting the amount of its exposure in each geographic zone.

In prior years the Company participated in various quota share pools covering risks such as fire, property and other man-made or natural disasters and provided excess of loss coverage of cargo, windstorm and property risks of its ultimate parent company. This business has been in run-off since 2002.

On March 31, 2010, MS Frontier Re acquired Mitsui Sumitomo Insurance Company Limited, MSRe, a company under common control for consideration of $94,588,584 representing the book value at the date of change in ownership. On December 30, 2011 an additional contribution of $39,955,622 was made to MSRe.

MSRe is domiciled in Dublin with branch offices in Singapore and Labuan and a co-location office in Kuala Lumpur. Their main business focus is on regional short-tailed proportional and risk excess of loss business, predominantly from Europe and Asia (excluding Japan). MSRe ceased writing new business from January 1, 2013 and is currently in the process of an orderly run-off.

From January 1, 2013, all existing and new business has been underwritten directly by MS Frontier Re. MS Frontier Re underwrote the following classes of business: Property Catastrophe Excess of Loss, Risk Excess of Loss, Property Proportional (excluding North America), Terrorism Pools, Engineering Marine Hull, Cargo, Personal Accident both excess of loss and proportional (excluding North America).

During 2012 the Company established a new branch office in Malaysia in order to service its clients in Asia and Oceania, while the head office in Bermuda continues to service all other territories excluding Japan. On December 6, 2012 a contribution of $3,650,000 was made to the Malaysia branch. Further contributions were made during 2013 of $2,000,000 in May and $5,000,000 in December.

Notes to the Consolidated Financial Statements

December 31, 2013 and 2012

2. Summary of significant accounting policies

The accompanying consolidated financial statements are prepared in accordance with accounting principles generally accepted in the United States of America, which require management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates. The major estimates reflected in the Company's consolidated financial statements include, but are not limited to, outstanding losses and loss expenses, estimates of written and earned premiums and the assessment of other than temporary impairment of investments. The following are the significant accounting policies adopted by the Company:

(a) *Basis of consolidation*

The consolidated financial statements include the financial statements of the Company and its wholly-owned subsidiaries, MSFMR and MSRe. All significant inter-company transactions are eliminated on consolidation.

(b) *Premiums assumed and ceded, acquisition expenses and commission income*

Premiums assumed are recorded on the accruals basis and are included in income on a pro-rated basis over the period of underlying coverage with the unearned portion deferred in the balance sheet. Reinsurance premiums are similarly pro-rated over the period of coverage with the unearned portion deferred in the balance sheet as unearned ceded premiums. Premium estimates on certain policies are made using the latest information available to management. Adjustments to estimates are recorded in the period in which they are determined.

Reinstatement premiums are recognized in accordance with the provisions of the reinsurance contracts. Reinstatement premiums are accrued at the time losses are incurred and, where coverage of the original contract is reinstated under pre-defined contract terms, are earned pro-rata over the reinstated coverage period.

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

(c) *Outstanding losses and loss expenses*

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

Notes to the Consolidated Financial Statements

December 31, 2013 and 2012

2. Summary of significant accounting policies (continued)

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

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

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

(d) Profit commissions

Certain policies include terms and conditions which may result in the payment of profit commissions. Estimates of profit commissions are continually reviewed based on the underwriting experience to date, and as adjustments become necessary, such adjustments are reflected in current operations. Profit commissions are accrued to the balance sheet date and are included within accounts payable and accrued expenses.

(e) Investments

All investments are classified as available-for-sale securities. Unrealized gains and losses are included within accumulated other comprehensive income as a separate component of shareholder's equity in the consolidated balance sheet. Fair values for fixed maturity securities are based on quoted market prices. Fair values for catastrophe bonds are based on independent broker quotes. Fair values for the structured deposits are based on quoted indexes. Fair values for the asset-backed securities which are mainly student loans; are based on reported trades and broker/ dealer quotes. The fair value of municipal bonds are determined based on observable inputs including reported trades, broker-dealer quotes, benchmark securities, bids and other economic indicators.

Realized gains and losses are derived using the specific identification method for determining the cost of securities sold.

Impairment losses are recognized on investments on an individual security basis when the investment is considered to be other than temporarily impaired. Impairment occurs when it is deemed probable that the Company will be unable to collect all amounts due according to contractual terms of the individual security. If there is no objective evidence to support recovery in value before disposal and the Company intends to sell the security or more likely than not will be required to sell the security before recovery of its adjusted amortized cost basis, these impairments will be charged to income and the cost basis of the investment reduced accordingly.

Notes to the Consolidated Financial Statements

December 31, 2013 and 2012

2. Summary of significant accounting policies (continued)

If the Company does not intend to sell the security and it is unlikely that the Company will be required to sell the security before recovery of its adjusted amortized cost basis, the other than temporary impairment is separated into the amount representing the credit loss and the amount related to all other factors. The amount of the total other than temporary impairment related to the credit loss is recognized in income. The amount of the total other than temporary impairment related to other factors is recognized in other comprehensive income. The Company will not change the revised cost basis for subsequent recoveries in value.

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

(f) Investment income and catastrophe bond income

Investment income is accrued to the balance sheet date, and includes the amortization of premium or discount on the Company's investments in marketable securities purchased at amounts different from their par value and other than temporary impairment.

Catastrophe bond income is accrued to the balance sheet date.

(g) Amortization of capital assets

Amortization of capital assets is computed using the declining balance method at rates estimated to amortize their cost over their estimated useful lives. The following annual amortization rates are used:

Furniture and fixtures	10-20%
Computer equipment	33%
Motor vehicles	20%

(h) Translation of foreign currencies

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

The reporting currency of the Company is the U.S. dollar. The functional currencies of the Company's subsidiaries are the Euro and Singapore dollar. In translating the financial statements of those subsidiaries whose functional currency is other than the U.S. dollar, assets and liabilities are converted into U.S. dollars using the rates of exchange in effect at the balance sheet dates, and revenues and expenses are converted using the average foreign exchange rates for the period. The effect of translation adjustments are reported as foreign currency translation adjustments within other comprehensive income.

(i) Cash and cash equivalents

For purposes of the statements of cash flows the Company considers all time deposits with an original maturity of ninety days or less and money market funds which can be redeemed without penalty as equivalent to cash.

Notes to the Consolidated Financial Statements

December 31, 2013 and 2012

2. Summary of significant accounting policies (continued)

(j) Provision for bad debts

The company reviews receivables on a quarterly basis. A bad debt provision is generally provided for any receivable based on an estimated loss rate calculated by historical impairment experience. In addition the Company considers known and emerging credit events to determine if other provisions are necessary. The Company had provision for doubtful debts for the year ended 2013 of $524,786 (2012 - $531,387).

3. Cash and investments

(a) Cash and cash equivalents are held in various banks in each of the jurisdictions in which the Company operates. The Company's management evaluates the financial strength and stability of these institutions on a periodic basis.

The bankers of the Company's parent issued letters of credit in the amount of $ nil (2012 - $54,296) in favor of US ceding companies.

Letters of credit were also established with a Bermuda bank in the amount of $1,080,716 (2012 - $2,228,977). Cash of a similar amount is pledged as security for these letters of credit.

In the normal course of business, cash and cash equivalents with a fair value of $26,644,856 as at December 31, 2013 (2012 - $4,828,178) have been deposited in trust for the benefit of US ceding companies. These funds are held in trust by a US based bank.

Notes to the Consolidated Financial Statements

December 31, 2013 and 2012

3. Cash and investments (continued)

(b) The amortized cost and fair value of available-for-sale investments are as follows:

December 31, 2013	Amortized cost	Unrealized gains	Unrealized losses less than 12 months	Unrealized losses greater than 12 months	Fair value
Debt securities issued by					
U.S. Treasury	$ 172,022,225	$ 40,626	$ –	$ (1,922,107)	$ 170,140,744
U.S. Agencies	71,082,258	349,364	–	(979,251)	70,452,371
Corporate debt securities					
U.S	132,330,435	1,952,407	(23)	(2,163,148)	132,119,671
Non-U.S	184,465,305	2,877,660	(1,528)	(840,879)	186,500,556
Non-U.S government and agencies	139,237,554	1,874,076	–	(282,490)	140,829,141
Asset-backed securities	26,000,158	37,806	–	(45,667)	25,992,297
Structured deposits	15,184,197	38,047	–	–	15,222,244
Short term investments	28,035,101	–	–	–	28,035,101
Municipals	36,934,792	273,346	–	(204,851)	37,003,288
Equity fund	23,998,379	5,699,034	–	–	29,697,413
	$ 829,290,404	$ 13,142,366	$ (1,551)	$ (6,438,393)	$ 835,992,826

December 31, 2012	Amortized cost	Unrealized gains	Unrealized losses less than 12 months	Unrealized losses greater than 12 months	Fair value
Debt securities issued by					
U.S. Treasury	$ 142,442,827	$ 101,698	$ (1,381)	$ (19,378)	$ 142,523,766
U.S. Agencies	122,470,309	849,470	–	(234,033)	123,085,746
Corporate debt securities					
U.S	121,811,317	3,879,022	–	(116,142)	125,574,197
Non-U.S	196,345,385	5,795,151	(9)	(18,699)	202,121,828
Non-U.S government and agencies	154,292,324	4,250,543	–	(29,254)	158,513,613
Asset-backed securities	13,781,382	40,406	–	(24,818)	13,796,970
Structured deposits	40,046,559	657,999	–	–	40,704,558
Catastrophe bonds	6,000,000	123,600	–	–	6,123,600
Short term investments	57,547,820	–	–	–	57,547,820
Municipals	2,783,784	131,995	–	–	2,915,779
Equity fund	11,999,383	516,747	–	–	12,516,130
	$ 869,521,090	$ 16,346,631	$ (1,390)	$ (442,324)	$ 885,424,007

Notes to the Consolidated Financial Statements

December 31, 2013 and 2012

3. Cash and investments (continued)

As at December 31, 2013 there is an investment of $15.2m in HSBC Specialist Funds – Short Duration Fixed Income Fund (SDFI) classified as structured deposits. The SDFI invests primarily in Government Agencies and Corporate Bonds. Moody's credit rating on the fund is Aa. All securities in the fund will have a minimum long term rating inclusive of A/A3 or higher.

Unrealized losses on investments held at December 31, 2013 and 2012 comprise an accumulation of relatively small unrealized losses on a security by security basis caused by general interest rate movements rather than credit events. There are no amounts in respect of declines in the value of individual securities considered to be other than temporary included in gross unrealized losses on fixed maturity investments for the years ended December 31, 2013 and 2012.

By fair value the Company securities are fixed income investment grade rated as follows:

Rating	Fair value	%
AAA	$ 137,112,065	16.4%
AA	473,329,056	56.6%
A	121,280,750	14.5%
BBB	46,538,441	5.6%
NR	57,732,514	6.9%
	$ 835,992,826	100.0%

Non-rated securities consist of $28.0m of short-term investments and $29.7m of equity in exchange traded funds.

Short term investments comprise of fixed deposits with a maturity of more than 3 months which do not have a credit rating attached.

(c) For investments in marketable securities held on December 31, 2013 the maturity distribution is as follows:

	Amortized cost	Fair value
Within one year	$ 154,810,651	$161,337,166
From one to five years	495,336,563	499,320,379
From five to ten years	179,143,191	175,335,281
	$ 829,290,405	$835,992,826

Notes to the Consolidated Financial Statements

December 31, 2013 and 2012

3. Cash and investments (continued)

(d) During the year, proceeds from the sale of investments amounted to $1,188,835,253 (2012 - $657,466,025) and proceeds from maturities of investments amounted to $116,038,573 (2012 - $94,064,597). The Company realized gains of $3,260,995 (2012 - $5,923,385) and losses of $4,786,971 (2012 - $1,346,037) on those sales and maturities.

(e) Rated investments held at December 31, 2013 have all been assigned a credit rating of BBB- or better by Standard & Poor's. In accordance with the Company's investment guidelines, with the exception of US government and government agency securities, no more than 10% of the investment portfolio may be invested in any one issuer. The largest holding, excluding holdings issued by the US Government and its agencies, represents 2.39% (2012 - 1.7%) of the total investment portfolio.

At December 31, 2013, the Company did not hold any investments in catastrophe bonds. The Company's investment in two catastrophe bonds matured in 2013 (2012 - $6,123,600).

(f) Net investment income comprises the following:

	2013	2012
Interest income on debt securities	$ 18,195,516	$19,936,260
Interest income on cash and cash equivalents	732,622	791,924
Interest income on Funds withheld	682,888	–
Equity dividends	314,651	62,868
Amortization	(2,470,759)	(2,799,970)
Investment expenses	(1,251,382)	(1,060,232)
Other than temporary release of impairment/(impairment)	–	829,648
	$ 16,203,536	$17,760,498

Notes to the Consolidated Financial Statements

December 31, 2013 and 2012

4. Fair value of financial instruments

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

The following are the levels within the fair value hierarchy:

- Level 1 - Valuations based on quoted prices in active markets for identical assets or liabilities that the Company has the ability to access. Since valuations are based on quoted prices that are readily and regularly available in an active market, valuation of these instruments does not entail a significant degree of judgment.
- Level 2 - Valuations based on quoted prices in markets that are not active or for which all significant inputs are observable, directly or indirectly. Level 2 inputs include quoted prices for similar assets and liabilities in active markets and inputs other than quoted prices that are observable for the asset or liability, such as interest rates and yield curves that are observable at commonly quoted intervals, broker quotes and certain pricing indices.
- Level 3 - Valuations based on inputs that are unobservable and significant to the overall fair value measurement. These measurements include circumstances where there is little, if any, market activity for the asset or liability. In these cases, significant management assumptions can be used to establish management's best estimate of the assumptions used by other market participants in determining the fair value of the asset or liability.

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

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

Included in Level 1 are the Company's investments in US Treasuries, short term investments (fixed deposits) and equity funds. US treasuries are primarily priced by pricing vendors. When pricing these securities, the vendor may utilize daily data from many real time market sources, including active broker dealers, as such, the Company considers U.S. Treasury fixed interest securities as Level 1. Equity funds are exchange traded and recorded at fair value based on quoted prices that are observable and, therefore, are classified within Level 1.

4. Fair value of financial instruments (continued)

Included in Level 2 are U.S. government agencies, non-U.S. government, corporate investments, catastrophe bonds, structured deposits, asset backed securities and municipal bonds. For all assets classified as Level 2, the market approach is utilized. The significant inputs used to determine the fair value of those assets classified as Level 2 are as follows:

- U.S government agency securities consist of securities issued by the Federal National Mortgage Association, the Federal Home Loan Mortgage Corporation and other agencies. The fair values of these securities are determined using the spread above the risk-free yield curve and reported trades. These are considered to be observable market inputs and, therefore, the fair values of these securities are classified within Level 2.
- Non-U.S. government securities consist of bonds issued by non-U.S. governments and agencies along with supranational organizations. The significant inputs include the spread above the risk-free yield curve, reported trades and broker/ dealer quotes. These are considered to be observable market inputs and, therefore, the fair values of these securities are classified within Level 2.
- Corporate securities consist primarily of investment-grade debt of a wide variety of corporate issuers and industries. The fair values of these securities are determined using the spread above the risk-free yield curve, reported trades, broker/ dealer quotes, benchmark yields, and industry and market indicators. These are considered observable market inputs and, therefore, the fair value of these securities are classified within Level 2.
- Catastrophe bonds are recorded at fair value based on dealer quotes and trade prices. These inputs are observable and, therefore, the investments in catastrophe bonds are classified within Level 2.
- Structured deposits are recorded at fair value based on quoted indexes that are observable, and, therefore, the investments in structured deposits are classified within Level 2.
- Asset-backed securities consist mainly of student loans. The significant inputs include the spread above the risk-free yield curve, reported trades and broker/ dealer quotes. These are considered to be observable market inputs and, therefore, the fair values of these securities are classified within Level 2
- The fair value of municipal bonds were determined based on observable inputs that may include the spread above the risk-free yield curve, reported trades, broker-dealer quotes, benchmark securities, bids, credit risks and economic indicators. The fair value of these securities are classified as Level 2.

Notes to the Consolidated Financial Statements

December 31, 2013 and 2012

4. Fair value of financial instruments (continued)

At December 31, 2013	Fair value measurements as at December 31, 2013 Total	Quoted prices in active markets for identical assets (Level 1)	Significant other observable inputs (Level 2)	Significant unobservable inputs (Level 3)
Debt securities issued by				
U.S. Treasury	$ 170,140,744	$ 170,140,744	$ –	$ –
U.S. Agencies	70,452,371	–	70,452,371	–
Corporate debt securities				
U.S.	132,119,671	–	132,119,671	–
Non-U.S.	186,500,556	–	186,500,556	–
Non-U.S. government and agencies	140,829,141	–	140,829,141	–
Asset-backed securities	25,992,297	–	25,992,297	–
Structured deposit	15,222,244	–	15,222,244	–
Short term investments	28,035,101	28,035,101	–	–
Municipals	37,003,288	–	37,003,288	–
Equity Fund	29,697,413	29,697,413	–	–
	$ 835,992,826	$ 227,873,258	$ 608,119,568	$ –

At December 31, 2012	Fair value measurements as at December 31, 2012 Total	Quoted prices in active markets for identical assets (Level 1)	Significant other observable inputs (Level 2)	Significant unobservable inputs (Level 3)
Debt securities issued by				
U.S. Treasury	$ 142,523,766	$ 142,523,766	$ –	$ –
U.S. Agencies	123,085,746	–	123,085,746	–
Corporate debt securities				
U.S.	125,574,197	–	125,574,197	–
Non-U.S.	202,121,828	–	202,121,828	–
Non-U.S. government and agencies	158,513,613	–	158,513,613	–
Asset-backed securities	13,796,970	–	13,796,970	–
Catastrophe bonds	6,123,600	–	6,123,600	–
Structured deposit	40,704,558	–	40,704,558	–
Short term investments	57,547,820	57,547,820		–
Municipals	2,915,779	–	2,915,779	–
Equity Fund	12,516,130	12,516,130	–	–
	$ 885,424,007	$ 212,587,716	$ 672,836,291	$ –

4. Fair value of financial instruments (continued)

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

The estimates of fair value of other assets and liabilities are subjective in nature and are not necessarily indicative of the amounts that the Company would actually realize in a current market exchange. However, any differences would not be expected to be material. Certain instruments such as deferred acquisition expenses, prepaid expenses, outstanding losses and loss expenses, unearned premiums and unearned ceded premiums are excluded from fair value disclosure. Thus the total fair value amounts cannot be aggregated to determine the underlying economic value of the Company.

5. Reinsurance

Reinsurance contracts do not relieve the Company from its obligations to policyholders. Failure of the reinsurer to honor its obligations could result in losses to the Company; consequently, allowances are established for amounts deemed uncollectable. The Company regularly evaluates the financial condition of its reinsurers. At December 31, 2013 recoveries of $27.7m (2012 - $36.2m) are due from the subsidiary MSRe's reinsurer. Ceded reinsurance has been placed with the parent company, Mitsui Sumitomo Insurance Company Limited with a credit rating of A+ (2012- A+) from Standard & Poor's.

6. Capital assets

Capital assets consist of the following:

	2013			2012
	Cost	Accumulated depreciation	Net book value	Net book value
Furniture and fixtures	$ 2,499,770	$ (1,069,122)	$ 1,430,648	$ 1,169,836
Motor vehicles	429,480	(146,523)	282,957	108,728
Computers	8,347,494	(6,448,327)	1,899,167	1,545,904
	$ 11,276,744	$ (7,663,972)	$ 3,612,772	$ 2,824,468

Notes to the Consolidated Financial Statements

December 31, 2013 and 2012

7. Outstanding losses and loss expenses

The summary of changes in outstanding losses and loss expenses at December 31, 2013 and 2012 are as follows:

	2013	2012
Gross balance at the beginning of the year	$ 352,704,260	$ 378,598,412
Less: outstanding losses recoverable from reinsurers	(37,758,751)	(63,792,907)
Balance at beginning of year	314,945,509	314,805,505
Incurred related to:		
Current year	54,469,307	60,338,265
Prior years	(10,756,183)	27,694,391
Foreign exchange (gain) loss on outstanding losses and loss expenses	(3,644,473)	3,692,272
Total loss and loss expenses incurred	40,068,651	91,724,928
Paid related to:		
Current year	4,198,980	2,570,331
Prior years	108,466,484	105,770,104
Total paid losses	112,665,464	108,340,435
Foreign exchange (gain) loss on translation of outstanding loss expenses	(1,285,461)	3,962,849
Net balance at end of year	241,063,235	314,945,509
Plus outstanding losses recoverable from reinsurers	27,770,237	37,758,751
Balance at end of year	$ 268,833,472	$ 352,704,260

MSRe retroceded forty percent of all non- group treaty business written in 2012, proportional and non – proportional to Mitsui Sumitomo Insurance Company Limited.

Notes to the Consolidated Financial Statements

December 31, 2013 and 2012

7. Outstanding losses and loss expenses (continued)

As at December 31, 2013 the total incurred in respect of Hurricane Ike in the U.S. was $37,022,510, $1,490,371 of which was paid in claims during the year. Total incurred losses in respect of New Zealand earthquake was as follows, Darfield $13,097,136, Lyttelton $65,670,716 and Sumner $24,586,387. $1,677,579 was paid on Darfield for the year, $23,089,775 was paid on Lyttelton for the year and no payments were made in respect of Sumner. Total incurred in respect of Superstorm Sandy was $5,538,316 of which $845,486 was paid in claims during the year. U.S. Hail's total incurred was $1,900,000 of which no payments have been made.

During 2013 the Company incurred current year losses for the following 2013 loss events: $4,817,108 in respect of European Floods, $6,881,553 in respect of European Hail and $889,000 in respect of U.S. Weather events.

Movements in prior years' losses for 2013 and, in particular, 2012 mainly relate to numerous small changes on the longer-tail business lines in MSRe.

As security for the loss provisions above, letters of credit were established with a Bermuda based bank in the amount of $1,080,716 (2012: $2,228,977), a reinsurance trust of $2,600,069 (2012: $4,828,178) was established with a U.S. based bank and outstanding cash advances of $25,311,630 (2012: $25,099,501) have been created.

Reserves are reviewed regularly and, as experience develops and new information becomes known, the reserves are adjusted as necessary. Such adjustments could require a material change in the amount estimated. The reserves are subject to an annual actuarial review by independent actuaries.

Notes to the Consolidated Financial Statements

December 31, 2013 and 2012

8. Related party transactions

Premiums assumed from the parent or affiliates amounted to $5,760,422 (2012 - $10,713,951), and were undertaken on normal commercial rates. Other balance sheet and income statement items associated with these policies include the following:

	2013	2012
Assets		
Reinsurance balances receivable	$ 9,310,753	$ 1,640,852
Prepaid expenses	25,176	8,397
Funds withheld	4,857	99,941
Loss recoverable	27,770,244	41,544,141
Deferred reinsurance premium	1,053,257	13,011,895
Liabilities		
Outstanding losses and loss expenses	651,384	–
Unearned premiums	899,713	724,516
Accounts payable and accrued expenses	347,920	528,365
Reinsurance balances payable	1,722,260	939,100
Expenses		
Net claims paid	15,324,272	28,239,023
Losses and loss expenses incurred	1,931,870	31,698
Premiums ceded	7,970,473	29,417,355
Income		
Net premium assumed	5,760,422	10,713,951
Reinsurers share of losses and loss expenses incurred	26,915,101	30,882,680
Other Income	57,289	56,408

In prior years, the Company had entered into a retrocession agreement with its parent company, whereby the Company ceded to its parent a portion of certain high layer property and fire catastrophe risks. During 2013, MSRe retroceded forty percent of all non-group treaty business written in 2013, proportional and non-proportional to Mitsui Sumitomo Insurance Company Limited.

The Company has appointed a company related through common control as an investment manager. The Company pays fees for investment management services based on the month end market value of the total investment portfolio. The fees are based on normal commercial terms and are included in investment expenses. The fees incurred for the above services were $381,411 (2012 - $356,330) for the year. At December 31, 2013 fees of $95,172 (2012 - $90,000) are included in accounts payable and accrued expenses.

9. Taxation

Under current Bermuda law the Company is not required to pay any taxes in Bermuda on either income or capital gains. The Company has received an undertaking from the Minister of Finance in Bermuda that in the event of any such taxes being imposed the Company will be exempted from taxation until the year 2035. MSFMR is subject to Singapore corporation tax provided on taxable profits at the current tax rate applicable to the Company's activities. MS Frontier Re's Labuan branch is subject to a flat tax applicable to the Company's tax band set by local authority.

MSRe is subject to Irish tax, in the branches in Malaysia and Singapore corporation tax is provided on taxable profits at the current tax rate applicable to the Company's activities. Double Taxation agreements exist between Ireland and Malaysia and Ireland and Singapore, corporation tax borne in Malaysia and Singapore can be utilized against tax payable in Ireland.

Total income taxes for the years ended December 31, 2013 and 2012 were allocated as follows:

	2013	2012
Income taxes from continuing operations	$ 1,078,361	$ 1,944,814
Shareholder's equity, for unrealized gains and losses recognized for financial statements purposes	–	–
	$ 1,078,361	$ 1,944,814

Income tax expense attributable to continuing operations for the years ended December 31, 2013 and 2012 consists of:

	2013	2012
Current expense	$ 1,029,403	$ (492,393)
Deferred benefit	48,958	2,437,207
	$ 1,078,361	$ 1,944,814

A reconciliation setting forth the differences between the effective tax rate of the Company and the Irish statutory tax rate is as follows:

	2013	2012
Expected tax rate	0.00%	0.00%
Effective tax from non-Bermuda operations	1.21%	2.91%
Actual tax rate	1.21%	2.91%

Notes to the Consolidated Financial Statements

December 31, 2013 and 2012

9. Taxation (continued)

The tax effects of temporary differences that give rise to significant portions of the deferred tax provision are as follows:

	2013	2012
Deferred tax asset:		
Unutilized losses carried forward and capital allowances	$ 8,985,468	$ 8,697,927
Gross deferred tax asset	8,985,468	8,697,927
Less valuation allowance	(8,831,521)	(8,495,022)
Deferred tax asset	153,947	202,905
Deferred tax liability:		
Unrealized gain on fixed interest securities available for sale	–	–
Deferred tax liability	–	–
Net deferred tax asset	$ 153,947	$ 202,905

MSRe has a deferred tax asset of $8,831,521 at December 31, 2013, arising in respect of tax adjusted trading losses, fixed asset timing differences and excess foreign tax credits carried forward from earlier periods. On the basis that it is prudent to recognize none of the deferred tax asset at present, MSRe's closing deferred tax asset for accounts purposes is reduced to nil. There is therefore an unrecognized deferred tax asset of $8,831,521 at year end.

MSFMR has a deferred tax asset of $153,947 at December 31, 2013, management believes that it is more likely than not that MSFMR will realize the benefits of its net deferred tax asset.

The Company has adopted FASB ASC 740 which provides detailed guidance for the financial statement recognition, measurement and disclosure of uncertain tax positions recognized in a Company's consolidated financial statements. FASB ASC 740 has no impact on the Company's operating results or financial condition for the years ended December 31, 2013 and 2012.

Notes to the Consolidated Financial Statements

10. Commitments

MS Frontier Re has entered into an agreement to lease office space in Bermuda for $64,132 (renegotiated to $60,818 in 2013) per month for five (5) years beginning November 1, 2010. During the year 2013, the company has entered in a further agreement to lease additional office space in Bermuda for $37,160 per month for two and half years beginning April 2013. Office space leased by MS Frontier Re branches are on an open term basis and can be transferred on a month's notice.

MSRe has office space leased in Singapore and Dublin for a total of $62,580 per month (lease commitments ending on October 31, 2015 and July 07, 2015 respectively).

As part of the reinsurance business of MSRe, the Singapore branch is required to hold assets of $25,473,582 within insurance funds held on deposit in Singapore. Any surplus assets may only be released from Singaporean jurisdiction once the solvency requirements of Singapore Law have been met. The Company has entered into a counter indemnity with a bank in relation to the Singapore branch.

11. Share capital and contributed surplus

The Company's share capital comprises 350,000,000 authorized and 294,588,584 issued and fully paid shares of $1 par value each.

An injection of $100,000,000 was made to the contributed surplus of MS Frontier Reinsurance Limited by the parent company Mitsui Sumitomo Insurance Company Limited on April 24, 2012. This was made in addition to the previous contribution made by the parent of $50,000,000 on November 17, 2011 and $100,000,000 on November 13, 2006.

12. Statutory requirements

Bermuda

MS Frontier Re is required by its licence to maintain capital and surplus greater than a minimum statutory amount determined as the greater of a percentage of outstanding losses or a given fraction of net written premiums. At December 31, 2013 MS Frontier Re is required to maintain a minimum statutory capital and surplus of $ 24,108,578. Actual statutory capital and surplus is $913,492,541.

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

Total shareholder's equity	$ 925,113,517
Less non-admitted assets:	
Deferred acquisition expenses	6,604,359
Prepaid expenses	2,311,371
Capital assets	2,705,246
Statutory capital and surplus	$ 913,492,541

Notes to the Consolidated Financial Statements

December 31, 2013 and 2012

12. Statutory requirements (continued)

MS Frontier Re is also required to maintain a minimum liquidity ratio whereby the value of its relevant assets are not less than 75% of the amount of its relevant liabilities. Relevant assets include cash and cash equivalents, investments, accrued interest receivable, reinsurance balances receivable and funds withheld.

Certain categories of assets do not qualify as relevant assets under the statute. The relevant liabilities are total general business insurance reserves and total other liabilities, less sundry liabilities.

At December 31, 2013 MS Frontier Re was required to maintain relevant assets of $118,459,811. At that date relevant assets were $948,372,334 and the minimum liquidity ratio was therefore met.

MS Frontier Re is subject to enhanced capital requirements in addition to minimum levels of solvency and liquidity under the Bermuda Insurance Act, 1978 and related regulations. The enhanced capital requirement ("ECR") is determined by reference to a standardized statutory risk-based capital model used to measure the risk associated with the Company's assets, liabilities and premiums. If a company fails to maintain or meet the ECR, various degrees of regulatory action may be taken. The principal difference between statutory capital and surplus and shareholders' equity presented in accordance with U.S. GAAP is deferred acquisition costs, which are non-admitted assets for statutory purposes. As of December 31, 2013, MS Frontier Re met the ECR.

Ireland

MSRe is an authorized reinsurance undertaking in Ireland and is required to maintain in respect of the whole of its business an adequate available solvency margin that is at all times at least equal to that required by the regulations. The available solvency margin must consist of its assets, free of all foreseeable liabilities less any intangible items.

The amount of available solvency margin must be based on, the undertakings paid up share capital, the undertakings statutory and free reserves that do not correspond to underwriting liabilities, and the undertakings profit and loss brought forward.

The amount of solvency margin for an authorized reinsurance undertaking is to be the higher of:

a) Minimum Guarantee Fund equal to $4.4m for all reinsurance undertakings, or

b) The total Required Solvency Margin determined on the higher of Premium or Claims basis.

As at December 31, 2013 MSRe's Available Solvency Margin is $82.7m (2012 - $72.7m), its Required Solvency Margin is $17.7m (2012 - $24.4m) and its Solvency Cover is 465% (2012 - 323%).

13. Subsequent events

The Company has completed its subsequent events evaluation for the period subsequent to the balance sheet date of December 31, 2013 through May 19, 2014, the date the consolidated financial statements were authorized for issuance by the Board of Directors. There were no significant subsequent events.

Corporate Information

MS Frontier Reinsurance Limited Board of Directors as at April 1, 2014

Toshiya Naito
Gary P. Devery
Peter Keane
Yoshihiro Yatabe
Hitoshi Goto
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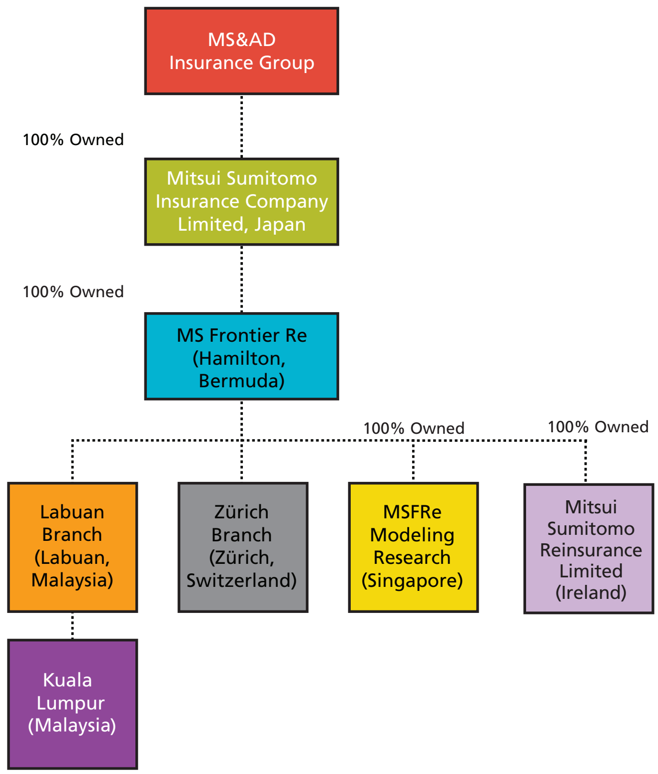
Structure of MS Frontier Group



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