AUDITED CONSOLIDATED FINANCIAL STATEMENTS

Wilton Re Holdings Limited and Subsidiaries
Years Ended December 31, 2011, 2010, and 2009
With Report of Independent Registered Public Accounting Firm

Ernst & Young LLP

ERNST & YOUNG

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Years Ended December 31, 2011, 2010 and 2009

Contents

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Report of Independent Registered Public Accounting Firm

The Board of Directors
Wilton Re Holdings Limited and Subsidiaries

We have audited the accompanying consolidated balance sheets of Wilton Re Holdings Limited and Subsidiaries (the Company) as of December 31, 2011 and 2010, and the related consolidated statements of income, changes in shareholders' equity, and cash flows for each of the three years in the period ended December 31, 2011. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with generally accepted auditing standards as established by the Auditing Standards Board (United States) and in accordance with the auditing standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the consolidated financial position of Wilton Re Holdings Limited and Subsidiaries at December 31, 2011 and 2010, and the consolidated results of their operations and their cash flows for each of the three years in the period ended December 31, 2011, in conformity with U.S. generally accepted accounting principles.

We also have audited, in accordance with the attestation standards established by the American Institute of Certified Public Accountants and in accordance with the standards of the Public Company Accounting Oversight Board (United States), the Company's internal control over financial reporting as of December 31, 2011, based on criteria established in Internal Control – Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission and our report dated March 12, 2012 expressed an unqualified opinion thereon.

Ernst & Young LLP

March 12, 2012

Wilton Re Holdings Limited and Subsidiaries

Consolidated Balance Sheets

(Expressed in thousands of U.S. dollars, except warrants and per share amounts)

	December 31	
	2011	**2010**
Assets		
Investments	**$ 4,430,953**	$ 3,308,587
Short term investments	**197,216**	59,454
Policy loans	**182,559**	109,434
Funds withheld at interest	**1,988,112**	1,996,399
Other invested assets	**138,889**	4,569
Total investments	**6,937,729**	5,478,443
Cash and cash equivalents	**299,323**	187,336
Accrued investment income	**46,756**	32,072
Premiums receivable	**99,409**	38,989
Reinsurance recoverable	**264,796**	277,253
Deferred acquisition costs	**225,826**	182,805
Value of in-force business acquired	**575,170**	501,865
Other assets	**13,197**	13,171
Total assets	**$ 8,462,206**	$ 6,711,934
Liabilities		
Reserves for future policy benefits	**$ 1,827,913**	$ 1,401,376
Interest sensitive contract liabilities	**4,571,242**	3,581,662
Other reinsurance liabilities	**19,713**	23,610
Funds held under reinsurance treaties	**64,698**	64,361
Accounts payable and accrued expenses	**55,121**	49,023
Deferred income taxes, net	**99,371**	48,437
Total liabilities	**6,638,059**	5,168,468
Shareholders' equity		
Class A common shares:		
($1.00 par value; 50,000 shares authorized, 22,551 issued and outstanding at December 31, 2011; 50,000 shares authorized, 20,549 issued and outstanding at December 31, 2010)	**22,551**	22,549
Class B common shares:		
($1.00 par value; 3,000 shares authorized; 0 issued and outstanding at December 31, 2011 and 2010)	**–**	–
Additional paid in-capital	**1,166,967**	1,163,661
Stock warrants	**29**	29
Retained earnings and accumulated other comprehensive income	**634,600**	357,227
Total shareholders' equity	**1,824,147**	1,543,466
Total liabilities and shareholders' equity	**$ 8,462,206**	$ 6,711,934

The accompanying notes are an integral part of these consolidated financial statements.

Wilton Re Holdings Limited and Subsidiaries

Consolidated Statements of Income

(Expressed in thousands of U.S. dollars, except warrants and per share amounts)

	Year Ended December 31		
	2011	**2010**	**2009**
Revenues			
Net premiums	**$ 469,316**	$ 351,658	$ 355,258
Policy fees and charges	**236,099**	178,632	135,938
Inuring third party reinsurance commissions	**47,982**	38,281	42,078
Investment earnings	**336,231**	328,602	211,754
Net unrealized appreciation on investments classified as trading and other	**220,000**	125,411	188,375
Change in value of derivatives and embedded derivatives, net	**40,289**	41,572	281,808
Total revenues	**1,349,917**	1,064,156	1,215,211
Expenses			
Claims and policy benefits, net of reinsurance ceded	**547,960**	416,419	403,634
Interest credited to interest sensitive contract liabilities	**154,633**	134,301	124,542
Acquisition costs and other insurance expenses	**192,958**	140,648	167,802
Operating expenses	**81,955**	85,340	74,304
Due diligence, transition and conversion costs	**978**	6,675	1,440
Collateral finance facility expense	**–**	–	9,937
Interest expense	**–**	–	4,373
Total benefits and expenses	**978,484**	783,383	786,032
Net income before income taxes	**371,433**	280,773	429,179
Income tax expense	**94,060**	69,522	85,124
Net income	**$ 277,373**	$ 211,251	$ 344,055

The accompanying notes are an integral part of these consolidated financial statements.

Wilton Re Holdings Limited and Subsidiaries

Consolidated Statements of Changes in Shareholders' Equity

(Expressed in thousands of U.S. dollars, except warrants and per share amounts)

	Year Ended December 31		
	2011	**2010**	**2009**
Common shares			
Balance at beginning of year	**$ 22,549**	$ 20,547	$ 18,320
Common shares repurchased during year	–	–	–
Common shares issued during year	**2**	2,002	2,227
Balance at end of year	**22,551**	22,549	20,547
Additional paid-in capital			
Balance at beginning of year	**1,163,661**	1,049,208	923,742
Common shares repurchased during year, net of costs	–	–	–
Common shares issued during year, net of offering costs	**27**	109,578	121,284
Stock based compensation	**3,281**	4,875	4,182
Balance at end of year	**1,166,967**	1,163,661	1,049,208
Stock warrants			
Balance at beginning of year	**29**	29	29
Warrants issued during year	–	–	–
Balance at end of year	**29**	29	29
Retained earnings and accumulated other comprehensive income			
Balance at beginning of year	**357,227**	145,976	(197,602)
Net income	**277,373**	211,251	344,055
Pension benefit, net of tax	–	–	(477)
Balance at end of year	**634,600**	357,227	145,976
Total shareholders' equity	**$ 1,824,147**	$ 1,543,466	$ 1,215,760

The accompanying notes are an integral part of these consolidated financial statements.

Wilton Re Holdings Limited and Subsidiaries

Consolidated Statements of Cash Flows

(Expressed in thousands of U.S. dollars, except warrants and per share amounts)

	Year Ended December 31		
	2011	**2010**	**2009**
Cash flows from operating activities			
Net income	**$ 277,373**	$ 211,251	$ 344,055
Adjustments to reconcile net income to net cash from operating activities:			
Proceeds from sales of investments	**787,849**	867,297	862,990
Proceeds from maturities of investments	**168,179**	–	–
Purchases of investments	**(1,950,137)**	(1,115,750)	(1,821,847)
Accretion and amortization of discounts and premiums on securities, net	**(21,928)**	(19,657)	(17,419)
Net realized (gains)/losses on investments	**(27,642)**	(35,242)	25,940
Net unrealized (gains) on investments	**(212,832)**	(124,797)	(188,417)
Mark to market on embedded derivative	**(47,412)**	(41,572)	(278,584)
Accretion and amortization of deferred acquisition costs	**24,299**	9,885	30,947
Accretion and amortization of value of business acquired	**116,404**	88,699	110,093
Interest credited to interest sensitive contracts	**154,632**	134,301	124,542
Non-cash equity compensation expense	**3,281**	4,875	4,182
Change in assets and liabilities:			
Accrued investment income	**(14,684)**	(3,906)	(8,825)
Deferred income taxes	**50,934**	35,856	70,039
Subscription receivable	–	–	121,635
Premiums receivable	**(60,420)**	144,554	(108,022)
Reinsurance recoverables	**12,457**	(206,548)	7,727
Funds withheld at interest	**55,699**	57,892	320,452
Deferred acquisition costs	**(67,320)**	(61,073)	(78,873)
Value of in-force business acquired	**(189,709)**	(2,155)	52,190
Other assets	**(26)**	4,023	133,205
Reserves for future policy benefits	**426,537**	(44,021)	204,576
Funds held under reinsurance treaties	**337**	48,954	(2,148)
Other reinsurance liabilities	**(3,897)**	(50,083)	45,780
Accounts payable and accrued expenses	**6,098**	(6,480)	29,701
Net cash flows from operating activities	**(511,928)**	(103,697)	(16,081)
Cash flows from investing activities			
Net purchases, sales and maturities of short term investments	**(137,936)**	25,423	38,240
Acquisition of TLIC, net	–	–	46,781
Change in policy loans	**(73,125)**	26,889	(55,800)
Net cash flows from investing activities	**(211,061)**	52,312	29,221

Wilton Re Holdings Limited and Subsidiaries

Consolidated Statements of Cash Flows (continued)

(Expressed in thousands of U.S. dollars, except warrants and per share amounts)

	Year Ended December 31		
	2011	**2010**	**2009**
Cash flows from financing activities			
Proceeds from issuance of common shares	**$ –**	$ 111,580	$ 1,876
Repayment of short-term debt	–	–	(112,500)
Repayment of collateral finance facility	–	–	(250,000)
Proceeds from interest sensitive contracts	**1,405,545**	426,980	453,081
Redemption and benefit payments on interest sensitive contracts	**(570,570)**	(494,096)	(610,852)
Net cash flows from financing activities	**834,975**	44,464	(518,395)
Increase/(decrease) in cash and cash equivalents	**111,988**	(6,918)	(505,255)
Cash and cash equivalents at the beginning of the period	**187,336**	194,254	699,509
Cash and cash equivalents at the end of the period	**$ 299,323**	$ 187,336	$ 194,254

The accompanying notes are an integral part of these consolidated financial statements.

1. Organization

Wilton Re Holdings Limited (Wilton Re Limited), incorporated on September 2, 2004, is a holding company organized under the laws of Bermuda. Wilton Re Limited and its subsidiaries, collectively referred to as the Company, principally provide life insurance and reinsurance and acquires closed blocks of life insurance and annuity contracts. Wilton Re Limited conducts its operations through subsidiaries incorporated in Bermuda and the United States of America.

Wilton Reinsurance Bermuda Limited (Wilton Re Bermuda), a wholly-owned subsidiary of Wilton Re Limited, was incorporated under the laws of Bermuda as a long term insurer on December 17, 2004.

Wilton Re US Holdings, Inc. (Wilton Re US Holdings), a wholly owned subsidiary of Wilton Re Limited, was incorporated in Delaware on September 16, 2004. Wilton Re US Holdings conducts its operations principally through its subsidiary, Wilton Reassurance Company, Inc. (WRAC), a Minnesota domiciled life insurer.

Wilton Reassurance Life Company of New York (WRNY), a wholly owned subsidiary of WRAC, was formed upon the acquisition and merger of three domestic New York life insurance companies.

Texas Life Insurance Company (TLIC), a wholly owned subsidiary of WRAC, was acquired from MetLife, Inc. on March 2, 2009. TLIC is a Texas domiciled life insurer.

Wilton Re Services, Inc. (Wilton Re Services), a wholly owned subsidiary of Wilton Re US Holdings, was incorporated in Delaware on September 17, 2004. Wilton Re Services provides insurance support services to affiliated companies.

Heritage Union Life Insurance Company (HULC), a wholly owned subsidiary of WRAC, was acquired on July 1, 2011. HULC is a Minnesota domiciled life insurer.

2. Summary of Significant Accounting Policies

a) Consolidation and Basis of Presentation

The accompanying consolidated financial statements have been prepared in accordance with U.S. generally accepted accounting principles (U.S. GAAP). The preparation of financial statements in conformity with U.S. GAAP 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 consolidated financial statements and the reported amounts of revenues and expenses during the reporting period. The most significant estimates include those used in determining deferred acquisition costs, value of in-force business acquired, premiums receivable, reserves for future policy benefits, other policy claims and benefits, and the valuation of investments. While the amounts included in the consolidated financial statements reflect management's best estimates and assumptions, the actual results ultimately could be materially different from the amounts currently reported in the consolidated financial statements.

The accompanying consolidated financial statements include the accounts of Wilton Re Limited and its subsidiaries which include, Wilton Re Bermuda, Wilton Re US Holdings, Wilton Re Services, Inc., WRAC, WRNY, TLIC, and HULC. All significant intercompany accounts and transactions have been eliminated in consolidation.

b) Investments and Net Investment Income

The Company's investments, including publicly-traded fixed maturity securities, preferred stocks, private placements and credit tenant loans are classified as trading and are recorded at fair value with the change in fair value reported as net unrealized (depreciation) appreciation on investments classified as trading and other in the consolidated statements of operations. The fair value of publicly-traded securities is based on quoted market prices or obtained from independent third party dealers in the absence of quoted market prices. The fair value of private placements and credit tenant loans is obtained from independent third party dealers.

Investment transactions are recorded on a trade date basis. The Company's net investment income is recognized when earned and consists primarily of interest and the accretion of discount or amortization of premium on fixed maturity securities. Investment income is presented net of investment management and custody expenses on the consolidated statements of operations. Gains and losses realized on the sale of investments are determined on the specific identification method.

2. Summary of Significant Accounting Policies (continued)

c) Short Term Investments

Short term investments represent investments with maturities at acquisition of greater than three months but less than twelve months.

d) Cash and Cash Equivalents

The Company considers all investments purchased with a maturity at acquisition of three months or less to be cash equivalents.

e) Policy Loans

Policy loans are reported at the unpaid principal balance.

f) Funds Withheld at Interest

Funds withheld at interest represent amounts contractually withheld by ceding companies in accordance with reinsurance agreements. For agreements written on a modified coinsurance basis and agreements written on a coinsurance funds withheld basis, assets equal to the statutory reserves, net of reinsurance, are withheld and legally owned by the ceding company. Investment income on funds withheld at interest includes the actual interest income earned on these segregated assets as defined by the treaty terms.

The Company accounts for the embedded derivatives in modified coinsurance and funds withheld contracts as total return swaps with a floating leg. Accordingly, the value of the derivative is equal to the unrealized gain or loss on the assets underlying the funds withheld portfolio associated with each agreement. The Company's funds withheld at interest are recorded at fair value with the changes in the fair value of the embedded derivative reflected in the change in value of derivatives and embedded derivatives, net, in the statements of operations. At December 31, 2011 and 2010, the fair value of these embedded derivatives included in the funds withheld at interest was $108,885 and $61,473, respectively.

g) Derivative Financial Instruments

The Company hedges certain portions of its exposure to product related equity market risk by entering into derivative transactions. All such derivative instruments are recognized in "Other Invested Assets" in the accompanying Consolidated Balance Sheet at fair value.

2. Summary of Significant Accounting Policies (continued)

g) Derivative Financial Instruments (continued)

The change in fair value is recognized in the accompanying Consolidated Statements of Income. At December 31, 2011 and 2010, the fair value of these derivatives was $13,600 and $0 respectively.

h) Premiums Receivable

Premiums receivables are recognized when due and in accordance with information received from the ceding company or when payment is due from the policyholder. Other factors impacting management estimates of premiums receivable include adjustments for lapsed policies and collateral value. Under the legal right of offset provision in the reinsurance treaties, the Company can withhold payments for allowances and claims for unpaid premiums. Based on a review of these factors and historical experience, the Company did not believe a provision for doubtful accounts was necessary as of December 31, 2011 and 2010.

i) Deferred Acquisition Costs (DAC)

The costs of acquiring life insurance and reinsurance business, which vary with and are primarily related to the production of new and renewal business, have been deferred to the extent that such costs are deemed recoverable from future premiums or gross profits. The Company performs periodic tests to determine that DAC remains recoverable, and if financial performance significantly deteriorates to the point where a premium deficiency exists, a cumulative charge to current operations would be recorded. No such adjustments were made during 2011, 2010 or 2009. Deferred costs related to traditional life insurance contracts, all of which relate to long duration contracts, are amortized over the premium-paying period or 25 years, in proportion to the ratio of individual period premium revenues to total anticipated premium revenues over the amortization period. Such anticipated premium revenues are estimated using the same assumptions used for computing liabilities for future policy benefits. Deferred acquisition costs related to interest sensitive insurance products, such as universal life and annuities, are recognized as expense over the term of the policies in proportion to estimated gross profits (EGPs), arising principally from surrender charges, investment results and mortality and expense margins, over the amortization period.

2. Summary of Significant Accounting Policies (continued)

i) Deferred Acquisition Costs (DAC) (continued)

Some reinsurance agreements involve reimbursing the ceding company for allowances and commissions. These amounts represent acquisition costs and are capitalized to the extent they are deemed recoverable from the future premiums or profits and are amortized in proportion to future premiums or profits of the business.

j) Reserves for Future Policy Benefits and Interest Sensitive Contracts Liability

The Company's liability for traditional life policies and reinsurance of traditional life insurance policies is recognized as reserves for future policy benefits. All of the Company's material reinsurance contracts are long duration contracts. The Company monitors actual experience and, where circumstances warrant, revises assumptions and as permitted the related reserve estimates. The reserve is estimated using the net level premium method utilizing assumptions for mortality, persistency, interest and expenses established when the contract is underwritten. These assumptions are based on anticipated experience with a margin for adverse deviation. If the reserves for future policy benefits plus the present value of expected future gross premiums are insufficient to provide for expected future benefits and expense, deferred policy acquisition costs are expensed and, if required, a premium deficiency reserve is established by a charge to claims and policy benefits. Benefit liabilities for traditional payout annuities are recorded at the present value of expected future benefit payments. Reserves also are established to cover death claims that may have been incurred and reported to the applicable ceding company, but not yet reported to the Company. The average discount rates used to compute the Company's reserves for future policy benefits were approximately 5.25% and 5.52% for 2011 and 2010, respectively.

Liabilities for interest sensitive insurance products such as universal life and deferred annuities are established based on account values before applicable surrender charges. Certain universal life products contain features that link interest credited to an equity index. These features create an embedded derivative that is not clearly and closely related to the host insurance contract. The embedded derivative is carried at fair value with changes in the fair value reported in the accompanying Consolidated Statements of Income.

In situations where mortality profits are followed by mortality losses, a liability is established, in addition to the account value, to recognize the portion of policy assessments that relate to benefits to be provided in the future. Additional liabilities are established for universal life products related to unearned policy charges.

2. Summary of Significant Accounting Policies (continued)

j) Reserves for Future Policy Benefits and Interest Sensitive Contracts Liability (continued)

The calculation of reserves for future policy benefits and for claims incurred but not reported (IBNR) for the Company's business requires management to make estimates and assumptions regarding expected mortality, lapse, persistency, expenses and investment experience. For reinsurance assumed, such estimates are based primarily on historical experience provided by ceding companies with the exception of investment returns and expenses. Actual results could differ materially from those estimates.

k) Recognition of Revenue and Expenses

Assumed reinsurance and policy premiums related to traditional life products are recognized as revenue when due from the ceding companies and policyholders and are reported net of the costs of reinsurance ceded. Benefits and expenses are reported net of amounts related to reinsurance ceded and are associated with earned premiums so that profits are recognized over the life of the related contracts.

For each of its reinsurance contracts, the Company must determine whether the contract provides indemnification against loss or liability relating to insurance risk, in accordance with applicable accounting standards. The Company must review all contractual features, particularly those that may limit the amount of insurance risk to which the Company is subject or features that delay the timely reimbursement of claims. If the Company determines that a contract does not expose it to a reasonable possibility of a significant loss from insurance risk, the Company records the contract under the deposit method of accounting with the net amount payable/receivable reflected in other reinsurance assets or liabilities on the consolidated balance sheet. Fees earned on these contracts are reflected as other revenues, as opposed to premiums, on the consolidated statements of operations. The Company did not have any contracts accounted for under the deposit method at December 31, 2011 or 2010.

Revenues for interest-sensitive products, such as universal life and annuity products, consist of investment income, policy charges for the cost of insurance, policy administration fees, and surrender fees that have been assessed against policy account balances during the period. Policy benefits and claims that are charged to expense include claims incurred in the period in excess of related policy account balances and interest credited to policy account balances. The weighted average interest-crediting rates for interest-sensitive products was 4.1% during 2011, 2010, and 2009.

2. Summary of Significant Accounting Policies (continued)

l) Income Taxes

The income tax provision is calculated under the liability method on those operations that are subject to income taxes. Deferred tax assets and liabilities result from temporary differences between the carrying amounts of assets and liabilities recorded in the consolidated financial statements and their respective tax bases. The effect on deferred tax assets and liabilities of a change in tax rates would be recognized in the consolidated statement of operations in the period in which the tax rate change is enacted. A valuation allowance for a portion or all of deferred tax assets is recorded as a reduction to deferred tax assets when it is more likely than not that such portion or all of such deferred tax assets will not be realized.

m) Closed Block Acquisitions

Acquisitions by the Company of blocks of business in run off (i.e. where only existing policies will be renewed and new policies will not be sold), as either a reinsurance transaction or a stock purchase, are accounted for as reinsurance transactions. Results of operations only include the revenues and expenses from the effective date of acquisition of these blocks of business. The initial transfer of assets and liabilities is recorded on the balance sheet at the date of acquisition at fair value, except for the reserves for future policy benefits and value of business acquired (VOBA), which are recorded at management's best estimate. Future policy benefit reserves are established based on the present value of benefits and maintenance expenses minus the present value of valuation (or net) premiums.

VOBA represents the present value of future profits from the acquired contracts using the discount rate implicit in the pricing of such transactions. In establishing the VOBA, the Company considers costs which vary with and are primarily related to the acquisition to be part of the purchase price. Such costs include initial ceding allowances, advisory and legal fees, investment banking fees, and contractually obligated involuntary severance. Other costs incurred that are not contractually required, such as transition and conversion costs, financing costs, and severance are expensed as period costs. The Company amortizes VOBA in proportion to premiums for traditional life products and in proportion to EGPs for interest sensitive life and annuity contracts. The EGP's and related amortization of VOBA for interest sensitive life and annuity products are updated (unlocked) periodically to reflect revised assumptions for lapses, mortality and investment earnings. The Company performs periodic tests to determine that VOBA associated with both traditional life products and interest sensitive life and annuity products remains recoverable, and when

2. Summary of Significant Accounting Policies (continued)

financial performance significantly deteriorates to the point where VOBA is not recoverable, a cumulative charge to current operations would be recorded.

The GAAP liability recorded (reserves for future policy benefits net of VOBA) represents the fair value of management's best estimate of future cash flows. Such estimates are subject to refinement within one year of acquisition.

n) Business Combinations

Transactions constituting the acquisition of a business (i.e., an integrated set of activities and assets) are considered to be a business combination and are accounted for under the purchase method of accounting. Accordingly, the purchase price is allocated to assets acquired and liabilities assumed based upon their estimated fair value at the acquisition date except for reserves for future policy benefits and value of business acquired (VOBA). In many cases, determining the fair value of the acquired assets and the assumed liabilities require the Company to exercise significant judgment. Costs incurred in conjunction with the acquisition are expensed as incurred.

o) Stock Warrants

Stock warrants are recorded based on the fair value of the warrants at their issue date. Fair value is estimated using the Black-Scholes option pricing model. For warrants issued during 2004, in the Black-Scholes option pricing model, the expected volatility assumed was 15.5%, the risk free rate assumed was 3.9% and the fair value was estimated to be $11.14 per warrant.

p) Reclassification

The Company has reclassified the presentation of certain prior period information to conform to the 2011 presentation.

q) New Accounting Pronouncements

Changes to the general accounting principles are established by the Financial Accounting Standards Board ("FASB") in the form of accounting standards updates to the FASB Accounting Standards Codification™. Accounting standards updates not listed below were assessed and determined to be either not applicable or are expected to have minimal impact on the Company's consolidated financial statements.

2. Summary of Significant Accounting Policies (continued)

q) New Accounting Pronouncements (continued)

Deferred Acquisition Costs

In October 2010, the FASB amended the general accounting principles for *Financial Services – Insurance*. This amendment clarifies that only those costs that result directly from and are essential to the contract transaction and that would not have been incurred had the contract transaction not occurred can be capitalized. It also defines acquisitions costs as costs that are related directly to the successful acquisitions of new or renewal insurance contracts. The amendment is effective for fiscal years and interim periods beginning after December 15, 2011. The adoption of this amendment is not expected to have a material impact on the Company's consolidated financial statements.

r) Subsequent Events

The Company has evaluated the impact of subsequent events through March 12, 2012, representing the date at which the financial statements were available to be issued. See footnote 13.

(Expressed in thousands of U.S. dollars, except warrants and per share amounts)

3. Investments

The amortized cost, fair value and related gross unrealized appreciation and depreciation of fixed maturity and preferred stock investments, classified as trading as of December 31, 2011 and 2010 are as follows:

December 31, 2011

	Amortized Cost	Unrealized Appreciation	Unrealized Depreciation	Fair Value
Fixed maturities				
U.S. government and agencies	**$ 388,017**	**$ 29,214**	**$ (25)**	**$ 417,206**
State and political subdivisions	**408,492**	**44,248**	**(410)**	**452,330**
Corporate securities	**1,827,832**	**233,243**	**(12,432)**	**2,048,643**
Foreign securities	**210,573**	**23,741**	**(2,158)**	**232,155**
Asset-backed securities	**421,202**	**14,225**	**(6,896)**	**428,531**
Collateralized Debt Obligations	**72,063**	**2,109**	**(3,207)**	**70,966**
Mortgage-backed securities	**626,683**	**77,649**	**(8,139)**	**696,193**
Total fixed maturities	**3,954,862**	**424,429**	**(33,267)**	**4,346,024**
Common stock	**11,858**	**–**	**(2,911)**	**8,947**
Preferred stocks	**73,370**	**3,276**	**(664)**	**75,982**
Total investments	**$ 4,040,090**	**$ 427,705**	**$ (36,842)**	**$ 4,430,953**

December 31, 2010

	Amortized Cost	Unrealized Appreciation	Unrealized Depreciation	Fair Value
Fixed maturities				
U.S. government and agencies	$ 380,138	$ 11,891	$ (3,053)	$ 388,975
State and political subdivisions	255,540	5,561	(6,909)	254,192
Corporate securities	1,411,609	107,682	(15,717)	1,503,574
Foreign securities	150,971	13,471	(1,031)	163,411
Asset-backed securities	231,778	16,831	(1,793)	246,816
Collateralized Debt Obligations	37,917	2,720	(175)	40,462
Mortgage-backed securities	624,819	58,929	(8,490)	675,257
Total fixed maturities	3,092,771	217,085	(37,168)	3,272,688
Common stock	1,772	–	–	1,772
Preferred stocks	32,365	2,681	(919)	34,127
Total investments	$ 3,126,908	$ 219,766	$ (38,087)	$ 3,308,587

(Expressed in thousands of U.S. dollars, except warrants and per share amounts)

3. Investments (continued)

The unrealized depreciation and fair values by investment category and by the duration of the fixed maturity securities in a continuous unrealized loss position at December 31, 2011 and December 31, 2010 are as follows:

December 31, 2011

	Less than 12 Months		12 Months or More		Total	
	Fair Value	Unrealized Depreciation	Fair Value	Unrealized Depreciation	Fair Value	Unrealized Depreciation
Fixed maturities						
U.S. government and agencies	$ –	$ –	$ 4,810	$ (25)	$ 4,810	$ (25)
State and political subdivisions	2,346	(34)	6,494	(376)	8,840	(410)
Corporate securities	191,051	(6,623)	30,224	(5,809)	221,275	(12,432)
Foreign securities	40,897	(2,098)	174	(60)	41,071	(2,158)
Asset-backed securities	148,072	(5,972)	17,833	(924)	165,905	(6,896)
Collateralized Debt Obligations	43,510	(3,207)	–	–	43,510	(3,207)
Mortgage-backed securities	46,671	(2,707)	30,961	(5,432)	77,632	(8,139)
Total fixed maturities	$ 472,547	$ (20,641)	$ 90,496	$ (12,626)	$ 563,043	$ (33,267)

At December 31, 2011, eighty-three fixed-maturity investments with a total unrealized loss of $12,626 had been in an unrealized position for 12 months or more. Substantially all of these securities were trading above 70 percent of book value.

December 31, 2010

	Less than 12 Months		12 Months or More		Total	
	Fair Value	Unrealized Depreciation	Fair Value	Unrealized Depreciation	Fair Value	Unrealized Depreciation
Fixed maturities						
U.S. government and agencies	$ 32,226	$ (3,053)	$ –	$ –	$ 32,226	$ (3,053)
State and political subdivisions	133,291	(5,208)	9,818	(1,702)	143,110	(6,909)
Corporate securities	258,495	(8,583)	79,791	(7,134)	338,285	(15,717)
Foreign securities	17,190	(913)	341	(119)	17,531	(1,031)
Asset-backed securities	35,428	(948)	8,324	(845)	43,752	(1,793)
Collateralized Debt Obligations	8,630	(145)	2,340	(30)	10,970	(175)
Mortgage-backed securities	54,711	(2,381)	59,574	(6,108)	114,285	(8,490)
Total fixed maturities	$ 539,972	$ (21,231)	$ 160,188	$ (15,937)	$ 700,160	$ (37,168)

At December 31, 2010, one hundred and twelve fixed-maturity investments with a total unrealized loss of $15,937 had been in an unrealized position for 12 months or more. Substantially all of these securities were trading above 70 percent of book value.

(Expressed in thousands of U.S. dollars, except warrants and per share amounts)

3. Investments (continued)

Contractual maturities of the Company's fixed maturity securities as of December 31, 2011 are shown below. Actual maturities may differ from contractual maturities because borrowers may have the right to call or prepay obligations with or without call or prepay penalties.

	Amortized Cost	Fair Value
December 31, 2011		
Within one year	$ 22,210	$ 22,669
From one year to five years	444,129	469,628
From six years to ten years	746,271	810,131
More than ten years	1,622,239	1,847,906
Mortgage-backed securities	626,742	696,186
Collateralized Debt Obligations	72,063	70,966
Asset-backed securities	421,208	428,538
Total fixed maturities	$ 3,954,862	$ 4,346,024

Major sources and related amounts of investment earnings are as follows:

	2011	2010	2009
Cash and cash equivalents	**$ 242**	$ 137	$ 1,180
Short-term investments	**182**	58	243
Fixed maturities	**214,270**	182,365	136,961
Policy loans	**15,890**	12,323	12,237
Other invested assets	**2,438**	646	5,179
Total investment income	**233,022**	195,529	155,800
Investment expenses	**(8,472)**	(6,872)	(4,975)
Subtotal investment income	**224,550**	188,657	150,825
Realized gains on investments	**39,018**	41,219	11,337
Realized losses on investments	**(11,371)**	(6,585)	(37,268)
Investment income on funds withheld at interest	**82,836**	95,979	109,878
Realized gains on funds withheld at interest	**15,796**	10,610	14,348
Realized losses on funds withheld at interest	**(14,598)**	(1,278)	(37,366)
Investment earnings	**$ 336,231**	$ 328,602	$ 211,754

(Expressed in thousands of U.S. dollars, except warrants and per share amounts)

3. Investments (continued)

Credit ratings of the Company's fixed maturity securities as of December 31, 2011 and 2010 are shown below. Ratings are assigned by Standard & Poor's Corporation, Moody's Investor's Service or Fitch Ratings.

	Amortized Cost	Fair Value
December 31, 2011		
AAA	**$ 176,593**	**$ 193,954**
AA	**1,361,557**	**1,516,373**
A	**1,245,015**	**1,383,364**
BBB	**976,855**	**1,058,182**
BB	**43,956**	**42,354**
B	**81,642**	**81,655**
CCC or lower	**33,451**	**32,549**
Not rated	**35,793**	**37,593**
Total fixed maturity securities	**$ 3,954,862**	**$ 4,346,024**
December 31, 2010		
AAA	$ 1,001,359	$ 1,055,936
AA	415,456	441,867
A	919,570	967,912
BBB	700,107	748,367
BB	30,224	33,419
B	6,842	6,475
CCC or lower	18,608	18,107
Not rated	605	605
Total fixed maturity securities	$ 3,092,771	$ 3,272,688

The Company's largest five exposures by issuer as of December 31, 2011 were Phoenix Companies, Edison International, Berkshire Hathaway, Inc., Pfizer, and Harbinger Group Inc.; each of which comprised less than 5% of total invested assets.

The Company's largest five exposures by issuer as of December 31, 2010 were Berkshire Hathaway, Inc., Pfizer, MetLife, International Business Machines Corporation and News Corporation; each of which comprised less than 5% of total invested assets.

3. Investments (continued)

Policy loans comprised approximately 2.6% and 2.0% of the Company’s investments as of December 31, 2011 and 2010, respectively. These policy loans present no credit risk because the amount of the loan cannot exceed the obligation due the ceding company upon the death of the insured or surrender of the underlying policy. The provisions of the underlying policies determine the policy loan interest rates. Because policy loans represent premature distributions of policy liabilities, they have the effect of reducing future disintermediation risk. In addition, the Company earns a spread between the interest rate earned on policy loans and the interest rate credited to corresponding liabilities.

At December 31, 2011 and 2010, fixed maturity securities of $28,677 and $25,636, respectively, were held on deposit with various state insurance departments in which WRAC, TLIC, HULC and WRNY are licensed to operate to provide security and to meet regulatory requirements.

4. Funds Withheld at Interest

Funds withheld at interest comprised approximately 28.7% and 36.4% of the Company’s total investments as of December 31, 2011 and 2010, respectively. The risk of loss to the Company due to the insolvency of a ceding company is mitigated by the Company’s contractual right to offset amounts it owes the ceding company for claims or allowances with amounts owed to the Company from the ceding company. Interest generally accrues on these assets based upon the investment earnings on the underlying investments. The Company is subject to the investment performance on the funds withheld assets in a fashion similar to its invested assets.

(Expressed in thousands of U.S. dollars, except warrants and per share amounts)

4. Funds Withheld at Interest (continued)

The amortized cost, fair value and related gross unrealized appreciation and depreciation of the assets supporting the funds withheld at interest as of December 31, 2011 and 2010 are as follows:

	Amortized Cost	Unrealized Appreciation	Unrealized Depreciation	Fair Value
December 31, 2011				
U.S. government and agencies	**$ 79,171**	**$ 8,952**	**$ –**	**$ 88,124**
Municipal, state & political subdivisions	**90,795**	**8,938**	**(84)**	**99,649**
Corporate securities	**946,651**	**82,763**	**(5,876)**	**1,023,538**
Foreign securities	**103,063**	**8,260**	**(49)**	**111,264**
Mortgage and other asset-backed securities	**383,577**	**12,227**	**(6,576)**	**389,228**
Total fixed maturities	**1,603,257**	**121,140**	**(12,585)**	**1,711,803**
Common stock				
Preferred stock	**9,483**	**364**	**(34)**	**9,812**
Short term investments	**71,539**	**–**	**–**	**71,539**
Cash and cash equivalents	**–**	**–**	**–**	**–**
Other invested assets	**1,315**	**–**	**–**	**1,315**
Invested funds held at interest	**$ 1,685,594**	**$ 121,504**	**$ (12,619)**	**$ 1,794,469**
December 31, 2010				
U.S. government and agencies	$ 102,790	$ 4,548	$ –	$ 107,338
Municipal, state & political subdivisions	83,587	113	(2,850)	80,850
Corporate securities	991,012	65,695	(7,627)	1,049,080
Foreign securities	134,480	7,777	(3,103)	139,154
Mortgage and other asset-backed securities	384,342	10,163	(14,414)	380,091
Total fixed maturities	1,696,211	88,296	(27,994)	1,756,513
Common stock	310	1,029	–	1,339
Preferred stock	2,582	203	(61)	2,724
Short term investments	99,304	–	–	99,304
Cash and cash equivalents	37,905	–	–	37,905
Other invested assets	96,009	–	–	96,009
Invested funds held at interest	$ 1,932,321	$ 89,528	$ (28,055)	$ 1,993,794

(Expressed in thousands of U.S. dollars, except warrants and per share amounts)

4. Funds Withheld at Interest (continued)

The unrealized depreciation and fair values by investment category and by duration of the fixed maturity securities in a continuous unrealized loss position of assets supporting funds withheld at interest at December 31, 2011 and 2010 are as follows:

December 31, 2011

	Less than 12 Months		12 Months or More		Total	
	Fair Value	Unrealized Depreciation	Fair Value	Unrealized Depreciation	Fair Value	Unrealized Depreciation
Municipal, state & political subdivisions	**$ 5,643**	**$ (84)**	**$ –**	**$ –**	**$ 5,643**	**$ (84)**
Corporate securities	**124,060**	**(3,790)**	**37,665**	**(2,086)**	**161,725**	**(5,876)**
Foreign securities	**6,591**	**(49)**	**–**	**–**	**6,591**	**(49)**
Mortgage and other asset-backed securities	**47,517**	**(650)**	**71,916**	**(5,925)**	**119,433**	**(6,576)**
Total funds held at interest	**$ 183,810**	**$ (4,573)**	**$ 109,581**	**$ (8,012)**	**$ 293,392**	**$ (12,585)**

At December 31, 2011, thirty-nine fixed-maturity investments with a total unrealized loss of $8,012 had been in an unrealized position for 12 months or more. Of those securities in an unrealized loss 12 months or more, five securities were trading below 70 percent of book value with a total unrealized loss of approximately $690. The remaining securities were trading above 70 percent of book value.

December 31, 2010

	Less than 12 Months		12 Months or More		Total	
	Fair Value	Unrealized Depreciation	Fair Value	Unrealized Depreciation	Fair Value	Unrealized Depreciation
Municipal, state & political subdivisions	$ 68,792	$ (2,850)	$ –	$ –	$ 68,792	$ (2,850)
Corporate securities	76,301	(3,018)	79,730	(4,609)	156,031	(7,627)
Foreign securities	20,425	(1,574)	16,165	(1,529)	36,590	(3,103)
Mortgage and other asset-backed securities	96,761	(3,407)	115,894	(11,007)	212,655	(14,414)
Total funds held at interest	$ 262,279	$ (10,849)	$ 211,789	$ (17,145)	$ 474,068	$ (27,994)

At December 31, 2010, fifty-six fixed-maturity investments with a total unrealized loss of $17,145 had been in an unrealized position for 12 months or more. Of those securities in an unrealized loss 12 months or more, one security was trading below 70 percent of book value with a total unrealized loss of less than $60. The remaining securities were trading above 70 percent of book value.

(Expressed in thousands of U.S. dollars, except warrants and per share amounts)

4. Funds Withheld at Interest (continued)

The contractual maturities of the fixed maturity securities supporting funds withheld at interest as of December 31, 2011 are shown below. Actual maturities may differ from contractual maturities because borrowers may have the right to call or prepay obligations with or without call or prepay penalties.

	Amortized Cost	**Estimated Fair Value**
December 31, 2011		
Within one year	$ 107,417	$ 108,881
From one year to five years	335,427	358,355
From six years to ten years	393,963	431,780
More than ten years	382,863	423,558
	1,219,670	1,322,574
Mortgage and asset-backed	383,577	389,228
Total fixed maturity securities	$ 1,603,247	$ 1,711,802

Credit ratings of the fixed maturities supporting our funds withheld at interest, as provided by our ceding companies, are shown below as of December 31, 2011.

	Amortized Cost	**Estimated Fair Value**
December 31, 2011		
AAA	$ 183,607	$ 187,261
AA	310,158	334,803
A	448,686	488,702
BBB	521,045	564,403
BB	19,905	19,654
B	9,519	9,203
CCC or lower	70,724	66,491
Not Rated	39,603	41,284
Total fixed maturity securities	$ 1,603,247	$ 1,711,802

Also included in funds withheld at interest are amounts due from Protective Life which are on a discounted basis of approximately $15,441 and $10,355 at December 31, 2011 and 2010, respectively. These amounts are not supported by specified assets.

(Expressed in thousands of U.S. dollars, except warrants and per share amounts)

5. Concentration of Credit Risk

As of December 31, 2011 and 2010, substantially all of the Company's cash and cash equivalents were held in three financial institutions that the Company considers to be of high quality.

The Company has significant assumed reinsurance agreements with Protective Life. The amount of the Company's funds withheld at interest related to these agreements was $1,918,540 or 96.5% of the balance as of December 31, 2011, and $1,967,254, or 99.0% of the balance as of December 31, 2010. The Protective insurance companies are rated A+ by A.M. Best at December 31, 2011.

6. Reinsurance

The Company has retrocession agreements that enable it to limit the amount of traditional life reinsurance it retains. The contracts are automatic and effective for risks assumed and inforce subsequent to January 1, 2005 through December 31, 2007 for lives greater than $1,000 and from January 1, 2008 and subsequent for lives greater than $2,000.

The closed blocks of business acquired via stock purchase include risks that were ceded to other reinsurers under various yearly renewable term, coinsurance and modified coinsurance agreements. The closed blocks of business acquired via coinsurance include risks that were ceded to other reinsurers under existing inuring reinsurance agreements (inuring reinsurance). The related per life retentions vary by block of business from $300 to $1,000.

Reinsurance and retrocession treaties do not relieve the Company from its obligations to counterparties. Failure of reinsurers or retrocessionaires to honor their obligations could result in losses to the Company. Consequently, allowances for uncollectible amounts would be established. At December 31, 2011 and 2010, no allowances were deemed necessary.

The effect of reinsurance and retrocessions on net premiums earned is as follows:

	2011	**2010**	**2009**
Direct	**$ 59,864**	$ 57,152	$ 53,916
Reinsurance assumed	**453,463**	337,539	336,562
Reinsurance ceded	**(44,011)**	(43,033)	(35,220)
Net premiums	**$ 469,316**	$ 351,658	$ 355,258

6. Reinsurance (continued)

The effect of reinsurance and retrocessions on net claims and policy benefits is as follows:

	2011	2010	2009
Direct	**$ 209,122**	$ 179,922	$ 126,831
Reinsurance assumed	**392,898**	310,646	289,079
Reinsurance ceded	**(54,060)**	(74,149)	(12,276)
Net claims and policy benefits	**$ 547,960**	$ 416,419	$ 403,633

At December 31, 2011 and 2010, there were no reinsurance ceded or retrocessional receivables associated with a single reinsurer in excess of 5% of total assets.

The effect of reinsurance and retrocessions on life insurance inforce is shown in the following schedule (in millions):

	Direct	Assumed	Ceded	Net	Assumed/ Net %
December 31, 2011	**$ 38,131**	**$ 88,117**	**$ (12,252)**	**$ 113,996**	**77.30%**
December 31, 2010	$ 38,077	$ 61,215	$ (13,078)	$ 86,214	71.00%

Reinsurance assumed in connection with acquiring closed blocks of business via coinsurance is reported net of the effect of existing inuring reinsurance agreements between the ceding company and other reinsurers. The VOBA established in connection with closed blocks of business acquired via coinsurance includes, as an element of the present value of future profits, ceding allowances received from the inuring reinsurance agreements. Failure of the inuring reinsurers to honor their obligations could result in losses to the Company. Consequently, VOBA would be written off to the extent it is deemed not recoverable, or additional reserves for future policy benefits would be recorded.

The VOBA, amount of life insurance inforce and reserves for future policy benefits assumed via coinsurance on acquired closed blocks of business are reported net of the following approximate amounts attributable to inuring reinsurance:

	2011	2010
Value of business acquired	**$ (85,329)**	$ (196,509)
Reserves for future policy benefits	**$ 1,004,150**	$ 842,698
Life insurance inforce	**$ 100,736,460**	$ 88,635,116

(Expressed in thousands of U.S. dollars, except warrants and per share amounts)

6. Reinsurance (continued)

The Company regularly evaluates the financial condition of its reinsurers, retrocessionaires, and inuring reinsurers.

At December 31, 2011 and 2010, approximately 48% of the Company's aggregate exposure to reinsurer-related credit risk (measured based on inforce ceded) is attributable to four groups of reinsurers and retrocessionaires. Taken together, these reinsurers and retrocessionaires have a weighted average AM Best rating as of December 31, 2011 of A+. Also at December 31, 2011 and 2010, approximately 15% of the Company's aggregate exposure related to credit risk (measured based on inforce ceded) is attributable to one reinsurer which was not rated by AM Best but whose NAIC Risk Based Capital ratio is above 500% of company action level.

7. Deferred Acquisition Costs and Value of Business Acquired

The balances and changes in DAC are as follows:

	For the Year Ended December 31		
	2011	**2010**	**2009**
Beginning of year	**$ 182,805**	$ 131,617	$ 83,691
Capitalized:			
Direct	**37,638**	30,418	25,270
Assumed	**29,682**	30,655	53,603
Amortized:			
Direct	**(12,134)**	(1,703)	(5,997)
Assumed	**(12,166)**	(8,182)	(24,950)
End of year	**$ 225,826**	$ 182,805	$ 131,617

The balances and changes in VOBA are as follows:

	For the Year Ended December 31		
	2011	**2010**	**2009**
Beginning of year	**$ 501,865**	$ 588,410	$ 600,316
Purchase accounting refinements	–	2,155	(711)
Acquisitions	**189,709**	–	98,898
Amortization	**(114,578)**	(83,772)	(119,806)
Impact of unlocking	**(1,826)**	(4,928)	9,713
End of year	**$ 575,170**	$ 501,865	$ 588,410

(Expressed in thousands of U.S. dollars, except warrants and per share amounts)

7. Deferred Acquisition Costs and Value of Business Acquired (continued)

The expected amortization of VOBA in the next five years is as follows:

2012	$76,551
2013	$71,568
2014	$57,004
2015	$39,051
2016	$36,917

8. Income Taxes

Under current Bermuda law, the Company and its Bermuda subsidiary are not required to pay taxes in Bermuda on income or realized capital gains. The Company has received an undertaking from the Minister of Finance in Bermuda that, in the event of any taxes being imposed, the Company will be exempt from taxation in Bermuda until March 2016. Wilton Re U.S. Holdings and its subsidiaries are subject to income taxes imposed by U.S. authorities.

At December 31, 2011, the Company had U.S. net operating loss and capital loss carryforwards of approximately $46,840 and $1,231, respectively. Approximately $34,129 of the net operating losses and $113 of the capital loss carryforwards are attributable to the HULC acquisition and cannot be used under Sec. 382 of the Internal Revenue Code. Approximately $9,765 of the $12,711 balance of the net operating loss carryforwards, is limited under Section 382, and will begin to expire in 2015. The Company expects to utilize all of these net operating losses. The balance of the capital loss carryforwards of approximately $1,118 will begin to expire in 2014 and are not limited by Section 382.

Income tax expense attributable to income from continuing operations for the years ended December 31, 2011, 2010 and 2009 are as follows:

	2011	2010	2009
Current tax expense	**$ 41,606**	$ 33,776	$ 12,338
Deferred tax expense	**52,454**	35,747	72,786
	$ 94,060	$ 69,522	$ 85,124

(Expressed in thousands of U.S. dollars, except warrants and per share amounts)

8. Income Taxes (continued)

The income tax expense differs from applying the U.S. federal income tax rate of 35% to income before taxation as a result of the following:

	2011	2010	2009
Computed expected tax expense at 35%	**$ 130,001**	$ 98,271	$ 150,213
Foreign (income) loss not subject to U.S. tax	**(33,608)**	(28,175)	(53,780)
Effect of change in tax valuation allowance	**(602)**	634	(11,363)
Other	**(1,732)**	(1,208)	54
Actual income tax expense	**$ 94,060**	$ 69,522	$ 85,124

The tax effects of temporary differences that give rise to significant portions of the deferred income tax assets and liabilities at December 31, 2011 and 2010 are presented in the following table:

	2011	2010
Deferred income tax assets		
Differences between tax and financial reporting amounts concerning certain reinsurance transactions	**$ 534,593**	$ 252,118
Net operating loss and capital loss	**16,825**	3,346
Nondeductible accruals	**2,871**	2,875
Deferred acquisition costs	**136,447**	–
Organizational costs	**380**	419
Employee benefits-stock options	**4,137**	2,602
Other	**10,358**	13,013
Total deferred tax assets	**705,611**	274,372
Deferred income tax liabilities		
Reserves for future policy benefits	**(694,655)**	(266,208)
Deferred acquisition costs	–	(33,842)
Investments	**(97,597)**	(21,441)
Total deferred tax liabilities	**(792,252)**	(321,491)
Valuation allowance	**(12,730)**	(1,319)
Net deferred tax (liability)/asset	**$ (99,370)**	$ (48,437)

8. Income Taxes (continued)

Deferred income taxes reflect the tax impact of temporary differences between the carrying amount of assets and liabilities for financial reporting purposes and those for income tax purposes. The Company utilizes valuation allowances when it believes that it is more likely than not that the deferred income taxes will not be realized. At December 31, 2011, a valuation of $11,987 was recorded against the Heritage Union companies' acquired net operation losses and capital loss carryforwards. The Company believes most of its remaining deferred tax assets related to operations will be recognized against future anticipated taxable income.

Wilton Re Holdings and its Bermuda subsidiary operate in a manner so that it should be treated as not being engaged in a U.S. trade or business or otherwise subject to U.S. tax (other than U.S. excise tax on insurance and reinsurance premium income attributable to insuring or reinsuring U.S. risks and U.S. withholding tax on some types of U.S. source investment income). However, because definitive identification of activities which constitute being engaged in a trade or business in the U.S. is not provided by the Internal Revenue Code of 1986, regulations or court decisions, there can be no assurance that the Internal Revenue Service will not contend that the Company or its non-U.S. subsidiary is engaged in a U.S. trade or business or otherwise subject to taxation. If the Company or its non-U.S. subsidiary were considered to be engaged in a trade or business in the U.S., the Company or its non-U.S. subsidiary could be subject to the U.S. tax at regular corporate tax rates on its taxable income, if any, that is effectively connected with the U.S. trade or business plus an additional 30% branch profits tax on such income remaining, if any, after regular corporate taxes, in which case, there could be a significant adverse effect on the Company's results of operations and its financial condition.

The Company is subject to a 30% withholding tax on certain dividends and interest received from Wilton Re US Holdings. Any distributions in a current year will be subject to 30% withholding tax to the extent there is current taxable income in such current year. There were none in 2011, 2010 and 2009.

The Company's U.S. subsidiaries' federal income tax returns for tax years 2008-2010 are open and subject to examination by the Internal Revenue Service.

As of December 31, 2011 and 2010, the Company had no unrecognized tax benefits.

9. Statutory Requirements and Dividend Restrictions

The Company's reinsurance subsidiaries are subject to insurance laws and regulations in the jurisdictions in which they operate, which are Bermuda and certain of the United States. These regulations include restrictions that limit the amount of dividends or other distributions available to shareholders without prior approval of the insurance regulatory authorities.

9. Statutory Requirements and Dividend Restrictions (continued)

As a long-term insurer, Wilton Re Bermuda must maintain long-term business assets of a value of at least $250 greater than its long-term business liabilities, in accordance with Bermuda regulations. Wilton Re Bermuda is prohibited from declaring or paying dividends unless the values of its long-term business assets exceed the amount of its long-term business liabilities (as certified by the approved actuary) by the amount of the dividend and by at least $250. Additionally, the amounts of any such dividend must not exceed the aggregate of those excess and other available funds for the payment of dividends, including funds arising out of its business aside from long-term business. Prior approval from the Bermuda Monetary Authority must be granted for all dividends declared in excess of 15% of statutory capital.

WRAC, WRNY, TLIC, and HULC file financial statements prepared in accordance with statutory accounting practices prescribed or permitted by insurance regulators in the United States. The National Association of Insurance Commissioners (NAIC) prescribes risk-based capital (RBC) requirements for the United States domiciled life and health insurance companies. As of December 31, 2011 and 2010, WRAC, WRNY, TLIC, HULC and Redding Re exceeded all minimum RBC requirements. WRAC and HULC is subject to statutory regulations of the State of Minnesota. Under these regulations, the maximum amount of dividends which can be paid by a company to shareholders in any twelve month period without prior approval of the Minnesota Department of Commerce is restricted to the greater of 10% of surplus or net income less realized gains of the preceding year. In addition, any dividends must be paid from positive unassigned surplus. WRAC and HULC cannot pay any dividends in 2012 without prior regulatory approval. WRNY is subject to statutory regulations of the state of New York. Under these regulations, the maximum amount of dividends which can be paid by a company to shareholders in any twelve month period without prior approval of the New York Department of Insurance is restricted to the lesser of 10% of equity or net income less realized gains of the preceding year. WRNY cannot pay dividends in 2012 without prior regulatory approval. TLIC is subject to statutory regulations of the state of Texas. Under these regulations, the maximum amount of dividends which can be paid by a company to shareholders in any twelve month period without prior approval of the Texas Department of Insurance is restricted to the prior year net gains from operations after federal income tax and before capital gains and losses or 10% of statutory capital and surplus. TLIC can pay dividends of $27,896 in 2012 without prior regulatory approval.

(Expressed in thousands of U.S. dollars, except warrants and per share amounts)

9. Statutory Requirements and Dividend Restrictions (continued)

The following table presents statutory capital and surplus for Wilton Re Bermuda, WRAC, WRNY, TLIC, and HULC as of December 31:

	2011	2010
	(unaudited)	
Wilton Reinsurance Bermuda Limited	**$ 343,145**	$ 407,028
Wilton Reassurance Company	**328,863**	328,062
Wilton Reassurance Life Co. of New York	**87,019**	98,651
Texas Life Insurance Company	**52,318**	53,066
Heritage Union Life Insurance Company	**8,219**	

The following table presents statutory net income (loss) of WRAC, Wilton Re Bermuda, WRNY, TLIC, and HULC as of December 31:

	2011	2010	2009
	(unaudited)		
Wilton Reinsurance Bermuda Limited	**$ 77,120**	$ 79,237	$ 179,962
Wilton Reassurance Company	**(5,633)**	43,750	1,636
Wilton Reassurance Life Co of New York	**(653)**	9,608	28,017
Texas Life Insurance Company	**27,613**	14,421	16,211
Heritage Union Life Insurance	**(1,263)**		

10. Shareholders' Equity

Authorized Shares

The authorized ordinary shares of the Company consists of 50,000 voting Class A common shares, par value $1.00 per share and 3,000 non-voting Class B common shares, par value $1.00 per share as of December 31, 2011 and 2010. Upon incorporation, the Company issued 32,000 Class A common shares at $25 per share for a total of $800.

On December 7, 2009, the Company, through a privately negotiated transaction at $57.50 per Class A common share, received $128,105 for 2,227 shares. The Company incurred $4,593 of expenses in relation to the equity raise which reduced the gross proceeds.

10. Shareholders' Equity (continued)

On April 16, 2010, the Company, through a privately negotiated transaction at $57.50 per Class A common share, received $115,000 for 2,000 shares. The Company incurred $3,422 of expenses in relation to the equity raise which reduced the gross proceeds.

Founders Warrants

At the date of incorporation, the Company issued to certain persons, in connection with the stock issuances, warrants to purchase up to 8% of the aggregate number of the applicable class of outstanding common shares. The warrants are exercisable at $50.00 per share. The warrants were immediately and fully exercisable at the time of issuance and remain exercisable for a period of 10 years. As of December 31, 2004, the Company had issued 2,560 warrants with a fair value of $11.14. No new warrants have been issued since 2004 and none have been exercised as of December 31, 2011.

Equity Based Compensation

The Company has granted to certain of its employees and officers, options to purchase approximately 4.9% of the aggregate number of outstanding common shares. The options are exercisable price of at $50.00 to $57.50 per share. The options will become exercisable based upon vesting schedules over 7 years and remain exercisable for not less than 10 years. As of December 31, 2011 and 2010, there were 1,156 and 1,281 options outstanding. No options have been exercised. During 2011 and 2010, 125 and 19 options were forfeited, respectively. Equity based compensation expense of $3,194, $5,875, and $5,486 related to the granting of the options was recognized in 2011, 2010, and 2009, respectively. The weighted average contractual life for all grants is 3.1 years. Options vested as of December 31, 2011 and 2010 were 943 and 973, respectively. Option awards provide for accelerated vesting if there is a change in control (as defined in the Option Plan).

The Black-Scholes model was used to determine the fair value of stock options granted and recognized in the financial statements. The Company used daily historical volatility of several competitors with whom the Company believes would represent a similar volatility if its stock was publicly traded. The risk free rate is based on observed interest rates for instruments with maturities similar to the expected term of the options. There were no options granted during 2011. The per share weighted-average fair value of stock options granted during 2010 was $18.32 on the date of grant using the Black-Scholes option pricing model with the following weighted average assumptions: expected dividend yield of 0%, risk free interest rate of 3.5%, expected life of 6.0 years and an expected rate of volatility of the stock of 24.4% over the expected life of the options.

11. Commitments and Contingencies

Liquidity Facilities

The Company obtains letters of credit for the benefit of various affiliated and unaffiliated insurance companies from which the Company assumes business. These letters of credit represent guarantees of performance under the reinsurance agreements and allow ceding companies to take statutory reserve credits. In June 2009, the Wachovia Revolver/LOC Facility was replaced with a $65,000, 364 day letter of credit facility. In September 2010, the Wells Fargo Facility was replaced with a $190,000, two year Revolver/LOC facility (the Wells Fargo Facility) expiring September 2012. The facility includes a $95,000 revolving line of credit sublimit. The Wells Fargo Facility contains financial covenant restrictions that require the Company not to exceed a consolidated leverage ratio of greater than 0.25 to 1.00, and maintain a minimum consolidated tangible net worth. LOCs issued under the Wells Fargo facility may be collateralized by either a pledge of common stock of Wilton Re US Holdings and Wilton Re Bermuda, or qualifying cash and securities (liquid collateral). At December 31, 2011 and 2010, there were approximately $64,370 and $58,630, respectively, of outstanding bank letters of credit issued under the respective facilities and no amounts borrowed under the line of credit.

In November 2010, WRAC became a member of the Federal Home Loan Bank of Des Moines ("FHLBDM"). As a member of the FHLBDM, WRAC can access letters of credit, lines of credit or any combination thereof on a fully collateralized basis. At December 31, 2011, there are no outstanding letters of credit or amounts borrowed under the FHLBDM. WRAC had eligible collateral sufficient to support approximately $80,000 of LOCs/advances at December 31, 2011.

Legal Proceedings

In the normal course of our business, the Company is involved in litigation, principally from claims made under insurance policies and contracts. The ultimate disposition of such litigation is not expected to have a material adverse effect on the Company's financial condition, liquidity or results of operations.

12. Fair Value

The Company determines the fair value of its financial instruments based on the fair value hierarchy which requires an entity to maximize the use of observable inputs and minimize the use of unobservable inputs when measuring fair value.

(Expressed in thousands of U.S. dollars, except warrants and per share amounts)

12. Fair Value (continued)

The following table presents the carrying amounts and fair values of the Company's financial instruments at December 31, 2011 and 2010:

	2011		2010	
	Carrying Value	**Estimated Fair Value**	**Carrying Value**	**Estimated Fair Value**
Assets:				
Investments	**$ 4,430,953**	**$ 4,430,953**	$ 3,308,587	$ 3,308,587
Policy loans	**182,559**	**182,559**	109,434	109,434
Funds withheld at interest	**1,988,112**	**1,988,112**	1,996,399	1,996,399
Short-term investments	**197,216**	**197,216**	59,454	59,454
Other invested assets	**138,889**	**138,889**	4,569	4,569
Liabilities:				
Annuities-deferred and without life contingencies	**1,700,351**	**1,829,442**	1,768,137	1,827,286
Funds held under reinsurance treaties	**64,698**	**64,698**	64,361	64,361

The valuation methodologies used to determine the fair values of assets and liabilities reflect market-participant assumptions and prioritize observable market inputs over unobservable inputs. The Company determines the fair values of certain financial assets and financial liabilities based on quoted market prices, where available. The Company also determines certain fair values based on future cash flows discounted at the appropriate current market rate. Fair values reflect adjustments for counterparty credit quality, the Company's credit standing, liquidity and, where appropriate, risk margins. The following is a discussion of the methodologies used to determine fair values for the financial instruments as listed in the above table.

Publicly traded fixed maturity securities, included in Investments and Funds withheld at interest are valued based on quoted market prices. Private placement securities, included in Investments and Funds withheld at interest are valued based on the credit quality and duration of marketable securities deemed comparable by the Company's investment advisor, which may be of another issuer. Policy loans typically carry an interest rate that is tied to the crediting rate applied to the related policy, and contract reserves, which approximates fair value. The fair value of embedded derivatives associated with funds withheld reinsurance treaties is determined based upon a total return swap methodology with reference to the fair value of the investments held by the ceding company that support the Company's funds withheld at interest asset. The fair value of the underlying assets is generally based on market observable inputs using market valuation methodologies. The carrying value of short-term investments approximates fair value and is valued based on quoted market prices. The fair value of the Company's deferred fixed annuities without life contingencies are based on discounted cash flows.

12. Fair Value (continued)

The use of different methodologies, assumptions and inputs may have a material effect on the estimated fair values of the Company's investment holdings.

The Company has categorized its assets and liabilities recorded at fair value, based on the priority of the inputs to the valuation technique, into a three level hierarchy. The fair value hierarchy gives the highest priority to quoted prices in active markets for identical assets or liabilities (Level 1) and the lowest priority to unobservable inputs (Level 3). If the inputs used to measure fair value fall within different levels of the hierarchy, the category level is based on the lowest priority level input that is significant to the fair value measurement of the instrument.

Financial assets and liabilities recorded at fair value on the Consolidated Balance Sheets are categorized as follows:

Level 1: Unadjusted quoted prices for identical assets or liabilities in an active market. The types of financial investments included in Level 1 are listed equities, mutual funds, money market funds, U.S. Treasury Securities and non-interest bearing cash.

Level 2: Pricing inputs other than quoted prices in active markets which are either directly or indirectly observable as of the reporting date, and fair value determined through the use of models or other valuation methods. Such inputs may include benchmarking prices for similar assets in active, liquid markets, quoted prices in markets that are not active and observable yields and spreads in the market. Level 2 valuations may be obtained from independent sources for identical or comparable assets or through the use of valuation methodologies using observable market-corroborated inputs. Prices from services are validated through analytical reviews. Financial instruments in this category include publicly traded issues such as US and foreign corporate securities, and residential and commercial mortgage backed securities, among others.

Level 3: Prices or valuation techniques that require inputs that are both unobservable and significant to the overall fair value measurement. They reflect management's own assumptions about the assumptions a market participant would use in pricing the asset or liability. Market standard techniques for determining the estimated fair value of certain securities that trade infrequently, and therefore have little transparency, may rely on inputs that are not observable in the market or cannot be derived from or corroborated by market observable data. Prices are determined using valuation methodologies such as discounted cash flow models and other techniques. Management believes these inputs are consistent with what other market participants would use when pricing similar assets. The types of financial investments included in Level 3 primarily include private placements and certain asset-backed and mortgage-backed securities.

(Expressed in thousands of U.S. dollars, except warrants and per share amounts)

12. Fair Value (continued)

Assets and liabilities measured at fair value on a recurring basis are summarized below.

	December 31, 2011			
		Fair Value Measurements Using:		
	Total	**Level 1**	**Level 2**	**Level 3**
Assets				
Investments:				
U.S. government and agencies	**$ 417,206**	**$ 273,044**	**$ 144,162**	**$ –**
State and political subdivisions	**452,331**	**–**	**451,618**	**713**
Corporate securities	**2,048,643**	**–**	**1,999,086**	**49,557**
Foreign securities	**232,155**	**–**	**228,552**	**3,603**
Asset-backed securities	**428,532**	**–**	**405,554**	**22,978**
Collateralized debt obligations	**70,966**	**–**	**64,705**	**6,261**
Mortgage-backed securities	**696,193**	**–**	**696,050**	**143**
Total fixed maturity securities	**4,346,026**	**273,044**	**3,989,727**	**83,255**
Common stocks	**8,947**	**8,947**	**–**	**–**
Preferred stocks	**75,982**	**–**	**50,343**	**25,639**
Other invested assets	**138,889**	**–**	**51,715**	**87,174**
Total investments	**4,569,844**	**281,991**	**4,091,785**	**196,068**
Funds withheld at interest:				
Government and agencies	**88,124**	**87,868**	**256**	**–**
State and political subdivisions	**99,649**	**–**	**99,649**	**–**
Corporate securities	**1,023,538**	**–**	**1,023,538**	**–**
Foreign securities	**111,264**	**–**	**111,264**	**–**
Mortgage and asset backed securities	**389,228**	**–**	**389,228**	**–**
Total fixed maturity securities	**1,711,803**	**87,868**	**1,623,935**	**–**
Common stocks	**–**	**–**	**–**	**–**
Preferred stocks	**9,812**		**9,812**	**–**
Total funds withheld at interest	**1,721,615**	**87,868**	**1,633,747**	**–**
Total assets	**$ 6,291,459**	**$ 369,859**	**$ 5,725,532**	**$ 196,068**

(Expressed in thousands of U.S. dollars, except warrants and per share amounts)

12. Fair Value (continued)

	December 31, 2010			
		Fair Value Measurements Using:		
	Total	Level 1	Level 2	Level 3
Assets				
Investments:				
U.S. government and agencies	$ 388,975	$ 271,324	$ 117,651	$ –
State and political subdivisions	254,192	–	253,257	935
Corporate securities	1,503,574	–	1,441,153	62,421
Foreign securities	163,411	–	159,827	3,584
Asset-backed securities	246,816	–	217,885	28,931
Collateralized debt obligations	40,462	–	26,901	13,561
Mortgage-backed securities	675,257	–	671,022	4,235
Total fixed maturity securities	3,272,688	271,324	2,887,696	113,667
Common stocks	1,772	–	1,772	–
Preferred stocks	34,127	22,247	11,879	–
Other invested assets	4,569	–	1119	3,450
Total investments	3,313,155	293,571	2,902,466	117,117
Funds withheld at interest:				
Government and agencies	107,338	104,066	3,272	–
State and political subdivisions	80,850	–	80,850	–
Corporate securities	1,049,080	–	1,049,080	–
Foreign securities	139,154	–	139,154	–
Mortgage and asset backed securities	380,091	–	380,091	–
Total fixed maturity securities	1,756,513	104,066	1,652,447	–
Common stocks	1,339	–	1,339	–
Preferred stocks	2,724	1,652	1,072	–
Total funds withheld at interest	1,760,576	105,718	1,654,858	–
Total assets	$ 5,073,731	$ 399,289	$ 4,557,324	$ 117,117

The tables below reconcile the fair value of all Level 3 financial instruments for the years ended December 31, 2011 and December 31, 2010.

The Company reviews the fair value hierarchy classifications each reporting period. Changes in the observability of the valuation attributes may result in a reclassification of certain financial assets. Such reclassifications are reported as transfers in and out of Level 3, or between other levels, at the ending fair value for the reporting period in which the changes occur. There were no significant transfers between Level 1 and Level 2 for the years ended December 31, 2011 and 2010. The transfers into Level 3 primarily result from securities where a lack of observable market data (versus the previous year) resulted in reclassifying assets into Level 3. The transfers out of Level 3 primarily result from observable market data becoming available for that asset, thus eliminating the need to extrapolate market data beyond observable points.

(Expressed in thousands of U.S. dollars, except warrants and per share amounts)

12. Fair Value (continued)

	December 31, 2011								
	State and Political Subdivisions	**Corporate Securities**	**Foreign Securities**	**Asset-backed Securities**	**Collateralized Debt Obligations**	**Mortgage-backed Securities**	**Preferred Stocks**	**Other Invested Assets**	**Total Invested Assets**
Beginning balance, January 1	**$ 935**	**$ 62,422**	**$ 3,584**	**$ 28,931**	**$ 13,561**	**$ 4,235**	**$ –**	**$ 3,450**	**$ 117,118**
Total realized/unrealized gains (losses) included in earnings, net:									
Net investment income	**23**	**31**	**2**	**1,473**	**1,349**	**231**	**–**	**–**	**3,109**
Net investment gains (losses)	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**(719)**	**(719)**
Net unrealized appreciation (depreciation)	**(60)**	**2,540**	**327**	**(2,879)**	**(932)**	**113**	**–**	**(4,323)**	**(5,214)**
Purchases/acquisitions	**–**	**7,400**	**–**	**31,845**	**7,413**	**–**	**25,639**	**109,848**	**182,145**
Sales/disposals	**(186)**	**(5,682)**	**–**	**(5,376)**	**(7,126)**	**(706)**	**–**	**(21,082)**	**(40,158)**
Transfers into Level 3	**–**	**9,337**	**–**	**2,051**	**400**	**108**	**–**	**–**	**11,896**
Transfers out of Level 3	**–**	**(26,491)**	**(310)**	**(33,068)**	**(8,403)**	**(3,837)**	**–**	**–**	**(72,109)**
Ending balance, December 31	**$ 712**	**$ 49,557**	**$ 3,603**	**$ 22,977**	**$ 6,262**	**$ 144**	**$ 25,639**	**$ 87,174**	**$ 196,068**
Total gains (losses) related to assets still held at the reporting date included in earnings:									
Net investment income	**$ 23**	**$ (125)**	**$ –**	**$ 688**	**$ 230**	**$ 2**	**$ –**	**$ –**	**$ 818**
Net investment gains (losses)	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**(719)**	**(719)**
Net unrealized appreciation (depreciation)	**(60)**	**2,580**	**327**	**(1,277)**	**(390)**	**(8)**	**–**	**(4,323)**	**(3,151)**

	December 31, 2010								
	State and Political Subdivisions	**Corporate Securities**	**Foreign Securities**	**Asset-backed Securities**	**Collateralized Debt Obligations**	**Mortgage-backed Securities**	**Preferred Stocks**	**Other Invested Assets**	**Total Invested Assets**
Beginning balance, January 1	$ 1,147	$ 56,181	$ 3,534	$ 6,696	$ –	$ 6,254	$ 700	$ 2,747	$ 77,259
Total realized/unrealized gains (losses) included in earnings, net:									
Net investment income	26	74	–	514	1,014	157	–	–	1,784
Net investment gains (losses)	–	728	10	49	–	(144)	6	(609)	40
Net unrealized appreciation (depreciation)	(65)	2,094	97	1,080	582	432	–	295	4,515
Purchases/acquisitions	–	9,470	640	28,401	11,283	4,105	–	1,694	55,594
Sales/disposals	(172)	(19,826)	(664)	(4,899)	6,939	(1,598)	(706)	(676)	(21,602)
Transfers into Level 3	–	25,186	308	1,415	–	–	–	–	26,910
Transfers out of Level 3	–	(11,486)	(341)	(4,325)	(6,258)	(4,971)	–	–	(27,380)
Ending balance, December 31	$ 935	$ 62,422	$ 3,584	$ 28,931	$ 13,561	$ 4,235	$	$ 3,450	$ 117,119
Total gains (losses) related to assets still held at the reporting date included in earnings:									
Net investment income	$ 26	$ (28)	$ 2	$ 557	$ 852	$ 133	$ –	$ –	$ 1,542
Net investment gains (losses)	–	49	–	–	–	–	–	(609)	(560)
Net unrealized appreciation (depreciation)	(65)	2,584	77	699	318	52	–	295	3,961

13. Subsequent Event

On February 28, 2012, Wilton Re Holdings Limited (the “Company”) repurchased 5,655 shares of the Company’s Class A common shares, par value $1.00 per share (the “Class A Common Shares”) held by a certain investor at a fixed cash price of $69.00 per share for a contraction of the Company’s total capital of approximately $390 million.

Report of Management on Wilton Re Holdings Limited and Subsidiaries' Internal Control Over Financial Reporting

Management of Wilton Re Holdings Limited and Subsidiaries (the Company) is responsible for establishing and maintaining effective internal controls over financial reporting. Internal controls are designed to provide reasonable assurance to the Company's management, Board of Directors and Investors regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with U.S. generally accepted accounting principles.

Because of inherent limitations in any internal control, no matter how well designed, misstatements due to error or fraud may occur and not be detected, including the possible circumvention or override of controls. Accordingly, even an effective internal control system can provide only reasonable assurance with respect to financial statement preparation. Further, because of changes in conditions, internal control effectiveness may vary over time.

Management assessed the Company's internal control as of December 31, 2011 based on criteria for effective internal control over financial reporting described in "Internal Control—Integrated Framework" issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO). Management concluded that the Company's internal control over financial reporting is effective as of December 31, 2011 in providing reasonable assurance regarding the reliability of financial reporting in accordance with generally accepted accounting principles. Ernst & Young LLP, our independent registered public accounting firm, have issued an audit report on the effectiveness of the Company's internal control over financial reporting.

Chris C. Stroup	Michael E. Fleitz
Chairman and Chief Executive Officer	Senior Vice President and Chief Financial Officer
Wilton Re Holdings Ltd.	Wilton Re Services Inc.

March 12, 2012

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Report of Independent Registered Public Accounting Firm

The Board of Directors
Wilton Re Holdings Limited and Subsidiaries

We have audited Wilton Re Holdings Limited and Subsidiaries' (the Company) internal control over financial reporting as of December 31, 2011, based on criteria established in Internal Control—Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission (the COSO criteria). The Company's management is responsible for maintaining effective internal control over financial reporting, and for its assessment of the effectiveness of internal control over financial reporting included in the accompanying Report of Management on the Company's Internal Control over Financial Reporting. Our responsibility is to express an opinion on the company's internal control over financial reporting based on our audit.

We conducted our audit in accordance with generally accepted auditing standards as established by the Auditing Standards Board (United States) and in accordance with the auditing standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether effective internal control over financial reporting was maintained in all material respects. Our audit included obtaining an understanding of internal control over financial reporting, assessing the risk that a material weakness exists, testing and evaluating the design and operating effectiveness of internal control based on the assessed risk, and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion.

A company's internal control over financial reporting is a process designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles. A company's internal control over financial reporting includes those policies and procedures that (1) pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of the assets of the company; (2) provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with generally accepted accounting principles, and that receipts and expenditures of the company are being made only in accordance with authorizations of management and directors of the company; and (3) provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use or disposition of the company's assets that could have a material effect on the financial statements.

Because of its inherent limitations, internal control over financial reporting may not prevent or detect misstatements. Also, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

In our opinion, the Company maintained, in all material respects, effective internal control over financial reporting as of December 31, 2011, based on the COSO criteria.

We also have audited, in accordance with the attestation standards established by the American Institute of Certified Public Accountants and in accordance with the standards of the Public Company Accounting Oversight Board (United States), the consolidated balance sheets of the Company as of December 31, 2011 and 2010, and the related consolidated statement of income, shareholders' equity and cash flows for each of the three years in the period ended December 31, 2011, of the Company and our report dated March 12, 2012 expressed an unqualified opinion thereon.

Ernst + Young LLP

March 12, 2012

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