Audited Consolidated Financial Statements

Wilton Re Holdings Limited and Subsidiaries
Years Ended December 31, 2012, 2011 and 2010
With Report of Independent Registered Public Accounting Firm

Ernst & Young LLP

ERNST & YOUNG

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Years Ended December 31, 2012, 2011 and 2010

Contents

Ernst & Young LLP
200 Clarendon Street
Boston, MA 02116

Tel: +1 617 266 2000
Fax: +1 617 266 5843
www.ey.com

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, 2012 and 2011, and the related consolidated statements of comprehensive income, changes in shareholders' equity, and cash flows for each of the three years in the period ended December 31, 2012. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with auditing standards generally accepted in the United States 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, 2012 and 2011, and the consolidated results of their operations and their cash flows for each of the three years in the period ended December 31, 2012, in conformity with U.S. generally accepted accounting principles.

We also have audited, in accordance with auditing standards generally accepted in the United States and in accordance with the auditing standards of the Public Company Accounting Oversight Board (United States), the Company's internal control over financial reporting as of December 31, 2012, 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 13, 2013 expressed an unqualified opinion thereon.

Ernst & Young LLP

March 13, 2013

Wilton Re Holdings Limited and Subsidiaries

Consolidated Balance Sheets

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

	December 31 2012	December 31 2011
Assets		
Investments	**$ 4,647,787**	$ 4,430,953
Short term investments	**42,290**	197,216
Policy loans	**182,658**	182,559
Funds withheld at interest	**1,957,035**	1,988,112
Other invested assets	**283,454**	138,889
Total investments	**7,113,224**	6,937,729
Cash and cash equivalents	**179,634**	299,323
Accrued investment income	**47,410**	46,756
Premiums receivable	**116,914**	99,409
Reinsurance recoverable	**263,623**	264,796
Deferred acquisition costs	**270,557**	225,826
Value of in-force business acquired	**470,785**	575,170
Other assets	**23,684**	13,197
Total assets	**$ 8,485,831**	$ 8,462,206
Liabilities		
Reserves for future policy benefits	**$ 1,882,561**	$ 1,827,913
Interest sensitive contract liabilities	**4,597,137**	4,571,242
Other reinsurance liabilities	**26,244**	19,713
Funds held under reinsurance treaties	**62,771**	64,698
Accounts payable and accrued expenses	**60,612**	55,122
Short term debt	**210,000**	–
Deferred income taxes, net	**106,162**	99,371
Total liabilities	**6,945,487**	6,638,059
Shareholders' equity		
Class A common shares: ($1.00 par value; 50,000 shares authorized, 16,107 issued and outstanding at December 31, 2012; 50,000 shares authorized, 22,551 issued and outstanding at December 31, 2011)	**16,107**	22,551
Class B common shares: ($1.00 par value; 3,000 shares authorized; 0 issued and outstanding at December 31, 2012 and 2011)	**–**	–
Additional paid in-capital	**718,083**	1,166,967
Stock warrants	**29**	29
Retained earnings and accumulated other comprehensive income	**806,125**	634,600
Total shareholders' equity	**1,540,344**	1,824,147
Total liabilities and shareholders' equity	**$ 8,485,831**	$ 8,462,206

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

Wilton Re Holdings Limited and Subsidiaries

Consolidated Statements of Comprehensive Income

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

	Year Ended December 31		
	2012	**2011**	**2010**
Revenues			
Net premiums	**$ 501,744**	$ 469,316	$ 351,658
Policy fees and charges	**270,120**	236,099	178,632
Inuring third party reinsurance commissions	**45,305**	37,682	38,281
Investment earnings	**403,100**	336,231	328,602
Net unrealized appreciation on investments classified as trading and other	**159,617**	220,000	125,411
Change in value of derivatives and embedded derivatives, net	**65,045**	40,289	41,572
Total revenues	**1,444,931**	1,339,617	1,064,156
Expenses			
Claims and policy benefits, net of reinsurance ceded	**587,558**	547,960	416,419
Interest credited to interest sensitive contract liabilities	**167,191**	154,633	134,301
Acquisition costs and other insurance expenses	**213,010**	182,658	140,648
Operating expenses	**83,469**	81,955	85,340
Due diligence, transition and conversion costs	**2,187**	978	6,675
Interest expense	**150**	–	–
Total benefits and expenses	**1,053,565**	968,184	783,383
Net income and comprehensive income before income taxes	**391,366**	371,433	280,773
Income tax expense	**84,901**	94,060	69,522
Net income and comprehensive income	**$ 306,465**	$ 277,373	$ 211,251

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		
	2012	**2011**	**2010**
Common shares			
Balance at beginning of year	**$ 22,551**	$ 22,549	$ 20,547
Common shares repurchased during year	**(6,456)**	–	–
Common shares issued during year	**12**	2	2,002
Balance at end of year	**16,107**	22,551	22,549
Additional paid-in capital			
Balance at beginning of year	**1,166,967**	1,163,661	1,049,208
Common shares repurchased during year, net of costs	**(450,530)**	–	–
Common shares issued during year, net of offering costs	**849**	27	109,578
Stock based compensation	**797**	3,279	4,875
Balance at end of year	**718,083**	1,166,967	1,163,661
Stock warrants			
Balance at beginning of year	**29**	29	29
Warrants issued during year	**–**	–	–
Balance at end of year	**29**	29	29
Retained earnings			
Balance at beginning of year	**634,600**	357,227	145,976
Net income and comprehensive income	**306,465**	277,373	211,251
Dividends	**(132,886)**	–	–
Change in accounting for deferred acquisition costs, net of tax	**(2,054)**	–	–
Balance at end of year	**806,125**	634,600	357,227
Total shareholders' equity	**$ 1,540,344**	$ 1,824,147	$ 1,543,466

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		
	2012	**2011**	**2010**
Cash flows from operating activities			
Net income and comprehensive income	**$ 306,465**	$ 277,373	$ 211,251
Adjustments to reconcile net income and comprehensive income to net cash from operating activities:			
Proceeds from sales of investments	**884,511**	787,849	867,297
Proceeds from maturities of investments	**171,425**	168,179	–
Purchases of investments	**(1,181,687)**	(1,950,137)	(1,115,750)
Accretion and amortization of discounts and premiums on securities, net	**(21,889)**	(21,928)	(19,657)
Net realized (gains)/losses on investments	**(47,860)**	(27,642)	(35,242)
Net unrealized (gains) on investments	**(165,988)**	(212,832)	(124,797)
Mark to market on embedded derivative	**(54,908)**	(47,412)	(41,572)
Accretion and amortization of deferred acquisition costs	**32,414**	24,299	9,885
Accretion and amortization of value of business acquired	**125,961**	116,404	88,699
Interest credited to interest sensitive contracts	**167,191**	154,632	134,301
Non-cash equity compensation expense	**797**	3,281	4,875
Change in assets and liabilities:			
Accrued investment income	**(654)**	(14,684)	(3,906)
Deferred income taxes	**6,791**	50,934	35,856
Premiums receivable	**(17,505)**	(60,420)	144,554
Reinsurance recoverables	**1,173**	12,457	(206,548)
Funds withheld at interest	**85,985**	55,699	57,892
Deferred acquisition costs	**(79,199)**	(67,320)	(61,073)
Value of in-force business acquired	**(21,576)**	(189,709)	(2,155)
Other assets	**(10,487)**	(26)	4,023
Reserves for future policy benefits	**54,648**	426,537	(44,021)
Funds held under reinsurance treaties	**(1,927)**	337	48,954
Other reinsurance liabilities	**6,531**	(3,897)	(50,083)
Accounts payable and accrued expenses	**5,491**	6,099	(6,477)
Net cash flows from operating activities	**245,703**	(511,927)	(103,694)
Cash flows from investing activities			
Net purchases, sales and maturities of short term investments	**155,014**	(137,936)	25,423
Change in policy loans	**(99)**	(73,125)	26,889
Net cash flows from investing activities	**154,915**	(211,061)	52,312

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		
	2012	**2011**	**2010**
Cash flows from financing activities			
Proceeds from issuance of common shares	**$ 861**	$ –	$ 111,580
Payment due to repurchase of common shares	**(456,986)**	–	–
Proceeds from short-term debt	**210,000**	–	–
Dividends paid	**(132,886)**	–	–
Proceeds from interest sensitive contracts	**508,786**	1,405,545	426,980
Redemption and benefit payments on interest sensitive contracts	**(650,082)**	(570,570)	(494,096)
Net cash flows from financing activities	**(520,307)**	834,975	44,464
(Decrease)/increase in cash and cash equivalents	**(119,689)**	111,987	(6,918)
Cash and cash equivalents at the beginning of the period	**299,323**	187,336	194,254
Cash and cash equivalents at the end of the period	**$ 179,634**	$ 299,323	$ 187,336

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

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

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 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 Investment Earnings

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 comprehensive income. 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.

The Company's investment in life settlement policies are accounted for under the investment method and are carried at the initial investment purchase price plus all direct external costs. The Company does not recognize earnings until the insured dies, at which time the Company recognizes in earnings the difference between the carrying amount of the life settlement policy and the life insurance proceeds of the underlying policy.

2. Summary of Significant Accounting Policies (continued)

b) Investments and Net Investment Income (continued)

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

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 comprehensive income. At December 31, 2012 and 2011, the fair value of these embedded derivatives included in the funds withheld at interest was $163,792 and $108,885, respectively.

2. Summary of Significant Accounting Policies (continued)

g) Derivative Financial Instruments

The Company hedges certain portions of its exposure to product related equity market risk and interest rate risk by entering into derivative transactions. All such derivative instruments are recognized in "Other Invested Assets" in the accompanying consolidated balance sheets at fair value.

The change in fair value is recognized in the accompanying consolidated statements of comprehensive income. At December 31, 2012 and 2011, the fair value of these derivatives was $21,667 and $13,600, 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, 2012 and 2011.

i) Deferred Acquisition Costs (DAC)

The costs that are directly related to the successful acquisition of new and renewal life insurance and reinsurance business, have been deferred to the extent that such costs are deemed recoverable from future premiums or gross profits.

2. Summary of Significant Accounting Policies (continued)

i) Deferred Acquisition Costs (DAC) (continued)

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 2012, 2011 or 2010. 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.

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 5.22% and 5.25% for 2012 and 2011, respectively.

2. Summary of Significant Accounting Policies (continued)

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

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 Comprehensive 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.

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

2. Summary of Significant Accounting Policies (continued)

k) Recognition of Revenue and Expenses (continued)

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 comprehensive income. The Company did not have any contracts accounted for under the deposit method at December 31, 2012 or 2011.

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 4.2%, 4.1%, and 4.1% during 2012, 2011, and 2010, respectively.

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 comprehensive income 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

2. Summary of Significant Accounting Policies (continued)

m) Closed Block Acquisitions (continued)

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

The net 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. 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.

2. Summary of Significant Accounting Policies (continued)

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 2012 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.

Deferred Acquisition Costs

In October 2010, the FASB amended the general accounting principles for *Financial Services – Insurance* which clarifies the types of costs incurred by an insurance entity that can be capitalized in the acquisition of insurance contracts. Only those costs incurred that result directly from and are essential to the successful acquisition of new or renewal insurance contracts may be capitalized as deferrable acquisition costs. The determination of deferability must be made on a contract-level basis. We adopted the provisions of this new guidance on a retrospective basis which resulted in a $2.1 million reduction to retained earnings and a decrease in the deferred policy acquisition costs balance of $3.2 million. As the impact of adoption was not material, the $2.1 million was recorded as an adjustment to January 1, 2012 retained earnings and prior periods were not restated.

2. Summary of Significant Accounting Policies (continued)

q) New Accounting Pronouncements (continued)

Fair Value Measurements and Disclosures

In May 2011, the FASB amended the general accounting principles for *Fair Value Measurements and Disclosures* which was issued to create a consistent framework for the application of fair value measurement across jurisdictions. The amendments include wording changes to GAAP in order to clarify the FASB's intent about the application of existing fair value measurements and disclosure requirements, as well as to change a particular principle or existing requirement for measuring fair value or disclosing information about fair value measurements. There were no additional fair value measurements required upon adoption. We adopted the provisions effective January 1, 2012, and have included the additional disclosures required for fair value measurements in Note 12.

r) Subsequent Events

The Company has evaluated the impact of subsequent events through March 13, 2013, 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, 2012 and 2011 are as follows:

December 31, 2012

	Amortized Cost	Unrealized Appreciation	Unrealized Depreciation	Fair Value
Fixed maturities				
U.S. government and agencies	**$ 102,478**	**$ 15,387**	**$ (36)**	**$ 117,829**
State and political subdivisions	**465,757**	**83,531**	**(200)**	**549,088**
Corporate securities	**1,892,951**	**296,657**	**(5,972)**	**2,183,636**
Foreign securities	**264,299**	**38,878**	**(62)**	**303,115**
Asset-backed securities	**567,029**	**29,582**	**(3,658)**	**592,953**
Collateralized Debt Obligations	**97,415**	**6,443**	**(640)**	**103,218**
Mortgage-backed securities	**620,776**	**85,878**	**(878)**	**705,776**
Total fixed maturities	**4,010,705**	**556,356**	**(11,446)**	**4,555,615**
Common stock	**13,094**	**93**	**(4,169)**	**9,018**
Preferred stocks	**76,156**	**7,182**	**(185)**	**83,153**
Total investments	**$ 4,099,955**	**$ 563,631**	**$ (15,800)**	**$ 4,647,787**

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

(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, 2012 and December 31, 2011 are as follows:

December 31, 2012

	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	**$ 1,517**	**$ (36)**	**$ –**	**$ –**	**$ 1,517**	**$ (36)**
State and political subdivisions	**8,990**	**(134)**	**1,018**	**(66)**	**10,008**	**(200)**
Corporate securities	**74,675**	**(2,230)**	**26,397**	**(3,742)**	**101,072**	**(5,972)**
Foreign securities	**7,403**	**(62)**	**–**	**–**	**7,403**	**(62)**
Asset-backed securities	**77,690**	**(1,198)**	**36,186**	**(2,460)**	**113,876**	**(3,658)**
Collateralized Debt Obligations	**8,029**	**(123)**	**13,067**	**(517)**	**21,096**	**(640)**
Mortgage-backed securities	**20,884**	**(387)**	**10,725**	**(491)**	**31,609**	**(878)**
Total fixed maturities	**$ 199,188**	**$ (4,170)**	**$ 87,393**	**$ (7,276)**	**$ 286,581**	**$ (11,446)**

At December 31, 2012, seventy-six fixed-maturity investments with a total unrealized loss of $7,276 had been in an unrealized loss position for 12 months or more. Substantially all of these securities were trading above 70 percent of book value.

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 loss 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, 2012 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, 2012		
Within one year	$ 43,302	$ 45,036
From one year to five years	290,216	319,390
From six years to ten years	983,138	1,104,005
More than ten years	1,408,829	1,685,237
Mortgage-backed securities	620,776	705,776
Collateralized Debt Obligations	97,415	103,218
Asset-backed securities	567,029	592,953
Total fixed maturities	$ 4,010,705	$ 4,555,615

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

	2012	**2011**	**2010**
Cash and cash equivalents	**$ 212**	$ 242	$ 137
Short-term investments	**120**	182	58
Fixed maturities	**236,210**	214,270	182,365
Policy loans	**17,215**	15,890	12,323
Other invested assets	**22,975**	2,438	646
Total investment income	**276,732**	233,022	195,529
Investment expenses	**(9,709)**	(8,472)	(6,872)
Subtotal investment income	**267,023**	224,550	188,657
Realized gains on investments	**50,963**	39,018	41,219
Realized losses on investments	**(2,119)**	(11,371)	(6,585)
Investment income on funds withheld at interest	**74,520**	82,836	95,979
Realized gains on funds withheld at interest	**15,684**	15,796	10,610
Realized losses on funds withheld at interest	**(2,971)**	(14,598)	(1,278)
Investment earnings	**$ 403,100**	$ 336,231	$ 328,602

(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, 2012 and 2011 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, 2012		
AAA	**$ 181,631**	**$ 203,410**
AA	**1,157,168**	**1,336,253**
A	**1,293,171**	**1,486,338**
BBB	**1,167,826**	**1,310,848**
BB	**91,095**	**91,381**
B	**63,797**	**68,610**
CCC or lower	**51,544**	**54,227**
Not rated	**4,473**	**4,548**
Total fixed maturity securities	**$ 4,010,705**	**$ 4,555,615**
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

The Company's largest five exposures by issuer as of December 31, 2012 were Phoenix Companies, Duke Energy Corporation, Edison International, Harbinger Group Inc, and Pfizer, Inc. each of which comprised less than 5% of total investments.

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 investments.

3. Investments (continued)

Policy loans comprised approximately 2.6% of the Company's investments as of December 31, 2012 and 2011. 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, 2012 and 2011, fixed maturity securities of $31,781 and $28,677, 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 27.5% and 28.7% of the Company's total investments as of December 31, 2012 and 2011, 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, 2012 and 2011 are as follows:

	Amortized Cost	Unrealized Appreciation	Unrealized Depreciation	Fair Value
December 31, 2012				
U.S. government and agencies	**$ 52,645**	**$ 5,470**	**$ –**	**$ 58,115**
Municipal, state & political subdivisions	**114,606**	**13,705**	**(9)**	**128,302**
Corporate securities	**916,638**	**116,852**	**(1,166)**	**1,032,324**
Foreign securities	**84,867**	**11,345**	**(33)**	**96,179**
Mortgage and other asset-backed securities	**338,094**	**17,758**	**(1,446)**	**354,406**
Total fixed maturities	**1,506,850**	**165,130**	**(2,654)**	**1,669,326**
Common stock	**–**	**–**	**–**	**–**
Preferred stock	**9,577**	**1,318**	**–**	**10,895**
Short term investments	**69,862**	**–**	**–**	**69,862**
Cash and cash equivalents	**–**	**–**	**–**	**–**
Other invested assets	**1,087**	**–**	**–**	**1,087**
Invested funds held at interest	**$ 1,587,376**	**$ 166,448**	**$ (2,654)**	**$ 1,751,170**
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

(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, 2012 and 2011 are as follows:

December 31, 2012

	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	**$ 3,042**	**$ (9)**	**$ –**	**$ –**	**$ 3,042**	**$ (9)**
Corporate securities	**49,881**	**(1,163)**	**6,997**	**(3)**	**56,878**	**(1,166)**
Foreign securities	**3,917**	**(33)**	**–**	**–**	**3,917**	**(33)**
Mortgage and other asset-backed securities	**20,096**	**(182)**	**20,664**	**(1,264)**	**40,760**	**(1,446)**
Total funds held at interest	**$ 79,936**	**$ (1,387)**	**$ 27,661**	**$ (1,267)**	**$ 104,597**	**$ (2,654)**

At December 31, 2012, twenty-two fixed-maturity investments with a total unrealized loss of $1,267 had been in an unrealized loss position for 12 months or more. Of those securities in an unrealized loss 12 months or more, four securities were trading below 70 percent of book value with a total unrealized loss of approximately $259. The remaining securities were trading above 70 percent of book value.

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 loss 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.

(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, 2012 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, 2012		
Within one year	$ 72,006	$ 74,085
From one year to five years	384,825	424,566
From six years to ten years	366,404	413,763
More than ten years	345,521	402,506
	1,168,756	1,314,920
Mortgage and asset-backed	338,094	354,406
Total fixed maturity securities	$ 1,506,850	$ 1,669,326

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, 2012.

	Amortized Cost	Estimated Fair Value
December 31, 2012		
AAA	$ 138,687	$ 145,777
AA	304,108	329,693
A	419,714	476,964
BBB	532,232	600,394
BB	32,986	35,119
B	9,676	9,974
CCC or lower	69,379	71,377
Not Rated	68	28
Total fixed maturity securities	$ 1,506,850	$ 1,669,326

Also included in funds withheld at interest are amounts due from Protective Life which are on a discounted basis of approximately $22,802 and $15,441 at December 31, 2012 and 2011, 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, 2012 and 2011, 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 $1,855,833 or 94.8% of the balance as of December 31, 2012, and $1,918,540, or 96.5% of the balance as of December 31, 2011. The Protective insurance companies are rated A+ by A.M. Best at December 31, 2012.

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, 2012 and 2011, no allowances were deemed necessary.

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

	2012	2011	2010
Direct	**$ 57,184**	$ 59,864	$ 57,152
Reinsurance assumed	**484,383**	453,463	337,539
Reinsurance ceded	**(39,823)**	(44,011)	(43,033)
Net premiums	**$ 501,744**	$ 469,316	$ 351,658

6. Reinsurance (continued)

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

	2012	2011	2010
Direct	**$ 184,013**	$ 209,122	$ 179,922
Reinsurance assumed	**445,220**	392,898	310,646
Reinsurance ceded	**(41,676)**	(54,060)	(74,149)
Net claims and policy benefits	**$ 587,558**	$ 547,960	$ 416,419

At December 31, 2012 and 2011, 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, 2012	**$ 37,389**	**$ 82,597**	**$ (11,123)**	**$ 108,863**	**75.87%**
December 31, 2011	$ 38,131	$ 88,117	$ (12,252)	$ 113,996	77.30%

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:

	2012	2011
Value of business acquired	**$ 85,000**	$ (85,329)
Reserves for future policy benefits	**$ 997,000**	$ 1,004,150
Life insurance inforce	**$ 94,160,000**	$ 100,736,460

(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, 2012, approximately 46% of the Company's aggregate indirect exposure to reinsurer-related credit risk (measured based on inforce ceded) is attributable to four groups of reinsurers and retrocessionaires. Together, these four groups of reinsurers and retrocessionaires have a weighted average AM Best rating as of December 31, 2012 of A+. Also at December 31, 2012, approximately 17% 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 300% of the 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		
	2012	**2011**	**2010**
Beginning of year	**$ 225,826**	$ 182,805	$ 131,617
Change in accounting principle	**(3,158)**	–	–
Capitalized:			
Direct	**34,511**	37,638	30,418
Assumed	**42,634**	29,682	30,655
Amortized:			
Direct	**(6,062)**	(12,134)	(1,703)
Assumed	**(23,194)**	(12,166)	(8,182)
End of year	**$ 270,557**	$ 225,826	$ 182,805

The balances and changes in VOBA are as follows:

	For the Year Ended December 31		
	2012	**2011**	**2010**
Beginning of year	**$ 575,170**	$ 501,865	$ 588,410
Purchase accounting refinements	**18,600**	–	2,155
Acquisitions	**–**	189,709	–
Amortization	**(125,961)**	(114,578)	(83,772)
Impact of unlocking	**2,976**	(1,826)	(4,928)
End of year	**$ 470,785**	$ 575,170	$ 501,865

(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:

2013	$57,294
2014	$45,627
2015	$41,587
2016	$40,016
2017	$39,360

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 2035. Wilton Re U.S. Holdings and its subsidiaries are subject to income taxes imposed by U.S. authorities.

At December 31, 2012, the Company had U.S. net operating loss and capital loss carryforwards of approximately $19,423 and $1,128, respectively. Approximately $10,680 of the net operating losses are attributable to the HUSI acquisition and cannot be used under Sec. 382 of the Internal Revenue Code. Approximately $8,732 of the $8,742 balance of the net operating loss carryforwards, is limited under Section 382, and will begin to expire in 2026. 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, 2012, 2011 and 2010 are as follows:

	2012	**2011**	**2010**
Current tax expense	**$ 77,004**	$ 41,606	$ 33,776
Deferred tax expense	**7,897**	52,454	35,747
	$ 84,901	$ 94,060	$ 69,522

(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:

	2012	2011	2010
Computed expected tax expense at 35%	**$ 136,978**	$ 130,001	$ 98,271
Foreign (income) not subject to U.S. tax	**(51,497)**	(33,608)	(28,175)
Effect of change in tax valuation allowance	**(7,727)**	(602)	634
Other	**7,147**	(1,732)	(1,208)
Actual income tax expense	**$ 84,901**	$ 94,060	$ 69,522

The tax effects of temporary differences that give rise to significant portions of the deferred income tax assets and liabilities at December 31, 2012 and 2011 are presented in the following table:

	2012	2011
Deferred income tax assets		
Differences between tax and financial reporting amounts concerning certain reinsurance transactions	**$ 533,765**	$ 534,593
Net operating loss and capital loss	**7,193**	16,825
Nondeductible accruals	**2,696**	2,871
Deferred acquisition costs	**187,569**	136,447
Organizational costs	**332**	380
Employee benefits-stock options	**3,562**	4,137
Other	**5,281**	10,358
Total deferred tax assets	**740,398**	705,611
Deferred income tax liabilities		
Reserves for future policy benefits	**(687,644)**	(694,655)
Investments	**(153,912)**	(97,597)
Total deferred tax liabilities	**(841,556)**	(792,252)
Valuation allowance	**(5,003)**	(12,730)
Net deferred tax (liability)/asset	**$ (106,162)**	$ (99,371)

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, 2012, a valuation of $3,743 was recorded against the Heritage Union companies' acquired net operating 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 2012, 2011 and 2010.

The Company's U.S. subsidiaries' federal income tax returns for tax years 2010-2012 are open and subject to examination by the Internal Revenue Service.

As of December 31, 2012 and 2011, 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, 2012 and 2011, WRAC, WRNY, TLIC, and HULC 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 can pay dividends of $11,582 in 2013 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 greater of 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 $7,000 million in 2013 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:

	2012	**2011**
	(unaudited)	
Wilton Reinsurance Bermuda Limited	**$ 490,136**	$ 380,520
Wilton Reassurance Company	**427,190**	328,863
Wilton Reassurance Life Co. of New York	**118,322**	87,020
Texas Life Insurance Company	**69,646**	52,318
Heritage Union Life Insurance Company	**7,165**	8,219

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

	2012	**2011**	**2010**
	(unaudited)		
Wilton Reinsurance Bermuda Limited	**$ 146,990**	$ 73,492	$ 79,237
Wilton Reassurance Company	**141,672**	(5,633)	43,750
Wilton Reassurance Life Co of New York	**36,317**	(652)	9,608
Texas Life Insurance Company	**1,145**	27,613	14,421
Heritage Union Life Insurance	**1,061**	(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, 2012 and 2011. Upon incorporation, the Company issued 32,000 Class A common shares at $25 per share for a total of $800.

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

10. Shareholders' Equity (continued)

In February 2012, the Company, through a privately negotiated transaction at $69.00 per Class A common share, repurchased 5,656 shares for $390,283. During December 2012, the Company repurchased an additional 800 shares from selected shareholders for a privately negotiated purchase price of $82 per share for a total of $65,600. The Company incurred $1,103 of expenses in connection with these share repurchases. Also during December 2012 the Company paid a dividend to the remaining shareholders of $8.25 per share, for a total dividend of $132,886.

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 $44.97 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, 2012.

Equity Based Compensation

The Company has granted to certain of its employees and officers, options to purchase approximately 6.8% of the aggregate number of outstanding common shares. The options are exercisable at a price of $41.75 to $49.25 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, 2012 and 2011, there were 1,098 and 1,156 options outstanding. During December 2012 and 2011 there were 55 and 0 options exercised, respectively. During 2012 and 2011, 3 and 125 options were forfeited, respectively. Equity based compensation expense of $1,110, $3,194, and $5,875 related to the granting of the options was recognized in 2012, 2011, and 2010, respectively. The weighted average contractual life for all grants is 2.4 years. Options vested as of December 31, 2012 and 2011 were 1,025 and 943, 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 2012 and 2011.

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. In April 2012, the Wells Fargo Facility was replaced with a $400,000, senior revolving credit facility which includes a $200,000 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. Borrowings under the senior revolving credit facility bear interest, at our option, at either a base rate or a LIBOR rate, in each case, plus an applicable margin that is determined according to a sliding scale based upon the lower of the financial strength rating of (i) Wilton Re Bermuda and (ii) Wilton Reassurance. The applicable margin for base rate loans ranges from 0.750% to 1.500%. The applicable margin for LIBOR loans ranges from 1.750% to 2.500%. 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, 2012 and 2011, there were approximately $80,389 and $64,370, respectively, of outstanding bank letters of credit issued under the respective facilities and $200,000 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, 2012, there was $10,000 of advances borrowed under the FHLBDM. WRAC had pledged collateral sufficient to support approximately $33,350 of LOCs/advances at December 31, 2012.

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, 2012 and 2011:

	2012		2011	
	Carrying Value	**Estimated Fair Value**	**Carrying Value**	**Estimated Fair Value**
Assets:				
Investments	**$ 4,647,787**	**$ 4,647,787**	$ 4,430,953	$ 4,430,953
Policy loans	**182,658**	**182,658**	182,559	182,559
Funds withheld at interest	**1,957,035**	**1,957,035**	1,988,112	1,988,112
Short-term investments	**42,290**	**42,290**	197,216	197,216
Other invested assets	**283,454**	**283,454**	138,889	138,889
Liabilities:				
Annuities-deferred and without life contingencies	**1,635,825**	**1,816,399**	1,700,351	1,829,442
Funds held under reinsurance treaties	**62,771**	**62,771**	64,698	64,698

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 determined based on quoted market prices. The fair value of the Company's deferred fixed annuities without life contingencies is based on discounted cash flows.

12. Fair Value (continued)

Fair value of the life settlement policies is determined based on pricing models which are updated for life expectancies, undiscounted future premiums, and credit worthiness of counterparties.

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 third party pricing services are validated through analytical reviews. Financial instruments in this category include publicly traded issues such as U.S. 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 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.

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

12. Fair Value (continued)

The types of financial investments included in Level 3 primarily include private placements and certain asset-backed and mortgage-backed securities.

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

	December 31, 2012			
		Fair Value Measurements Using:		
	Total	**Level 1**	**Level 2**	**Level 3**
Assets				
Investments:				
U.S. government and agencies	$ 117,829	$ 50,290	$ 67,539	$ –
State and political subdivisions	549,088	–	549,088	–
Corporate securities	2,183,636	–	2,125,604	58,032
Foreign securities	303,115	–	298,779	4,336
Asset-backed securities	592,953	–	495,477	97,476
Collateralized debt obligations	103,218	–	101,384	1,834
Mortgage-backed securities	705,776	–	705,744	32
Total fixed maturity securities	4,555,615	50,290	4,343,615	161,710
Common stocks	9,018	9,018	–	–
Preferred stocks	83,153	–	53,725	29,428
Other invested assets	126,011	–	50,991	75,020
Total investments	4,773,797	59,308	4,448,331	266,158
Funds withheld at interest:				
Government and agencies	58,115	57,869	246	–
State and political subdivisions	128,302	–	128,302	–
Corporate securities	1,032,324	–	1,032,324	–
Foreign securities	96,179	–	96,179	–
Mortgage and asset backed securities	354,406	–	354,406	–
Total fixed maturity securities	1,669,326	57,869	1,611,457	–
Common stocks	–	–	–	–
Preferred stocks	10,895		10,895	
Other invested assets	–	–	–	–
Total funds withheld at interest	1,680,221	57,869	1,622,352	–
Total assets	$ 6,454,018	$ 117,177	$ 6,070,683	$ 266,158

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

12. Fair Value (continued)

	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	452,330	–	451,617	713
Corporate securities	2,048,643	–	1,999,086	49,557
Foreign securities	232,155	–	228,552	3,603
Asset-backed securities	428,531	–	405,553	22,978
Collateralized debt obligations	70,966	–	64,705	6,261
Mortgage-backed securities	696,193	–	696,050	143
Total fixed maturity securities	4,346,024	273,044	3,989,725	83,255
Common stocks	8,947	8,947	–	–
Preferred stocks	75,982	–	50,343	25,639
Other invested assets	129,061	–	51,715	77,346
Total investments	4,560,016	281,991	4,091,783	186,240
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	$ 6,281,631	$ 369,859	$ 5,725,532	$ 186,240

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, 2012 and 2011. 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.

12. Fair Value (continued)

The fair value of a financial instrument is the estimated amount at which the instrument could be exchanged in an orderly transaction between knowledgeable, unrelated, willing parties, i.e., not in a forced transaction. The estimated fair value of a financial instrument may differ from the amount that could be realized if the security was sold in an immediate sale, e.g., a forced transaction. Additionally, the valuation of investments is more subjective during periods of market disruption, including periods of rapid interest rate changes, rapidly widening credit spreads or illiquidity. It may be difficult to value certain of our securities when markets are less liquid, which may increase the potential that the estimated fair value of an investment is not reflective of the price at which an actual transaction would occur.

The Company utilizes information from third parties, such as pricing services and brokers, to assist in determining fair values. The Company uses various third parties, with expertise in specific asset classes, to perform modeling for market valuation when quoted prices in active markets are not available. The fair values of the Company's publicly traded fixed maturity, short term, and equity securities, are determined using one of three primary sources: third party pricing services, independent broker quotations, or using standard market valuation techniques. Security pricing is applied using a "waterfall" approach whereby publicly available prices are first sought from third party pricing services, any remaining unpriced securities are submitted to independent brokers for prices, and lastly, securities are priced using a pricing matrix or other appropriate fair value model. Typical inputs used by these three pricing methods include, but are not limited to: reported trades, benchmark yields, issuer spreads, bids, offers, estimated cash flows and rates of prepayments. Third party pricing services will normally derive the security prices through recent reported trades for identical or similar securities making adjustments through the reporting date based upon available market observable information. If there are no recent reported trades, the third party pricing services and brokers may use market observable inputs in their matrix or model processes to develop a security price.

The Company utilizes, when available, fair values based on quoted prices in active markets that are regularly and readily obtainable. When quoted prices in active markets are not available, fair value is based on standard market valuation techniques. When observable inputs are not available, the market standard valuation techniques for determining the estimated fair value of certain types of securities that trade infrequently, rely on inputs that are significant to the estimated fair value that are not observable in the market or cannot be derived principally from or corroborated by observable market data. Even though unobservable, these inputs are based on assumptions deemed appropriate given the circumstances and are believed to be consistent with what other market participants would use when pricing such securities.

12. Fair Value (continued)

The use of different techniques, assumptions and inputs may have a material effect on the estimated fair values of the Company's securities holdings. For the years ended December 31, 2012 and 2011, the application of market standard valuation techniques applied to similar assets has been consistent.

U.S. Government and agency securities, States and political subdivisions, Corporate securities and Foreign securities

U.S. Treasury securities, which trade based on quoted prices for identical assets in an active market, are included in Level 1.

The fair value of these Level 2 bonds and securities is predominantly priced by third party pricing services and broker quotes. Their pricing models typically utilize the following inputs: principal and interest payments, treasury yield curve, credit spreads from new issue and secondary trading markets, early redemption or call features, benchmark securities and reported trades.

Level 3 bonds and securities primarily represent investments in privately placed bonds, credit tenant loans and other less liquid corporate and municipal bonds for which prices are not readily available. To determine a fair value, the Company may rely on modeling for market valuation using both observable and unobservable inputs. These inputs are entered into industry standard pricing models to determine the final price of the security. These inputs typically include: projected cash flows, discount rate, industry sector, underlying collateral, credit quality of the issuer, maturity, embedded options, recent new issuance, comparative bond analysis, seniority of debt and illiquidity discount.

The extent of the use of each market input depends on the asset class, market conditions and the relevant market data available. Depending on the security, these inputs may change, some market inputs may not be relevant or additional inputs may be necessary.

The fair value of corporate bonds classified as Level 3 is sensitive to changes in the interest rate spread over the corresponding U.S. Treasury rate. This spread represents a risk premium that is affected by company-specific and market factors. An increase in the spread can be caused by a perceived increase in credit risk of a specific issuer and/or an increase in the overall market risk premium associated with similar securities.

12. Fair Value (continued)

Mortgage-backed securities, Collateralized debt obligations and Asset-backed securities

This category consists of residential mortgage-backed securities, commercial mortgage-backed securities, and other asset-backed securities, such as credit card and automobile receivables, home equity loans, manufactured housing bonds and collateralized debt obligations. Level 2 securities are priced from information provided by third party pricing services and independent broker quotes. For mortgage-backed and asset-backed securities, valuation is based primarily on matrix pricing or other similar techniques using standard market inputs including spreads for actively traded securities, spreads off benchmark yields, expected prepayment speeds and volumes, current and forecasted loss severity, credit rating, weighted average coupon, weighted average maturity, average delinquency rates, geographic region, debt-service coverage ratios and issuance-specific information including, but not limited to: collateral type, payment terms of the underlying assets, payment priority within the tranche, structure of the security, deal performance, vintage of loans and insurance guarantees.

The Company has included mortgage-backed and asset-backed securities with less liquidity in Level 3, These securities are primarily privately placed transactions with little transparency to the market or other securities with limited or inactive trading markets. Significant inputs cannot be derived principally from or corroborated by observable market data. The significant unobservable inputs used in the fair value measurement of these securities typically include: discounted cash flows, liquidity discount, credit rating of issuer, debt coverage ratios, type and quality of underlying collateral, prepayment rates, probability of default and loss severity in the event of default.

Included in the pricing of mortgage-backed and asset-backed securities are estimates of the rate of future prepayments of principal over the remaining life of the securities. Such estimates are derived based on the securities' underlying structure and rates of prepayments previously experienced at the interest rate levels projected for the underlying collateral. Changes in significant inputs used in the fair value measurement, such as the paydown rate (the projected annual rate of principal reduction), may affect the fair value of the securities. For example, a decrease in the paydown rate would increase the projected weighted average life and increase the sensitivity of the fair value to changes in interest rates.

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

12. Fair Value (continued)

Other invested assets

Included in other invested assets are the Company's investments in limited partnership interests. Limited partnership interests are determined by the net asset values of the Company's ownership interest as provided in the financial statements of the investees. The valuation of these investments is considered Level 3 in the fair value hierarchy due to the limited transaction activity and lack of price transparency inherent in the market for such investments.

The tables below reconcile the fair value of all Level 3 financial instruments for the years ended December 31, 2012 and December 31, 2011.

	December 31, 2012								
	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	$ 713	$ 49,557	$ 3,603	$ 22,978	$ 6,261	$ 143	$ 25,639	$ 77,346	$ 186,240
Total realized/unrealized gains (losses) included in earnings, net:									
Net investment income	19	(147)	2	841	277	–	–	–	992
Net investment gains (losses)	–	–	–	–	–	(3)	–	(431)	(434)
Net unrealized appreciation (depreciation)	(87)	115	75	1,440	840	–	3,012	5,162	10,556
Purchases/acquisitions	–	15,257	720	94,831	1,828	–	130,388	44,882	287,906
Sales/disposals	(200)	(6,750)	(920)	(7,191)	(498)	(21)	(129,611)	(51,938)	(197,129)
Transfers into Level 3	–	6,537	856	5,331	–	–	–	–	12,724
Transfers out of Level 3	(444)	(6,537)	–	(20,753)	(6,875)	(88)	–	–	(34,697)
Ending balance, December 31	$ –	$ 58,032	$ 4,336	$ 97,476	$ 1,834	$ 32	$ 29,428	$ 75,021	$ 266,158
Total gains (losses) related to assets still held at the reporting date included in earnings:									
Net investment income	$ –	$ (100)	$ 2	$ 373	$ 5	$ –	$ –	$ –	$ 280
Net investment gains (losses)	–	–	–	–	–	–	–	(432)	(432)
Net unrealized appreciation (depreciation)	–	872	166	(233)	–	–	3,012	6,619	10,436

(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	$ –	$ 2,323	$ 115,991
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	100,964	173,261
Sales/disposals	(186)	(5,682)	–	(5,376)	(7,126)	(706)	–	(20,899)	(39,975)
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	$ 77,346	$ 186,240
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)

We obtain our Level 3 fair value measurements from independent, third-party pricing sources. We do not develop the significant inputs used to measure the fair value of these assets and liabilities, and the information regarding the significant inputs is not readily available to us. Independent broker-quoted fair values are non-binding quotes developed by market makers or broker-dealers obtained from third-party sources recognized as market participants. The fair value of a broker-quoted asset or liability is based solely on the receipt of an updated quote from a single market maker or a broker-dealer recognized as a market participant as we do not adjust broker quotes when used as the fair value measurement for an asset or liability.

13. Subsequent Event

In January 2013, the Company repaid $95,000 of its outstanding revolver under the Wells Fargo Credit Facility as well as $10,000 of its borrowings under its FHLBDM facility.

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 adequate 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, 2012 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, 2012 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 13, 2013

Ernst & Young LLP
200 Clarendon Street
Boston, MA 02116

Tel: +1 617 266 2000
Fax: +1 617 266 5843
www.ey.com

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, 2012, 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 Wilton Re Holdings Limited and Subsidiaries' 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 auditing standards generally accepted in the 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, 2012, based on the COSO criteria.

We also have audited, in accordance with auditing standards generally accepted in the United States and in accordance with the auditing standards of the Public Company Accounting Oversight Board (United States), the consolidated balance sheets of the Company as of December 31, 2012 and 2011, and the related consolidated statements of comprehensive income, changes in shareholders' equity and cash flows for each of the three years in the period ended December 31, 2012, of the Company and our report dated March 13, 2013 expressed an unqualified opinion thereon.

Ernst & Young LLP

March 13, 2013

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