

# Wilton Re Holdings Limited and Subsidiaries

## Audited Consolidated Financial Statements and Supplemental Information

Years Ended December 31, 2008, 2007 and 2006

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## Report of Independent Auditors

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, 2008 and 2007, and the related consolidated statements of operations, changes in shareholders' equity, and cash flows for each of the three years in the period ended December 31, 2008. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with auditing standards generally accepted in the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. We were not engaged to perform an audit of the Company's internal control over financial reporting. Our audits included consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control over financial reporting. Accordingly, we express no such opinion. An audit also includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, and evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the consolidated financial position of Wilton Re Holdings Limited and Subsidiaries at December 31, 2008 and 2007, and the consolidated results of their operations and their cash flows for each of the three years in the period ended December 31, 2008, in conformity with U.S. generally accepted accounting principles.

Our audits were conducted for the purpose of forming an opinion on the consolidated financial statements taken as a whole. Additional disclosures of the consolidating balance sheets as of December 31, 2008 and 2007, and the consolidating statements of operations for the years then ended are presented for purpose of additional analysis and are not a required part of the consolidated financial statements. Such information has been subject to auditing procedures applied in our audit of the consolidated financial statements and, in our opinion, is fairly stated in all material respects in relation to the consolidated financial statements taken as a whole.

*Ernst & Young LLP*

March 27, 2009

Wilton Re Holdings Limited and Subsidiaries

Consolidated Balance Sheets

(Expressed in U.S. dollars)

	December 31	
	2008	2007
	(\$ in thousands)	
<b>Assets</b>		
Investments	\$ 1,354,788	\$ 1,481,388
Short term investments	122,605	76,265
Policy loans	45,310	32,598
Funds withheld at interest	2,054,587	2,687,792
Other invested assets	2,990	3,131
Total investments, at fair value	<u>3,580,280</u>	<u>4,281,174</u>
Cash and cash equivalents	699,509	271,118
Accrued investment income	15,409	12,968
Premiums receivable	75,520	99,262
Reinsurance recoverables	78,432	66,687
Deferred acquisition costs	83,691	55,681
Value of in-force business acquired	600,315	525,807
Subscription receivable	121,635	-
Deferred income taxes	68,074	-
Other assets	9,281	11,036
Total assets	<u>\$ 5,332,147</u>	<u>\$ 5,323,733</u>
<b>Liabilities</b>		
Reserves for future policy benefits	\$ 988,325	\$ 717,244
Interest sensitive contract liabilities	3,163,059	3,462,886
Other reinsurance liabilities	8,548	114,198
Funds held under reinsurance treaties	16,763	16,691
Accounts payable and accrued expenses	48,462	31,429
Short-term debt	112,500	137,500
Collateral finance facility	250,000	231,000
Total liabilities	<u>4,587,657</u>	<u>4,710,948</u>
Commitments and contingencies liabilities (see Note 12)		
<b>Shareholders' equity</b>		
Class A common shares:		
(\$1.00 par value; 50,000,000 shares authorized, 18,319,632 issued and outstanding at December 31, 2008; 50,000,000 shares authorized, 11,515,729 issued and outstanding at December 31, 2007)	18,320	11,516
Class B common shares:		
(\$1.00 par value; 3,000,000 shares authorized; 0 issued and outstanding at December 31, 2008 and 2007)	-	-
Additional paid in-capital	923,743	572,970
Stock warrants	29	29
Retained (deficit) earnings	(197,602)	28,270
Total shareholders' equity	<u>744,490</u>	<u>612,785</u>
Total liabilities and shareholders' equity	<u>\$ 5,332,147</u>	<u>\$ 5,323,733</u>

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

Wilton Re Holdings Limited and Subsidiaries

Consolidated Statements of Operations

(Expressed in U.S. dollars)

	<b>Year Ended December 31</b>		
	<b>2008</b>	<b>2007</b>	<b>2006</b>
	<b>(\$ in thousands)</b>		
<b>Revenues</b>			
Net premiums	\$ 258,015	\$ 169,909	\$ 95,677
Policy fees and charges	55,608	67,565	23,675
Investment return	164,419	258,184	124,305
Net unrealized (depreciation)/appreciation on investments classified as trading and other	(129,011)	7,172	(11,125)
Change in value of derivatives and embedded derivatives, net	(278,218)	(14,130)	29,426
Total revenues	<b>70,813</b>	488,700	261,958
<b>Expenses</b>			
Claims and policy benefits, net of reinsurance ceded	172,648	196,698	110,354
Interest credited to interest sensitive contract liabilities	124,909	142,493	63,867
Acquisition costs and other insurance expenses	(56,378)	20,881	22,346
Operating expenses	64,999	51,236	40,890
Due diligence, transition and conversion costs	3,185	18,869	5,763
Collateral finance facility expense	13,077	12,837	1,492
Interest expense	10,379	12,077	5,721
Total benefits and expenses	<b>332,819</b>	455,091	250,433
Net (loss) income before income taxes	<b>(262,008)</b>	33,606	11,521
Income tax benefit	(36,139)	—	—
Net (loss) income	<b>\$ (225,869)</b>	\$ 33,606	\$ 11,521
<b>Net (loss) gain per common share</b>			
Basic	\$ (17.31)	\$ 2.91	\$ 1.48
<b>Weighted average number of shares outstanding</b>			
Basic	<b>13,051</b>	11,534	7,768

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 U.S. dollars)*

	<b>Year Ended December 31</b>		
	<b>2008</b>	<b>2007</b>	<b>2006</b>
	<b>(\$ in thousands)</b>		
<b>Common shares</b>			
Balance at beginning of year	\$ 11,516	\$ 11,609	\$ 2,532
Common shares repurchased during year	-	(2,000)	-
Common shares issued during year	<b>6,804</b>	1,907	9,077
Balance at end of year	<b>18,320</b>	11,516	11,609
<b>Additional paid-in capital</b>			
Balance at beginning of year	<b>572,973</b>	570,884	123,238
Common shares repurchased during year	-	(98,000)	-
Common shares issued during year	<b>345,848</b>	98,192	444,770
Stock based compensation	<b>4,922</b>	1,894	2,875
Balance at end of year	<b>923,743</b>	572,970	570,883
<b>Stock warrants</b>			
Balance at beginning of year	<b>29</b>	29	29
Warrants issued during year	-	-	-
Balance at end of year	<b>29</b>	29	29
<b>Retained (deficit) earnings</b>			
Balance at beginning of year	<b>28,267</b>	(5,336)	(16,857)
Net (loss) income	<b>(225,869)</b>	33,606	11,521
Balance at end of year	<b>(197,602)</b>	28,270	(5,338)
Total shareholders' equity	<b>\$ 744,490</b>	\$ 612,785	\$ 577,183

*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 U.S. dollars)

	Year Ended December 31		
	2008	2007	2006
	(\$ in thousands)		
<b>Cash flows from operating activities</b>			
Net (loss) income	\$ (225,869)	\$ 33,606	\$ 11,521
Adjustments to reconcile net (loss) income to net cash from operating activities:			
Proceeds from sales of investments	257,744	491,099	157,851
Purchases of investments	(292,574)	(602,776)	(1,520,392)
Accretion and amortization of discounts and premiums on securities, net	(3,770)	(2,733)	(2,937)
Net realized losses on investments	35,782	1,056	1,142
Net unrealized losses /(gains) on investments	129,126	(8,056)	10,420
Accretion and amortization of deferred acquisition costs	8,906	6,857	3,576
Accretion and amortization of value of business acquired	(44,010)	27,509	29,188
Interest credited to interest sensitive contracts	124,909	142,493	63,867
Mark to market on embedded derivative	278,432	12,301	(31,033)
Non-cash equity compensation expense	4,922	1,894	2,875
Change in assets and liabilities:			
Accrued investment income	(2,441)	(579)	(12,286)
Deferred income taxes	(68,074)	-	-
Accounts receivable	-	-	33,435
Premiums receivable	23,742	(40,097)	(32,379)
Reinsurance recoverables	(11,745)	4,691	(71,378)
Funds withheld at interest	354,772	217,732	(2,825,909)
Acquisition costs deferred	(36,918)	(29,301)	(26,583)
Value of in-force business acquired	(30,499)	(141,354)	(440,696)
Other assets	2,746	5,316	(7,982)
Reserves for future policy benefits	271,080	133,601	511,398
Funds held under reinsurance treaties	74	1,061	15,630
Other reinsurance liabilities	(105,650)	108,953	(5,300)
Accounts payable and accrued expenses	17,034	(12,214)	31,324
Net cash flows from operating activities	<b>687,719</b>	<b>351,059</b>	<b>(4,104,648)</b>
<b>Cash flows from investing activities</b>			
Net purchases, sales and maturities of short term investments	(46,049)	(52,872)	(7,655)
Other invested assets	141	3,617	(6,748)
Fixed assets purchased	(993)	(1,655)	(714)
Change in policy loans	(12,712)	459	(33,058)
Net cash flows from investing activities	<b>(59,613)</b>	<b>(50,451)</b>	<b>(48,175)</b>

Wilton Re Holdings Limited and Subsidiaries  
Consolidated Statements of Cash Flows (continued)

*(Expressed in U.S. dollars)*

	Year Ended December 31		
	2008	2007	2006
	(\$ in thousands)		
<b>Cash flows from financing activities</b>			
Proceeds from issuance of common shares	\$ 231,017	\$ 100,100	\$ 453,848
Repurchase of common shares	–	(100,000)	–
(Repayment)/proceeds from/of short-term debt	(25,000)	(12,500)	150,000
Proceeds from collateral finance facility	19,000	63,000	168,000
Change in interest sensitive contract liabilities	–	–	3,596,626
Proceeds from interest sensitive contracts	131,092	187,505	–
Redemption and benefit payments on interest sensitive contracts	(555,828)	(575,727)	–
Net cash flows from financing activities	(199,719)	(337,622)	4,368,474
Increase/(decrease) in cash and cash equivalents	428,391	(37,013)	215,651
Cash and cash equivalents at the beginning of the period	271,118	308,131	92,480
Cash and cash equivalents at the end of the period	\$ 699,509	\$ 271,118	\$ 308,131
<b>Non cash transactions</b>			
Receivable for subscriptions	\$ 121,635	\$ –	\$ –
Proceeds from issued common shares	\$ 121,635	\$ –	\$ –

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

# Wilton Re Holdings Limited and Subsidiaries

## Notes to Consolidated Financial Statements

December 31, 2008  
(Expressed in U.S. dollars)

### **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, were formed principally to provide life reinsurance and to acquire closed blocks of life insurance and annuity contracts. Wilton Re Limited conducts its operations principally 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 to provide life reinsurance. 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 (American Life Insurance Company of New York, North American Company for Life and Health Insurance of New York, and Utica National Life Insurance Company.)

Redding Re Holdings LLC (Redding Re Holdings), a wholly owned subsidiary of WRAC, was formed solely to own its only subsidiary, Redding Reassurance Company (Redding Re and with Redding Re Holding collectively known as the Redding Facility), a South Carolina special purpose financial captive insurance company formed for the sole purpose of reinsuring, on a 100% coinsurance basis, certain of the WRAC's liabilities relating to the reinsurance of Regulation Triple-X business.

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 was formed to provide insurance support services to affiliated companies.

# Wilton Re Holdings Limited and Subsidiaries

## Notes to Consolidated Financial Statements (continued)

*(Expressed in U.S. dollars)*

### **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, including incurred but not reported claims, and the valuation of intangible assets and 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, Redding Re Holdings, and Redding Re. All significant intercompany accounts and transactions have been eliminated in consolidation.

#### **b) Investments and Net Investment Income**

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

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

# Wilton Re Holdings Limited and Subsidiaries

## Notes to Consolidated Financial Statements (continued)

*(Expressed in U.S. dollars)*

### **2. Summary of Significant Accounting Policies (continued)**

#### **c) Short Term Investments**

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

#### **d) Cash and Cash Equivalents**

The Company considers all investments purchased with an original maturity of three months or less to be cash equivalents.

#### **e) Policy Loans**

Policy loans are reported at 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 interest income earned on these assets at rates defined by the treaty terms.

The Company accounts for the embedded derivatives in modified coinsurance and funds withheld contracts as total return swaps with a floating leg. Accordingly, the value of the derivative is equal to the unrealized gain or loss on the assets underlying the funds withheld portfolio associated with each agreement. The Company's funds withheld at interest are recorded at fair value with the changes in the fair value of the embedded derivative reflected in the change in value of derivatives and embedded derivatives, net, in the statements of operations. At December 31, 2008 and 2007, the fair value of these embedded derivatives included in the funds withheld at interest was (\$263,849,385) and \$19,901,487, respectively.

# Wilton Re Holdings Limited and Subsidiaries

## Notes to Consolidated Financial Statements (continued)

*(Expressed in U.S. dollars)*

### **2. Summary of Significant Accounting Policies (continued)**

#### **g) Premiums Receivable**

Premiums are recognized when due and in accordance with information received from the ceding company or when payment is received from the policyholder. Other factors impacting management estimates of premiums receivable include adjustments for lapsed policies, 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, 2008 and 2007.

#### **h) Deferred Acquisition Costs (DAC)**

The costs of acquiring life insurance and reinsurance business, which vary with and are primarily related to the production of new and renewal business, have been deferred to the extent that such costs are deemed recoverable from future premiums or gross profits. Such costs include commissions and allowances. 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 will be recorded. No such adjustments were made during 2008, 2007 or 2006. Deferred costs related to traditional life insurance contracts, all of which relate to long duration contracts, are amortized over the premium-paying period of the related policies in proportion to the ratio of individual period premium revenues to total anticipated premium revenues over the life of the policy. 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.

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

## Wilton Re Holdings Limited and Subsidiaries

### Notes to Consolidated Financial Statements (continued)

*(Expressed in U.S. dollars)*

#### **2. Summary of Significant Accounting Policies (continued)**

##### **i) Fixed Assets**

Fixed assets are recorded in other assets in the consolidated balance sheets at cost less accumulated depreciation. The Company capitalizes software costs when the preliminary project stage is completed and management commits to fund the software project; the Company only funds projects it expects to complete. Software costs that are capitalized include only external direct costs of materials and services consumed in developing or obtaining the internal use computer software. Capitalization of costs cease as soon as the project is substantially complete and ready for its intended purpose. The carrying value of software costs is reviewed by the Company whenever events or changes in circumstances indicate that its carrying amount may not be recoverable, and a loss is recognized when the value of estimated undiscounted cash flow benefit related to the asset falls below the unamortized cost. Other fixed assets include furniture and leasehold improvements and are depreciated using the straight line method over useful life for assets or lease term for leasehold improvements. Software costs are depreciated over a three year period using the straight line method. As of December 31, 2008 and 2007, the Company had capitalized \$6,760,946 and \$5,767,905, respectively, of which \$1,143,860, 1,409,932 and \$1,041,654 was amortized during 2008, 2007 and 2006, respectively.

##### **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 recorded in the consolidated balance sheets as reserves for future policy benefits. 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 written down and, if required, a premium deficiency reserve is established by a charge to claims and policy benefits. Benefit liabilities for traditional annuities that contain mortality risk 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 5.0% for 2008 and 2007.

## Wilton Re Holdings Limited and Subsidiaries

### Notes to Consolidated Financial Statements (continued)

*(Expressed in U.S. dollars)*

#### **2. Summary of Significant Accounting Policies (continued)**

Liabilities for interest sensitive insurance products such as universal life and deferred annuities are established based on account values before applicable surrender charges. In situations where mortality profits are followed by mortality losses, an additional 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. Management considers all of the Company's reinsurance contracts to be long duration contracts. Management monitors actual experience and, where circumstances warrant, will revise its assumptions and the related reserve 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 amounts related to retrocessions and reinsurance ceded. Benefits and expenses are reported net of amounts related to retrocessions and 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 if the contract provides indemnification against loss or liability relating to insurance risk, in accordance with applicable accounting standards. The Company must review all contractual features, particularly those that may limit the amount of insurance risk to which the Company is subject or features that delay the timely reimbursement of claims. If the Company determines that a contract does not expose it to a reasonable possibility of a significant loss from insurance risk, the Company records the contract under the deposit method of accounting, with the net amount payable/receivable reflected in other reinsurance assets or liabilities on the consolidated balance sheet. Fees earned on these contracts are reflected as other revenues, as opposed to premiums, on the consolidated statements of operations. The Company did not have any contracts accounted for under the deposit method at December 31, 2008 or December 31, 2007.

# Wilton Re Holdings Limited and Subsidiaries

## Notes to Consolidated Financial Statements (continued)

*(Expressed in U.S. dollars)*

### **2. Summary of Significant Accounting Policies (continued)**

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, 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 were 4.0%, 4.1%, and 4.2% during 2008, 2007, and 2006, 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 is recognized in the consolidated statement of operations in the period that includes the enactment date. A valuation allowance for a portion or all of deferred tax assets is recorded as a reduction to deferred tax assets if 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, as either a reinsurance transaction or a stock purchase, in run off (i.e. where only existing policies will be renewed and new policies will not be sold) are considered to be reinsurance transactions and accounted for as indemnity arrangements. Results of operations only include the revenues and expenses from the effective date of acquisition of these blocks of business. The initial transfer of assets and liabilities is recorded on the balance sheet at the date of acquisition at fair value, except for the reserves for future policy benefits and value of business acquired (VOBA) which are recorded at management's best estimate. Future policy benefit reserves are established based on the present value of benefits and maintenance expenses minus the present value of valuation (or net) premiums.

The Company establishes VOBA representing the contractual right to receive future profits from the acquired insurance policies or reinsurance contracts. 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

## Wilton Re Holdings Limited and Subsidiaries

### Notes to Consolidated Financial Statements (continued)

*(Expressed in U.S. dollars)*

#### **2. Summary of Significant Accounting Policies (continued)**

which vary with and are primarily related to the acquisition to be part of the purchase price and are deferred as VOBA. Such costs include initial ceding allowance, advisory and legal fees, investment banking fees, and contractually obligated involuntary severance. Other costs incurred, such as transition and conversion costs, financing costs, and severance, which are not contractually required, 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 products. The EGP's and related amortization of VOBA for interest sensitive life products are updated (unlocked) periodically to reflect revised assumptions for lapses, mortality and investment earnings. The Company performs periodic tests to establish that VOBA associated with traditional life products remains recoverable, and if financial performance significantly deteriorates to the point where VOBA is not recoverable, a cumulative charge to current operations will be recorded.

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

#### **n) Stock Warrants**

Stock warrants are recorded based on the fair value of the warrants at their issue date. The fair value of the warrants 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.

#### **o) Earnings Per Share**

Basic earnings per share is calculated based on the weighted average ordinary shares outstanding and excludes any dilutive effects of options and warrants. Basic earnings per share are calculated by dividing net income available to ordinary shareholders by the applicable weighted average number of shares outstanding during the year.

# Wilton Re Holdings Limited and Subsidiaries

## Notes to Consolidated Financial Statements (continued)

*(Expressed in U.S. dollars)*

### **2. Summary of Significant Accounting Policies (continued)**

#### **p) Derivatives**

The Company uses an interest rate swap to convert the floating interest rate payments on its term loan to a fixed rate. Interest is exchanged periodically on the notional value, with the Company receiving the floating LIBOR-based rate and paying the fixed rate. The Company does not apply hedge accounting to this derivative. Changes in the fair value are recognized in the consolidated statements of operations during the period of change with an offset to other liabilities. In 2008, 2007 and 2006, the Company recognized pre-tax gains of \$0.2 million pre-tax losses of \$1.8 million and \$1.6 million respectively, representing the change in value of these derivatives and related net settlements.

#### **q) Collateral Finance Facility**

The collateral finance facility represents borrowings used to fund collateral requirements for statutory reserves on specified term life insurance policies reinsured by the Company. The costs associated with the original issuance of debt are capitalized in other assets and amortized over the term of the underlying debt. All other costs associated with the facility are reflected in collateral finance facility expense. See Note 15 for additional information.

#### **r) Reclassification**

The Company has reclassified the presentation of certain prior period information to conform to the 2008 presentation.

#### **s) New Accounting Pronouncements**

In October 2008, the FASB issued FSP No. FAS 157-3, Determining the Fair Value of a Financial Asset When the Market for That Asset Is Not Active (FSP 157-3). FSP 157-3 clarifies the application of SFAS 157 in a market that is not active and provides an example to illustrate key considerations in determining the fair value of a financial asset when the market for that financial asset is not active. FSP 157-3 was effective upon issuance on October 10, 2008, including prior periods for which financial statements had not been

# Wilton Re Holdings Limited and Subsidiaries

## Notes to Consolidated Financial Statements (continued)

*(Expressed in U.S. dollars)*

### **2. Summary of Significant Accounting Policies (continued)**

issued. The Company did not consider it necessary to change any valuation techniques as a result of FSP 157-3. The Company will also adopt FSP No. FAS 157-2, Effective Date of FASB Statement No. 157 (FSP 157-2) which delays the effective date of SFAS 157 for certain nonfinancial assets and liabilities that are recorded at fair value on a nonrecurring basis. The effective date is delayed until January 1, 2009 and impacts balance sheet items including nonfinancial assets and liabilities in a business combination and the impairment testing of goodwill and long-lived assets. The Company is currently evaluating the impact of FSP 157-2 on its consolidated financial statements.

In December 2007, the FASB issued SFAS No. 141 (R), Business Combinations (SFAS 141(R)). This statement replaces SFAS No. 141, Business Combinations (SFAS 141) and establishes the principles and requirements for how the acquirer in a business combination: (a) measures and recognizes the identifiable assets acquired, liabilities assumed, and any noncontrolling interests in the acquired entity, (b) measures and recognizes positive goodwill acquired or a gain from bargain purchase (negative goodwill), and (c) determines the disclosure information that is decision-useful to users of financial statements in evaluating the nature and financial effects of the business combination. Some of the more significant changes to the existing accounting guidance on business combinations include the following:

- Most of the identifiable assets acquired, liabilities assumed, and any noncontrolling interest in the acquiree shall be measured at their acquisition-date fair values rather than SFAS 141's requirement to allocate the cost of an acquisition to individual assets acquired and liabilities assumed based on their estimated fair values;
- Acquisition-related costs incurred by the acquirer shall be expensed in the periods in which the costs are incurred rather than included in the cost of the acquired entity;
- Goodwill shall be measured as the excess of the consideration transferred, including the fair value of any contingent consideration, plus the fair value of any noncontrolling interest in the acquiree, over the fair values of the acquired identifiable net assets, rather than measured as the excess of the cost of the acquired entity over the estimated fair values of the acquired identifiable net assets;

# Wilton Re Holdings Limited and Subsidiaries

## Notes to Consolidated Financial Statements (continued)

*(Expressed in U.S. dollars)*

### **2. Summary of Significant Accounting Policies (continued)**

- Contractual pre-acquisition contingencies are to be recognized at their acquisition date fair values and noncontractual pre-acquisition contingencies are to be recognized at their acquisition date fair values only if it is more likely than not that the contingency gives rise to an asset or liability, whereas SFAS 141 generally permits the deferred recognition of pre-acquisition contingencies until the recognition criteria of SFAS No. 5, Accounting for Contingencies, are met; and
- Contingent consideration shall be recognized at the acquisition date rather than when the contingency is resolved and consideration is issued or becomes issuable.

SFAS 141(R) is effective for, and shall be applied prospectively to, business combinations for which the acquisition date is on or after the beginning of the first annual reporting period beginning on or after December 15, 2008, with earlier adoption prohibited. The Company expects to adopt SFAS 141(R) on January 1, 2009.

In February 2007, the FASB issued SFAS 159, The Fair Value Option for Financial Assets and Financial Liabilities. SFAS 159's objective is to enable companies to mitigate the earnings volatility caused by measuring related assets and liabilities differently, without having to apply complex hedge accounting provisions. SFAS 159 provides the option to use fair value accounting for most financial assets and financial liabilities, with changes in fair value reported in earnings. Selection of the fair value option is irrevocable, and can be applied on a partial basis, i.e., to some but not all similar financial assets or liabilities. SFAS 159 was effective for the Company beginning January 1, 2008. The Company's adoption of SFAS 159 in 2008 had no impact on the Company's consolidated financial statements.

On September 15, 2006, the FASB issued SFAS 157 Fair Value Measurements. This standard, which provides guidance on how to measure fair values of assets and liabilities, applies whenever other standards require or permit assets or liabilities to be measured at fair value, but does not discuss when to use fair value accounting. SFAS 157 establishes a fair value measurement hierarchy that gives the highest priority to quoted prices in active markets and the lowest priority to market-unobservable data. SFAS 157 was effective for the Company beginning January 1, 2008, and did not have any impact on the Company's consolidated financial statements.

# Wilton Re Holdings Limited and Subsidiaries

## Notes to Consolidated Financial Statements (continued)

*(Expressed in U.S. dollars)*

### **2. Summary of Significant Accounting Policies (continued)**

In June 2006 the FASB issued FIN 48 Accounting for Uncertainty in Income Taxes. FIN 48 prescribes recognition and measurement model for impact of tax positions taken or expected to be taken in a tax return, and provides guidance on derecognition, classification, interest and penalties, accounting in interim periods, disclosure and transition. FIN 48 requires evaluation of whether a tax position taken on a tax return is more likely than not to be sustained if challenged, and if so, evaluation of the largest benefit that is more than 50% likely of being realized on ultimate settlement. Differences between these benefits and actual tax positions result in either (A) an increase in a liability for income taxes payable or a reduction of an income tax refund receivable, (B) a reduction in a deferred tax asset or an increase in a deferred tax liability, or both A and B. FIN 48 requires recording a cumulative effect of adoption in retained earnings as of the beginning of the year of adoption. The Company's adoption of FIN 48 in 2007 had no impact on the Company's consolidated financial statements.

### **3. Significant Run Off Solutions Transactions**

In July 2007, the Company acquired a domestic Pennsylvanian life insurance company, Keystone State Life Insurance Company (KSLIC), for an aggregate purchase price \$15.2 million. The business acquired consisted of term life, universal life, and annuity products. Subsequently, the acquired company was merged into WRNY.

Effective July 1, 2008 the Company completed the acquisition of the individual life insurance operations of the life insurance subsidiaries of HealthMarkets, Inc. (together, HealthMarkets) through a series of indemnity reinsurance agreements. Through this transaction, the Company reinsured on a 100% coinsurance basis approximately 185,000 insurance policies originated or reinsured by HealthMarkets.

Wilton Re Holdings Limited and Subsidiaries

Notes to Consolidated Financial Statements (continued)

(Expressed in U.S. dollars)

**3. Significant Run Off Solutions Transactions (continued)**

The balance sheet impact of the HealthMarkets transaction as of July 1, 2008 was as follows:

Cash and cash equivalents	\$ 208,626,735
Policy loans	13,951,450
Funds withheld at interest	5,193,823
Value of inforce business acquired	88,460,000
Other assets	7,488,341
Total assets	<u>\$ 323,720,349</u>
Reserves for future policy benefits	<u>\$ 323,720,349</u>
Total liabilities	<u>\$ 323,720,349</u>

**4. Investments**

The amortized cost, fair value and related gross unrealized appreciation and depreciation of fixed maturity investments, asset backed securities, and equity securities classified as trading as of December 31, 2008 and 2007 are as follows:

**December 31, 2008**

	<u>Amortized Cost</u>	<u>Unrealized Appreciation</u>	<u>Unrealized Depreciation</u>	<u>Fair Value</u>
<b>Fixed maturities</b>				
U.S. government and agencies	\$ 170,003,677	\$ 13,461,697	\$ (21,653)	\$ 183,443,721
State and political subdivisions	31,073,398	181,849	(3,798,730)	27,456,517
Corporate securities	524,212,831	8,827,631	(77,569,469)	455,470,993
Foreign securities	64,887,867	392,206	(12,571,654)	52,708,419
Asset-backed securities	160,454,580	2,591,099	(20,908,401)	142,137,278
Mortgage-backed securities	515,316,178	17,061,822	(53,683,542)	478,694,458
Total fixed maturities	<u>\$1,465,948,531</u>	<u>\$ 42,516,304</u>	<u>\$ (168,553,449)</u>	<u>\$ 1,339,911,386</u>
Preferred stock	\$ 20,419,820	\$ 56,224	\$ (5,599,553)	\$ 14,876,491

Wilton Re Holdings Limited and Subsidiaries

Notes to Consolidated Financial Statements (continued)

(Expressed in U.S. dollars)

4. Investments (continued)

December 31, 2007

	Amortized Cost	Unrealized Appreciation	Unrealized Depreciation	Fair Value
<b>Fixed maturities</b>				
U.S. government and agencies	\$ 215,677,290	\$ 5,813,987	\$ (198)	\$ 221,491,079
State and political subdivisions	26,876,885	287,253	(464,895)	26,699,243
Corporate securities	484,179,963	4,976,405	(10,044,484)	479,111,884
Foreign securities	66,497,737	1,518,754	(1,040,589)	66,975,902
Asset-backed securities	176,682,871	747,646	(4,590,508)	172,840,009
Mortgage-backed securities	494,278,513	8,711,258	(7,637,267)	495,352,504
Total fixed maturities	<u>\$ 1,464,193,259</u>	<u>\$ 22,055,303</u>	<u>\$ (23,777,941)</u>	<u>\$ 1,462,470,621</u>
Preferred stock	<u>\$ 19,647,300</u>	<u>\$ 225,100</u>	<u>\$ (954,535)</u>	<u>\$ 18,917,865</u>

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, 2008 and December 31, 2007 are as follows:

December 31, 2008

	Less than 12 Months		12 Months or More		Total	
	Fair Value	Unrealized Depreciation	Fair Value	Unrealized Depreciation	Fair Value	Unrealized Depreciation
<b>Fixed maturities</b>						
U.S. government and agencies	\$ 3,744,223	\$ (21,653)	\$ -	\$ -	\$ 3,744,223	\$ (21,653)
State and political subdivisions	8,358,356	(1,270,361)	11,528,474	(2,528,369)	19,886,830	(3,798,730)
Corporate securities	208,196,791	(33,547,201)	124,081,812	(44,022,268)	332,278,603	(77,569,469)
Foreign securities	31,603,645	(6,443,858)	8,500,230	(6,127,796)	40,103,876	(12,571,654)
Asset-backed securities	34,783,328	(6,803,267)	59,526,605	(14,105,134)	94,309,932	(20,908,401)
Mortgage-backed securities	100,205,749	(22,420,557)	47,190,650	(31,262,985)	147,396,399	(53,683,542)
Total fixed maturities	<u>\$ 386,892,092</u>	<u>\$ (70,506,897)</u>	<u>\$ 250,827,771</u>	<u>\$ (98,046,552)</u>	<u>\$ 637,719,863</u>	<u>\$ (168,553,449)</u>

Wilton Re Holdings Limited and Subsidiaries

Notes to Consolidated Financial Statements (continued)

(Expressed in U.S. dollars)

**4. Investments (continued)**

At December 31, 2008, 155 fixed-maturity investments with a total unrealized loss of \$98,046,552 had been in an unrealized position for 12 months or more. Of those securities, eight securities with a fair value of \$3.5 million were trading below 70 percent of book value with a total unrealized loss of \$10.5 million. The remainder were trading above 70 percent of book value.

**December 31, 2007**

	Less than 12 Months		12 Months or More		Total	
	Fair Value	Unrealized Depreciation	Fair Value	Unrealized Depreciation	Fair Value	Unrealized Depreciation
<b>Fixed maturities</b>						
U.S. government and agencies	\$ 4,698,369	\$ (198)	\$ —	\$ —	\$ 4,698,369	\$ (198)
State and political subdivisions	18,815,056	(464,895)	—	—	18,815,056	(464,895)
Corporate securities	253,254,848	(9,472,373)	27,621,388	(572,111)	280,876,236	(10,044,484)
Foreign securities	22,492,856	(943,354)	777,230	(97,235)	23,270,086	(1,040,589)
Asset-backed securities	131,245,268	(4,555,213)	5,916,352	(35,295)	137,161,620	(4,590,508)
Mortgage-backed securities	140,122,268	(5,969,115)	22,481,141	(1,668,152)	162,603,409	(7,637,267)
Total fixed maturities	<u>\$ 570,628,665</u>	<u>\$(21,405,148)</u>	<u>\$ 56,796,111</u>	<u>\$ (2,372,793)</u>	<u>\$ 627,424,776</u>	<u>\$(23,777,941)</u>

At December 31, 2007, 60 fixed-maturity investments with a total unrealized loss of \$2,372,793 had been in an unrealized position for 12 months or more. Of those securities, six securities with a fair value of \$2.2 million were trading below 70 percent of book value with a total unrealized loss of \$1.5 million. The remainder were trading above 70 percent of book value.

Wilton Re Holdings Limited and Subsidiaries

Notes to Consolidated Financial Statements (continued)

(Expressed in U.S. dollars)

**4. Investments (continued)**

Contractual maturities of the Company's fixed maturity securities as of December 31, 2008 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.

	<u>Amortized Cost</u>	<u>Fair Value</u>
<b>December 31, 2008</b>		
Within one year	\$ 28,896,536	\$ 28,617,665
From one year to five years	124,355,971	118,746,684
From six years to ten years	162,018,898	149,960,855
More than ten years	474,906,368	421,754,445
	<u>790,177,773</u>	<u>719,079,649</u>
Asset-backed securities	160,454,580	142,137,278
Mortgage-backed securities	515,316,178	478,694,458
Total fixed maturities	<u>\$ 1,465,948,531</u>	<u>\$ 1,339,911,386</u>

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

	<u>2008</u>	<u>2007</u>	<u>2006</u>
Cash and cash equivalents	\$ 13,246,745	\$ 6,523,264	\$ 7,348,129
Short-term investments	2,267,334	6,848,289	5,800,619
Fixed maturities	82,494,150	84,140,601	20,835,071
Policy loans	8,474,435	9,178,233	3,924,787
Other invested assets	416,974	4,735,881	833,549
Total investment income	<u>106,899,638</u>	111,426,268	38,742,155
Investment expenses	<u>(2,717,801)</u>	(3,198,138)	(276,201)
Subtotal investment income	<u>104,181,837</u>	108,228,130	38,465,954
Investment income on funds withheld at interest	132,128,002	150,307,168	81,604,943
Realized gains on funds withheld at interest	4,020,381	3,089,053	5,377,302
Realized losses at funds withheld at interest	(40,132,066)	—	—
Realized gains	1,976,942	\$723,812	\$57,557
Realized losses	<u>(37,756,184)</u>	(4,164,480)	(1,201,165)
Investment return	<u>\$ 164,418,912</u>	<u>\$ 258,183,683</u>	<u>\$ 124,304,591</u>

## Wilton Re Holdings Limited and Subsidiaries

### Notes to Consolidated Financial Statements (continued)

*(Expressed in U.S. dollars)*

#### 4. Investments (continued)

Credit ratings of the Company's fixed maturity securities as of December 31, 2008 and 2007 are shown below. Ratings are assigned by Standard & Poor's Corporation.

	<b>Amortized Cost</b>	<b>Fair Value</b>
<b>December 31, 2008</b>		
AAA	\$ 786,069,798	\$ 758,906,411
AA	128,026,076	112,623,548
A	298,384,788	256,782,619
BBB	210,539,620	172,615,071
BB	20,193,894	16,455,251
B	1,020,848	595,000
CCC or lower	453,524	110,413
Not rated	21,259,983	21,823,073
Total fixed maturity securities	<b>\$ 1,465,948,531</b>	<b>\$ 1,339,911,386</b>
 <b>December 31, 2007</b>		
AAA	\$ 891,866,525	\$ 897,927,357
AA	138,947,721	137,321,084
A	230,910,305	224,096,547
BBB	170,752,800	171,263,556
BB	18,718,378	18,763,798
B	1,029,806	1,021,250
CCC or lower	95,805	9,378
Not rated	11,871,919	12,067,651
Total fixed maturity securities	<b>\$ 1,464,193,259</b>	<b>\$ 1,462,470,621</b>

The Company's largest 5 exposures by issuer as of December 31, 2008 were Wells Fargo & Company, General Electric Company, Bank of America Corporation, International Business Machines and Citigroup, Inc., each of which comprised approximately 1.5% or less of total invested assets.

The Company's largest 5 exposures by issuer as of December 31, 2007 were Citigroup, Inc., Lehman Brothers Holding Inc., Morgan Stanley, American International Group Inc., and AT&T Inc., each of which comprised approximately 1.2% or less of total invested assets.

## Wilton Re Holdings Limited and Subsidiaries

### Notes to Consolidated Financial Statements (continued)

*(Expressed in U.S. dollars)*

#### **4. Investments (continued)**

Policy loans comprised approximately 1.3% and 0.8% of the Company's investments as of December 31, 2008 and 2007, respectively. These policy loans present no credit risk because the amount of the loan cannot exceed the obligation due the ceding company upon the death of the insured or surrender of the underlying policy. The provisions of the underlying policies determine the policy loan interest rates. Because policy loans represent premature distributions of policy liabilities, they have the effect of reducing future disintermediation risk. In addition, the Company earns a spread between the interest rate earned on policy loans and the interest rate credited to corresponding liabilities.

At December 31, 2008 and 2007, fixed maturity securities of \$23,852,700 and \$23,932,029, respectively, were held on deposit with various state insurance departments in which WRAC and WRNY are licensed to operate to provide security and meet regulatory requirements.

#### **5. Funds Withheld at Interest**

Funds withheld at interest comprised approximately 57.4% and 62.8% of the Company's total investments as of December 31, 2008 and 2007, respectively. In the event of a ceding company's insolvency, the Company would be required to assert a claim on ceding company assets supporting subject reserve liabilities. However, the risk of loss to the Company is mitigated by its ability 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 to these assets at rates defined by the treaty terms using actual investment results of the underlying portfolio. In most cases, the Company is subject to the investment performance on the funds withheld assets in a fashion similar to its invested assets.

Wilton Re Holdings Limited and Subsidiaries

Notes to Consolidated Financial Statements (continued)

(Expressed in U.S. dollars)

**5. Funds Withheld at Interest (continued)**

The amortized cost, fair value and related gross unrealized appreciation and depreciation of assets supporting our funds withheld at interest as of December 31, 2008 and 2007 are as follows:

	Amortized Cost	Unrealized Appreciation	Unrealized Depreciation	Fair Value
<b>December 31, 2008</b>				
U.S. government and agencies	\$ 2,747,377	\$ 287,793	\$ -	\$ 3,035,170
Public utilities	192,518,436	822,505	(16,209,996)	177,130,945
Corporate securities	1,309,343,344	6,802,619	(166,973,113)	1,149,172,850
Mortgage and other asset-backed securities	654,776,826	5,193,178	(88,295,937)	571,674,067
Total fixed maturities	2,159,385,983	13,106,095	(271,479,046)	1,901,013,032
Preferred stock	2,582,000	56,120	(233,996)	2,404,124
Cash and cash equivalents	65,547,177	-	-	65,547,177
Other invested assets	109,923,007	-	-	109,923,007
Invested funds held at interest	<b>\$ 2,337,438,167</b>	<b>\$ 13,162,215</b>	<b>\$ (271,713,042)</b>	<b>\$ 2,078,887,340</b>

	Amortized Cost	Unrealized Appreciation	Unrealized Depreciation	Fair Value
<b>December 31, 2007</b>				
U.S. government and agencies	\$ 12,557,247	\$ 225,876	\$ (274)	\$ 12,782,849
State and political subdivisions	24,642,052	51,746	-	24,693,798
Public utilities	161,262,793	3,198,060	(2,828,776)	161,632,077
Corporate securities	1,568,032,892	27,100,520	(19,354,575)	1,575,778,837
Mortgage and other asset-backed securities	768,759,895	12,447,446	(959,150)	780,248,191
Total fixed maturity securities	2,535,254,879	43,023,648	(23,142,775)	2,555,135,752
Cash and cash equivalents	53,583,619	-	-	53,583,619
Other invested assets	139,886,817	-	-	139,886,817
Invested funds held at interest	<b>\$ 2,728,725,315</b>	<b>\$ 43,023,648</b>	<b>\$ (23,142,775)</b>	<b>\$ 2,748,606,188</b>

Wilton Re Holdings Limited and Subsidiaries

Notes to Consolidated Financial Statements (continued)

(Expressed in U.S. dollars)

**5. Funds Withheld at Interest (continued)**

Unrealized depreciation and fair values by investment category and by the duration of the fixed maturity securities in a continuous unrealized loss position of assets supporting funds withheld at interest at December 31, 2008 and 2007:

**December 31, 2008**

	Less than 12 Months		12 Months or More		Total	
	Fair Value	Unrealized Depreciation	Fair Value	Unrealized Depreciation	Fair Value	Unrealized Depreciation
Public utilities	\$ 107,236,582	\$ (6,122,423)	\$ 28,379,435	\$ (10,087,573)	\$ 135,616,017	\$ (16,209,996)
Corporate securities	678,465,309	(92,149,291)	170,683,944	(74,823,823)	849,149,253	(166,973,113)
Mortgage and other asset-backed securities	465,410,578	(84,464,989)	11,714,586	(3,830,947)	477,125,164	(88,295,937)
Total funds held at interest	<u>\$ 1,251,112,469</u>	<u>\$ (182,736,703)</u>	<u>\$ 210,777,965</u>	<u>\$ (88,742,343)</u>	<u>\$ 1,461,890,434</u>	<u>\$ (271,479,046)</u>

At December 31, 2008, \$210,777,965 in fixed-maturity investments with a total unrealized loss of \$88,742,343 had been in an unrealized position for 12 months or more. Of those securities, five securities were trading below 70 percent of book value with a total unrealized loss of \$3.7 million. The remainder were trading above 70 percent of book value.

**December 31, 2007**

	Less than 12 Months		12 Months or More		Total	
	Fair Value	Unrealized Depreciation	Fair Value	Unrealized Depreciation	Fair Value	Unrealized Depreciation
U.S. government and agencies	\$ -	\$ (274)	\$ -	\$ -	\$ -	\$ (274)
State and political subdivisions	-	-	-	-	-	-
Public utilities	36,229,506	(2,828,776)	-	-	36,229,506	(2,828,776)
Corporate securities	408,281,249	(17,962,036)	12,973,739	(1,392,539)	421,254,988	(19,354,575)
Mortgage and other asset-backed securities	59,860,926	(320,709)	2,318,203	(638,441)	62,179,129	(959,150)
Total fixed maturity securities	<u>504,371,681</u>	<u>(21,111,795)</u>	<u>15,292,942</u>	<u>(2,030,980)</u>	<u>519,663,601</u>	<u>(23,142,775)</u>
Cash and cash equivalents	-	-	-	-	-	-
Other invested assets	-	-	-	-	-	-
Total funds held at interest	<u>\$ 504,371,681</u>	<u>\$ (21,111,795)</u>	<u>\$ 15,292,942</u>	<u>\$ (2,030,980)</u>	<u>\$ 519,663,623</u>	<u>\$ (23,142,775)</u>

Wilton Re Holdings Limited and Subsidiaries

Notes to Consolidated Financial Statements (continued)

(Expressed in U.S. dollars)

**5. Funds Withheld at Interest (continued)**

At December 31, 2007, \$15,292,942 in fixed-maturity investments with a total unrealized loss of \$2,030,980 had been in an unrealized position for 12 months or more. Of those securities, four securities were trading below 70 percent of book value with a total unrealized loss of \$454,000. The remainder were trading above 70 percent of book value.

The contractual maturities of the fixed maturity securities supporting funds withheld at interest as of December 31, 2008 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.

	<u>Amortized Cost</u>	<u>Estimated Fair Value</u>
<b>December 31, 2008</b>		
Within one year	\$ 163,389,331	\$ 161,427,325
From one year to five years	634,605,253	595,049,082
From six years to ten years	397,798,538	346,265,111
More than ten years	308,816,034	226,597,445
	<u>1,504,609,156</u>	<u>1,329,338,963</u>
Mortgage and asset-backed	654,776,827	571,674,069
Total fixed maturity securities	<u>\$ 2,159,385,983</u>	<u>\$ 1,901,013,032</u>

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, 2008.

	<u>Amortized Cost</u>	<u>Estimated Fair Value</u>
<b>December 31, 2008</b>		
AAA	\$ 511,112,640	\$ 461,608,280
AA	151,799,528	136,877,965
A	627,571,543	551,548,622
BBB	801,375,894	696,873,976
BB	24,380,548	18,495,344
B	1,563,175	952,445
CCC or lower	41,582,655	34,656,400
Total fixed maturity securities	<u>\$ 2,159,385,983</u>	<u>\$ 1,901,013,032</u>

## Wilton Re Holdings Limited and Subsidiaries

### Notes to Consolidated Financial Statements (continued)

*(Expressed in U.S. dollars)*

#### **5. Funds Withheld at Interest (continued)**

Also included in Funds Withheld at Interest are amounts due from Protective Life which are on a discounted basis of approximately \$7.3 million and \$13.5 million at December 31, 2008 and 2007, respectively. These amounts are not supported by specified assets.

#### **6. Concentration of Credit Risk**

As of December 31, 2008 and 2007, 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 former Chase insurance companies acquired by Protective Life. The amount of the Company's funds withheld at interest related to these agreements was \$2,025,521,176, or 98.6% of the receivable as of December 31, 2008, and \$2,653,923,783, or 98.7% of the receivable as of December 31, 2007. The Protective insurance companies are rated A+ by A.M. Best at December 31, 2008.

#### **7. 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 in force subsequent to January 1, 2005 through December 31, 2007 for lives greater than \$1 million and from January 1, 2008 and subsequent for lives greater than \$2 million.

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 included 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 \$300,000 to \$1 million.

Reinsurance and retrocession treaties do not relieve the Company from its obligations to counter parties. 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, 2008 and 2007, no allowances were deemed necessary.

Wilton Re Holdings Limited and Subsidiaries

Notes to Consolidated Financial Statements (continued)

(Expressed in U.S. dollars)

**7. Reinsurance (continued)**

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

	<u>2008</u>	<u>2007</u>	<u>2006</u>
Direct	\$ 39,747,641	\$ 43,432,192	\$ 11,428,803
Reinsurance assumed	254,474,415	165,228,499	96,404,775
Reinsurance ceded	<u>(36,207,162)</u>	<u>(38,750,325)</u>	<u>(12,155,232)</u>
Net premiums	<u>\$ 258,014,894</u>	<u>\$ 169,910,366</u>	<u>\$ 95,678,346</u>

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

	<u>2008</u>	<u>2007</u>	<u>2006</u>
Direct	\$ 62,717,244	\$ 45,172,912	\$ 13,246,485
Reinsurance assumed	152,105,710	159,155,972	121,502,978
Reinsurance ceded	<u>(42,175,106)</u>	<u>(7,629,692)</u>	<u>(24,394,092)</u>
Net claims and policy benefits	<u>\$ 172,647,848</u>	<u>\$ 196,699,192</u>	<u>\$ 110,355,371</u>

At December 31, 2008 and 2007, there were no reinsurance ceded or retrocessional receivables associated with a single reinsurer with a carrying value in excess of 5% of total assets.

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

	<u>Direct</u>	<u>Assumed</u>	<u>Ceded</u>	<u>Net</u>	<u>Assumed/ Net %</u>
December 31, 2008	\$ 21,528,430	\$ 64,140,154	\$ (14,165,878)	\$ 71,502,706	89.7%
December 31, 2007	\$ 23,046,741	\$ 54,495,827	\$ (14,765,058)	\$ 62,777,510	86.81%

# Wilton Re Holdings Limited and Subsidiaries

## Notes to Consolidated Financial Statements (continued)

*(Expressed in U.S. dollars)*

### 7. Reinsurance (continued)

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 potentially additional reserves for future policy benefits would be recorded.

The approximate amount of VOBA recorded related to ceding allowances received from inuring reinsurance was \$259.8 million and \$286.3 million as of December 31, 2008 and 2007, respectively.

The 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 (millions):

	<u>2008</u>	<u>2007</u>
Reserves for future policy benefits	\$ 728.7	\$ 688.8
Life insurance inforce	<u>\$ 103,400</u>	<u>\$ 121,900</u>

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

Approximately 75% of the Company's aggregate exposure to reinsurer-related credit risk (measured based on inforce ceded) is attributable to five groups of reinsurers and retrocessionaires. Taken together, these reinsurers and retrocessionaires have a weighted average AM Best rating (measured on a statutory basis) as of December 31, 2008 of A+.

Approximately 61% of the Company's aggregate exposure to reinsurer-related credit risk (measured based on inforce ceded) is attributable to five groups of inuring reinsurers. Taken together, these inuring reinsurers and retrocessionaires have a weighted average AM Best rating (measured on a statutory basis) as of December 31, 2008 of A-.

Wilton Re Holdings Limited and Subsidiaries

Notes to Consolidated Financial Statements (continued)

(Expressed in U.S. dollars)

**8. Deferred Acquisition Costs and Value of Business Acquired**

The following reflects the amounts of policy acquisition costs deferred and amortized:

	<u>2008</u>	<u>2007</u>	<u>2006</u>
Assumed	\$ 83,691,006	\$ 55,680,717	\$ 33,239,371
Retroceded	—	—	—
Net deferred acquisition costs	<u>\$ 83,691,006</u>	<u>\$ 55,680,717</u>	<u>\$ 33,239,371</u>
	<b>For the Year Ended December 31</b>		
	<u>2008</u>	<u>2007</u>	<u>2006</u>
Beginning of year	\$ 55,680,717	\$ 33,239,371	\$ 10,232,375
Capitalized:			
Assumed	36,917,593	29,301,187	26,582,820
Retroceded	—	—	—
Amortized:			
Assumed	(8,907,305)	(6,859,841)	(3,575,824)
Retroceded	—	—	—
End of year	<u>\$ 83,691,006</u>	<u>\$ 55,680,717</u>	<u>\$ 33,239,371</u>

The balances and changes in VOBA are as follows:

	<b>For the Year Ended December 31</b>		
	<u>2008</u>	<u>2007</u>	<u>2006</u>
Beginning of year	\$ 525,807,308	\$ 411,962,205	\$ 454,834
Purchase accounting refinements	(60,680,280)	27,580,195	—
Acquisitions	91,179,072	113,773,795	440,695,694
Amortization	49,634,224	(24,559,982)	(29,188,323)
Impact of unlocking	(5,624,005)	(2,948,905)	—
End of year	<u>\$ 600,316,139</u>	<u>\$ 525,807,308</u>	<u>\$ 411,962,205</u>

The change in amortization of VOBA in 2008 compared to 2007 reflects lower actual gross profits driven by the decline in the investment portfolio.

# Wilton Re Holdings Limited and Subsidiaries

## Notes to Consolidated Financial Statements (continued)

*(Expressed in U.S. dollars)*

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

During 2008, the Company recorded two purchase accounting refinements related to its Old Mutual and WRNY acquisitions. The Old Mutual adjustment related to management refining the level of reserves for future policy benefits and the WRNY adjustment related to management releasing the net deferred tax asset valuation allowance.

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

2009	\$ 52,195,743
2010	49,595,353
2011	43,581,560
2012	38,261,194
2013	36,439,571

### 9. Taxation

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

At December 31, 2008, the Company had U.S. net operating loss carryforwards of approximately \$345.0 million that if unutilized will begin to expire in 2015, and capital loss carryforwards of approximately \$1.4 million that, if unutilized, will begin to expire in 2014. Approximately \$9.4 million of the net operating losses and none of the capital losses are limited pursuant to Section 382 of the Internal Revenue Code.

Income tax benefits attributable to income from continuing operations for the years ended December 31, 2008, 2007 and 2006 are as follows:

	<u>2008</u>	<u>2007</u>	<u>2006</u>
Current tax expense	\$ —	\$ —	\$ —
Deferred tax benefit	<b>(36,138,906)</b>	—	—
	<b><u>\$ (36,138,906)</u></b>	<b><u>\$ —</u></b>	<b><u>\$ —</u></b>

Wilton Re Holdings Limited and Subsidiaries

Notes to Consolidated Financial Statements (continued)

(Expressed in U.S. dollars)

**9. Taxation (continued)**

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

	<u>2008</u>	<u>2007</u>	<u>2006</u>
Computed expected tax (loss) benefit @35%	\$ (91,703,208)	\$ 11,761,975	\$ 4,030,889
Foreign loss (income) not subject to U.S. tax	43,649,097	(1,398,235)	(6,637,750)
Foreign tax DAC	1,623,221	(1,974,386)	(3,729,176)
Other	(1,754,994)	(30,462)	(3,221)
Effect of change in valuation allowance	12,046,978	(8,358,892)	6,339,258
Actual income tax benefit	<u>\$ (36,138,906)</u>	<u>\$ —</u>	<u>\$ —</u>

The tax effects of temporary differences that give rise to significant portions of the deferred income tax assets and liabilities at December 31, 2008 and 2007 are presented in the following table:

	<u>2008</u>	<u>2007</u>	<u>2006</u>
<b>Deferred income tax assets</b>			
Differences between tax and financial reporting amounts concerning certain reinsurance transactions	\$ 147,077,846	\$ 18,123,750	\$ 34,742,017
Net operating loss and capital loss	121,303,734	110,955,999	96,207,286
Nondeductible accruals	3,158,632	1,370,423	1,753,794
Deferred acquisition costs- tax	—	—	16,280,716
Investments	87,010,807	759,216	—
Organizational costs	512,999	559,792	607,703
Other	5,064,827	5,959,522	6,646,437
Total deferred tax assets	<u>364,128,845</u>	<u>137,728,702</u>	<u>156,237,953</u>
<b>Deferred income tax liabilities</b>			
Reserves for future policy benefits	181,051,114	16,520,614	15,763,628
Acquisition costs	101,915,132	87,123,111	69,897,643
Investments	—	—	1,199,555
Other	1,041,749	2,150,012	5,310,887
Total deferred tax liabilities	<u>284,007,994</u>	<u>105,793,737</u>	<u>92,171,713</u>
Valuation allowance	12,046,978	31,934,967	64,066,240
Net deferred taxes	<u>\$ 68,073,872</u>	<u>\$ —</u>	<u>\$ —</u>

# Wilton Re Holdings Limited and Subsidiaries

## Notes to Consolidated Financial Statements (continued)

*(Expressed in U.S. dollars)*

### **9. Taxation (continued)**

At December 31, 2008, the Company reduced the valuation allowance related to approximately \$31.9 million of the deferred tax assets that were acquired via stock acquisitions. The reduction of the valuation allowance reduced the value of business acquired (included as part of purchase accounting refinements) and had no impact on the equity or earnings of the Company.

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, based on the weight of the available evidence, that it is more likely than not that the deferred income taxes will not be realized. At December 31, 2008, a valuation allowance was recorded against approximately 15% of net deferred tax assets, reflecting realized losses and investment impairments not likely to be recognized in the foreseeable future. No valuation allowance was recorded against unrealized loss and operating deferred tax assets. The Company believes the unrealized losses related to investments will reverse over time, and 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. subsidiaries 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. While the Company has a deficit in accumulated earnings at December 31, 2008, distributions in any current year will be subject to 30% withholding tax to the extent there is current taxable income in such current year.

As of December 31, 2008 and 2007, the Company had no unrecognized tax benefits.

## Wilton Re Holdings Limited and Subsidiaries

### Notes to Consolidated Financial Statements (continued)

*(Expressed in U.S. dollars)*

#### **10. 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 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.

As a long-term insurer, Wilton Re Bermuda must maintain long-term business assets of a value of at least \$250,000 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 \$250,000. 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 must be granted for all dividends declared in excess of 15% of statutory capital.

WRAC, WRNY and Redding Re 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, 2008 and 2007, WRAC, WRNY, and Redding Re exceeded all minimum RBC requirements. WRAC 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. As a result, WRAC can not pay any dividends in 2009 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 not pay any dividends in 2009 without prior regulatory approval. Redding Re is subject to the statutory regulations of the state of South Carolina and its licensing order. All dividends from Redding Re are subject to the maintenance of minimum capital and surplus requirements, as well as, prior approval by the South Carolina Department of Insurance.

## Wilton Re Holdings Limited and Subsidiaries

### Notes to Consolidated Financial Statements (continued)

*(Expressed in U.S. dollars)*

#### 10. Statutory Requirements and Dividend Restrictions (continued)

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

	<b>2008</b>	<b>2007</b>
	<b>(unaudited)</b>	
Wilton Reinsurance Bermuda Limited	<b>\$ 240,361,660</b>	\$ 270,750,776
Wilton Reassurance Company	<b>126,424,950</b>	116,832,181
Wilton Reassurance Life Co. of New York	<b>70,632,379</b>	93,361,398
Redding Reassurance Company	<b>92,382,411</b>	80,201,605

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

	<b>2008</b>	<b>2007</b>	<b>2006</b>
	<b>(unaudited)</b>		
Wilton Reinsurance Bermuda Limited	<b>\$(108,889,116)</b>	\$ 19,850,685	\$ 24,820,421
Wilton Reassurance Company	<b>5,062,032</b>	(79,941,764)	(123,529,182)
Wilton Reassurance Life Co of New York	<b>(26,150,334)</b>	(15,292,901)	16,072,520
Redding Reassurance Company	<b>(10,265,849)</b>	(23,002,983)	(137,710,004)

#### 11. Shareholder's Equity

##### Authorized Shares

The authorized ordinary shares of the Company consists of 50,000,000 voting Class A common shares, par value \$1.00 per share and 3,000,000 non-voting Class B common shares, par value \$1.00 per share as of December 31, 2008 and 2007. Upon incorporation, the Company issued 32,000 Class A common shares at \$25 per share for a total of \$800,000.

# Wilton Re Holdings Limited and Subsidiaries

## Notes to Consolidated Financial Statements (continued)

(Expressed in U.S. dollars)

### 11. Shareholder's Equity (continued)

On December 16, 2004, the Company, through a privately negotiated transaction of \$50.00 per Class A common share, received an irrevocable subscription commitment of \$627,200,000 for 12,544,000 shares. During 2005, an additional commitment of \$3,125,000 for 62,500 shares at \$50 per Class A common share was received from board members and management. In July 2006, a commitment of \$975,000 for 19,500 shares at \$50 per Class A common share was received from specific investors.

On March 20, 2007, the Company closed on an additional irrevocable equity commitment of \$300 million from Lehman Brothers (Lehman). At the time of closing, the Company's subscription and members agreements were amended and restated to reflect the terms of the Lehman commitment and to increase the number of authorized Class A common shares to 50,000,000, among other things. At the time of closing, Lehman invested \$100 million at \$52.50 per share. The proceeds were used to repurchase and retire shares from the Company's existing investors and to replenish and extend their existing commitments proportionately. As a result, after the closing, the Company had undrawn irrevocable equity commitments of \$352 million expiring in September 2009. During 2008, the Company collected from its investors approximately \$230 million of commitments. On February 6, 2009, the Company received the subscription receivable of \$121.6 million.

The investor commitments, drawn capital, undrawn capital, and issued shares as of December 31, 2008 and 2007, are as follows:

	<b>Investor Commitments</b>	<b>Drawn Capital</b>	<b>Undrawn Capital</b>	<b>Issued and Outstanding Common Shares</b>
December 31, 2008	\$ 932,000,000	\$ 932,000,000	\$ —	18,319,632
December 31, 2007	932,000,000	579,548,237	352,451,763	11,515,729

### Founders Warrants

At the date of incorporation, the Company issued to certain persons, in connection with the stock issuances, warrants to purchase up to 8% of the aggregate number of the applicable class of outstanding common shares. The warrants are exercisable at \$50.00 per share. The warrants were immediately and fully exercisable at the time of issuance and remain exercisable for a period of 10 years. As of December 31, 2004, the Company had issued 2,560 warrants with a fair value of \$11.14. No new warrants were issued during 2008, 2007 or 2006 and none have been exercised as of December 31, 2008.

# Wilton Re Holdings Limited and Subsidiaries

## Notes to Consolidated Financial Statements (continued)

*(Expressed in U.S. dollars)*

### **11. Shareholder's Equity (continued)**

#### **Equity Based Compensation**

The Company has granted to certain of its employees and officers, options to purchase 4.7% of the aggregate number of outstanding common shares. The options are exercisable at \$50.00 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, 2008 and 2007, there were 987,966 and 620,549 options outstanding. During 2008 and 2007, there were no exercised options. During 2008 and 2007, there were 20,042 and 0 forfeited options, respectively. Equity based compensation expense of \$4,921,641, \$1,893,777, and \$2,874,337 related to the granting of the options was recognized in 2008, 2007, and 2006, respectively. The weighted average contractual life for all grants is 5.3 years. Options vested as of December 31, 2008 and 2007 were 358,095 and 231,244, respectively. Option awards provide for accelerated vesting if there is a change in control (as defined in the 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 2007. The per share weighted-average fair value of stock options granted during 2008 and 2006 was \$17.08 and \$20.97 on the date of grant using Black-Scholes option pricing model with the following weighted average assumptions: 2008-expected dividend yield of 0%, risk free interest rate of 3.74%, expected life of 7.0 years and an expected rate of volatility of the stock of 44.8% over the expected life of the options; 2006-expected dividend yield of 0%, risk free interest rate of 4.9%, expected life of 8.0 years and an expected rate of volatility of the stock of 24.4% over the expected life of the options.

### **12. Commitments and Contingencies**

#### **Letters of Credit**

The Company obtains letters of credit in favor 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. During 2005, the letters of credit were issued by Bank of America NA (B of A). In June 2006, the B of A facility was terminated and replaced by a syndicated \$100 million, 364 day senior revolving credit facility for which Wachovia Capital Markets, LLC served as the lead arranger (Wachovia Revolver/LOC Facility). This facility was extended for

## Wilton Re Holdings Limited and Subsidiaries

### Notes to Consolidated Financial Statements (continued)

*(Expressed in U.S. dollars)*

#### **12. Commitments and Contingencies (continued)**

two years in June 2007. The Wachovia Revolver/LOC Facility also contains financial covenant restrictions that require the Company not to exceed a consolidated leverage ratio of greater than .25 to 1.00, and maintenance of a minimum consolidated tangible net worth. At December 31, 2008 and 2007, there were approximately \$69,928,395 and \$69,763,395, respectively, of outstanding bank letters of credit issued.

Within the amount shown above, the Company utilizes letters of credit to secure reserve credits when WRAC retrocedes business to Wilton Re Bermuda. As of December 31, 2008 and 2007, \$40,800,000 and \$36,000,000, respectively, were outstanding between WRAC and Wilton Re Bermuda. To date, there have been no borrowings under the Wachovia Facility.

#### **Legal Proceedings**

In the normal course of our business, the Company is occasionally 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. In connection with its closed block acquisition transactions, the Company generally receives indemnification from sellers for litigation pending at the closing date.

#### **13. Term Debt**

In July of 2006, the Company completed a syndicated \$150 million three year Senior Term Loan Credit Facility for which Wachovia Capital Markets, LLC served as the lead arranger (Wachovia Term Loan). At the Company's option, the Wachovia Term Loan provides for the payment of interest based either on LIBOR or the prime commercial lending rate, plus a margin based on the Company's financial strength rating. At funding, the Company entered into an interest rate swap

## Wilton Re Holdings Limited and Subsidiaries

### Notes to Consolidated Financial Statements (continued)

*(Expressed in U.S. dollars)*

#### **13. Term Debt (continued)**

agreement to convert the floating LIBOR base rate to a fixed rate of 5.495%. At December 31, 2008, 2007 and 2006, the fixed rate, including applicable margin, was 7.245%. The Wachovia Term Loan provides for no amortization in the first year, quarterly amortization of \$6.25 million beginning in September 2007, with a final bullet payment of \$106.25 million payable upon maturity in 2009. The expected principal repayments in 2009 are \$112,500,000. The Wachovia Term Loan also contains financial covenant restrictions that require the Company not to exceed a consolidated leverage ratio of greater than .25 to 1.00, and maintenance of a minimum consolidated tangible net worth.

#### **14. Collateral Finance Facility**

In September 2006, as part of the Redding Facility to provide funding of certain reserves required by the Valuation for Life Insurance Policies Regulation (Regulation Triple X), the Company organized Redding Re Holdings as a direct, wholly owned subsidiary of WRAC, as well as Redding Re, a South Carolina special purpose financial captive insurance company and a direct wholly owned subsidiary of Redding Re Holdings. Redding Re was formed for the sole purpose of reinsuring, on a 100% coinsurance basis, certain of the WRAC's liabilities relating to the reinsurance of Regulation Triple-X business (the Redding Coinsurance).

Through the Redding Facility, amounts are borrowed by Redding Re Holdings and contributed to Redding Re as capital to be maintained in a reinsurance trust, collateralizing the performance of its obligations under the Redding Coinsurance. At December 31, 2008 and 2007, Redding Re held assets in trust of approximately \$260 and \$209 million, respectively, for this purpose.

Interim financing for the Redding Facility is provided by a third party under the terms of a revolving credit facility (the Redding Warehouse Facility) to fund up to \$250 million of statutory reserves. Interest is paid during the interim financing period based on three month LIBOR plus a margin of 0.75% per annum through December 31, 2008. The interim margin increases to 1.75% per annum effective January 31, 2009 and will continue to increase to 2.75% per annum effective July 1, 2009. At December 31, 2008, the Redding Warehouse Facility had an outstanding balance of \$250 million.

The Redding Warehouse Facility includes provisions prohibiting future draws and requires increased interest rates if certain events occur, including in the event that the financial guaranty insurance commitment is terminated and not replaced with a similar commitment and in the event that the Company or certain of its subsidiaries receive third party credit ratings below specified thresholds. In addition, the Redding Warehouse Facility includes covenants which

## Wilton Re Holdings Limited and Subsidiaries

### Notes to Consolidated Financial Statements (continued)

*(Expressed in U.S. dollars)*

#### **14. Collateral Finance Facility (continued)**

require, among other things, the maintenance of minimum capital levels in Redding Re Holdings and Redding Re and restrictions on dividends by Redding Re Holdings. In connection with borrowings under the Redding Warehouse Facility, Redding Re Holdings has granted a first priority, perfected security interest in all of the assets of Redding Re Holdings, including its interest in Redding Re and all dividends paid thereto by Redding Re. Wilton Re Limited has guaranteed repayment of amounts drawn under the terms of the Redding Warehouse Facility, subject to a subordination agreement in favor of the Wachovia Revolver/LOC and Term Loan facilities disclosed in Notes 13 and 14.

It is anticipated that obligations with respect to the Warehouse Facility will be repaid principally from the proceeds of one or more securitization transactions to be undertaken by Redding Holdings or similar long-term funding arrangements to be undertaken by Redding Holdings, the Company or both. The lender extended the Warehouses Facility to September, 2009 and, with respect to the Facility, has committed, under certain circumstances, to convert the interim financing commitment under the Warehouse Facility to a term loan with a final maturity coterminous with the duration of the Company's exposure on business ceded thereto by Wilton Reassurance Company.

The increasing nature of Regulation Triple X reserves and the Company's growth plans will require additional external financing resources such as letters of credit, borrowings, and reinsurance. If the Company is unable to support future reserve credits with external forms financing, regulatory capital levels may be reduced. The reduction in regulatory capital would have no impact on the Company's consolidated GAAP shareholders equity, but may impact its ability to continue writing new business.

In accordance with FASB Interpretation No. 46(R), Consolidation of Variable Interest Entities- An Interpretation of ARB No. 51, Redding Re Holdings is considered to be a variable interest entity and the Company is deemed to hold the primary beneficial interest. As a result, all of the accounts and activities of Redding Re Holdings and Redding Re have been consolidated in the Company's financial statements consistent with all other subsidiaries.

#### **15. Fair Value of Financial Instruments**

Effective January 1, 2008, the Company determined the fair value of its financial instruments based on the fair value hierarchy established in SFAS No. 157 which requires an entity to maximize the use of observable inputs and minimize the use of unobservable inputs when measuring fair value.

Wilton Re Holdings Limited and Subsidiaries

Notes to Consolidated Financial Statements (continued)

(Expressed in U.S. dollars)

**15. Fair Value of Financial Instruments (continued)**

The following table presents the carrying amounts and estimated fair values of the Company's financial instruments at December 31, 2008 and 2007 (in thousands:)

	2008		2007	
	Carrying Value	Estimated Fair Value	Carrying Value	Estimated Fair Value
<b>Assets:</b>				
Investments	\$ 1,354,788	\$ 1,354,788	\$ 1,481,388	\$ 1,481,388
Policy loans	45,310	45,310	32,598	32,598
Funds withheld at interest	2,054,587	2,054,587	2,687,792	2,687,792
Short-term investments	122,605	122,605	76,265	76,265
Other invested assets	2,989	2,989	3,131	3,131
<b>Liabilities:</b>				
Annuities-deferred and without life	2,067,825	1,915,432	2,393,745	2,256,856
Funds withheld	16,764	16,764	16,691	16,691
Short-term debt	112,500	114,846	137,500	138,734
Collateral finance facility	250,000	243,139	231,000	230,126

The valuation methodologies used to determine the fair values of assets and liabilities under the guidance within SFAS No. 157 reflect market-participant assumptions and are based on the application of the fair value hierarchy that prioritizes 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 on unobservable parameters. The following is a discussion of the methodologies used to determine fair values for the financial instruments within the scope of SFAS No. 157, 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 and approximates fair value. The fair value of embedded derivatives associated with funds withheld reinsurance treaties is determined based upon a total

# Wilton Re Holdings Limited and Subsidiaries

## Notes to Consolidated Financial Statements (continued)

*(Expressed in U.S. dollars)*

### **15. Fair Value of Financial Instruments (continued)**

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 standard valuation methodologies. The carrying value of short-term investments approximates fair value and is valued based on quoted market prices. Limited partnership interests included in other invested assets are reflected at equity value, which represents fair value and is valued based on quoted market prices. The fair value of the Company's differed fixed annuities without life contingencies are based on discounted cash flows. The fair value of the Company's short-term debt and collateral finance facility is based on quoted market prices or comparables.

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

In compliance with SFAS No. 157, the Company has categorized its financial instruments, 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 inactive markets which are either directly or indirectly observable as of the reporting date, and fair value is determined through the use of models or other valuation methods. Financial instruments included in this category include publicly traded issues priced by independent sources and short-term securities
- **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. The types of financial investments included in Level 3 primarily include private placements.

Wilton Re Holdings Limited and Subsidiaries

Notes to Consolidated Financial Statements (continued)

(Expressed in U.S. dollars)

**15. Fair Value of Financial Instruments (continued)**

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

	<b>December 31, 2008</b>			
	<b>Total</b>	<b>Fair Value Measurements Using:</b>		
		<b>Level 1</b>	<b>Level 2</b>	<b>Level 3</b>
<b>Assets</b>				
Investments:				
U.S. government and agencies	\$ 183,443,722	\$ 20,338,279	\$ 163,105,443	\$ –
State and political subdivisions	27,456,517	–	27,456,517	–
Corporate securities	455,470,993	–	421,535,252	33,935,741
Foreign securities	52,708,418	–	52,177,632	530,786
Asset-backed securities	142,137,279	–	140,464,159	1,673,120
Mortgage-backed securities	478,694,458	–	476,795,605	1,898,853
Total fixed maturity securities	1,339,911,387	20,338,279	1,281,534,608	38,038,500
Preferred stocks	14,876,491	14,842,983	8	33,500
Total investments	1,354,787,878	35,181,262	1,281,534,616	38,072,000
Funds withheld at interest:				
Government and agencies	3,035,170	262,916	2,772,254	–
Public utilities	177,130,945	–	177,130,945	–
Corporate securities	1,149,172,850	–	1,148,933,365	239,485
Mortgage and asset backed securities	571,674,069	–	567,849,532	3,824,537
Total fixed maturity securities	1,901,013,034	262,916	1,896,686,096	4,064,022
Preferred Stocks	2,404,124	2,404,124	–	–
Other invested assets	–	–	–	–
Total funds withheld at interest	1,903,417,158	2,667,040	1,896,686,096	4,064,022
Short-term investments	122,605,258	120,605,118	2,000,140	–
Other invested assets	2,989,500	–	–	2,989,500
Total assets	<u>\$ 3,383,799,794</u>	<u>\$ 158,453,420</u>	<u>\$ 3,180,220,852</u>	<u>\$ 45,125,522</u>
<b>Liabilities</b>				
Annuities-deferred and without life	<u>\$ 1,915,432,000</u>	<u>\$ –</u>	<u>\$ –</u>	<u>\$ 1,915,432,000</u>

Wilton Re Holdings Limited and Subsidiaries

Notes to Consolidated Financial Statements (continued)

(Expressed in U.S. dollars)

**15. Fair Value of Financial Instruments (continued)**

The table below presents a reconciliation for all assets and liabilities measured at fair value on a recurring basis using significant unobservable inputs (Level 3) for the year ended December 31, 2008.

	Beginning Balance	Total Realized and Unrealized Gain (Losses) Included in Earnings	Purchases, Issuances, and Settlements (Net)	Transfers in and/or Out of Level 3	Ending Balance	Total Gains (Losses) Included in Earnings Related to Instruments Still Held at the Reporting Date
Investments:						
U.S. government and agencies	\$ —	\$ —	\$ —	\$ —	\$ —	\$ —
State and political subdivisions	—	—	—	—	—	—
Corporate securities	37,194,698	(2,951,426)	(4,762,467)	4,454,937	33,935,741	(3,500,119)
Foreign securities	—	—	—	530,786	530,786	29,286
Asset-backed securities	—	—	—	1,673,120	1,673,120	91,970
Mortgage-backed securities	—	—	—	1,898,853	1,898,853	(270,437)
Total fixed maturity securities	37,194,698	(2,951,426)	(4,762,467)	8,557,696	38,038,500	(3,649,300)
Preferred stocks	—	—	—	33,500	33,500	27,672
Total investments	37,194,698	(2,951,426)	(4,762,467)	8,591,196	38,072,000	(3,621,628)
Funds withheld at interest:						
Government and agencies	—	—	—	—	—	—
Public utilities	—	—	—	—	—	—
Corporate securities	2,973,043	(204,461)	(2,529,097)	—	239,485	(10,318)
Mortgage & asset backed securities	—	—	—	3,824,537	3,824,537	(356,468)
Total fixed maturity securities	2,973,043	(204,461)	(2,529,097)	3,824,537	4,064,022	(366,786)
Preferred stocks	—	—	—	—	—	—
Other invested assets	—	—	—	—	—	—
Total funds withheld at interest	2,973,043	(204,461)	(2,529,097)	3,824,537	4,064,022	(366,786)
Short-term investments	—	—	—	—	—	—
Other invested assets	2,970,220	115,147	(95,868)	—	2,989,500	67,326
Total assets	\$43,137,961	\$(3,040,740)	\$(7,387,432)	\$12,415,733	\$45,125,522	\$(3,921,088)

## Wilton Re Holdings Limited and Subsidiaries

### Notes to Consolidated Financial Statements (continued)

*(Expressed in U.S. dollars)*

#### **16. Related Party Transactions**

During 2006, affiliates (Wachovia Capital Markets, LLC and Wachovia Bank, NA) of one of the Company's equity investors (Wachovia Capital Partners LLC) issued financing commitments and acted in the capacity of lead arranger in connection with the placement of the Company's syndicated Revolver/LOC and term loan facilities (see Notes 13 and 14). In addition, Wachovia Bank, NA holds a \$30.0 million participation in the Revolver/LOC syndicate and a \$15.3 million participation in the term loan syndicate.

#### **17. Subsequent Event**

On October 28, 2008, the Company's and MetLife, Inc. (MetLife) and the parent company of each of Cova Corporation, (Cova) and Metropolitan Life Insurance Company, a New York life insurance company, entered into a definitive Stock Purchase Agreement (the Purchase Agreement) to acquire all of the issued and outstanding capital stock of Cova, which in turn, owns all of the issued and outstanding capital stock of Texas Life Insurance Company. The Purchase Agreement provides for the payment to MetLife, in cash, of \$130,500,000 subject to adjustment in accordance with the terms of the Purchase Agreement. The transaction closed on March 2, 2008.

## Other Financial Information

Wilton Re Holdings Limited and Subsidiaries

Consolidating Balance Sheet

December 31, 2008

	Wilton Re Holdings Limited	Wilton Reinsurance Bermuda Limited	Wilton Re US Holdings	Wilton Reassurance	Redding Re Holdings, LLC	Redding Reassurance Co.
<b>Assets</b>						
Investments	\$ 2,349,524	\$ 86,221,955	\$ –	\$ 198,577,021	\$ 197,912	\$ 80,622,933
Short term investments	6,483,268	3,491,967	–	11,523,354	8,306,847	75,685,032
Policy loans	–	11,406,091	–	2,850,923	–	–
Funds withheld at interest	–	1,619,423,531	–	434,353,865	–	–
Other invested assets	–	–	–	–	–	–
Total investments, at fair value	8,832,792	1,720,543,544	–	647,305,164	8,504,759	156,307,965
Cash and cash equivalents	84,987,565	82,731,228	5,998,038	321,299,954	3,166,979	188,722,520
Accrued investment income	4,001	855,028	–	3,374,193	795	404,154
Premiums receivable	–	43,825,074	–	(3,149,239)	–	24,289,918
Reinsurance recoverables	–	7,061,186	–	15,229,512	–	–
Deferred acquisition costs	–	22,915,544	–	27,201,752	–	33,573,711
Value of in-force business acquired	–	320,431,877	–	200,126,991	–	50,900,165
Subscription receivable	121,634,509	–	–	–	–	–
Deferred income taxes	–	–	–	39,588,226	–	(24,807,752)
Other assets	644,712,609	(586,416)	490,656,216	204,916,252	260,249,555	(66,125)
Total assets	\$ 860,171,477	\$ 2,197,777,065	\$ 496,654,255	\$ 1,455,892,803	\$ 271,922,088	\$ 429,324,555
<b>Liabilities</b>						
Reserve for future policy benefits	\$ –	\$ 516,034,712	\$ –	\$ 209,258,799	\$ –	\$ 116,852,950
Interest sensitive contract liabilities	–	1,420,636,795	–	807,663,163	–	–
Other reinsurance liabilities	–	10,975,800	–	6,446,030	–	2,426,065
Funds held under reinsurance treaties	–	–	–	–	–	–
Accounts payable and accrued expenses	3,183,678	9,768,098	–	11,340,403	7,000	1,621,746
Short-term debt	112,500,000	–	–	–	–	–
Collateral finance facility	–	–	–	–	250,000,000	–
Total liabilities	115,683,678	1,957,415,406	–	1,034,708,394	250,007,000	120,900,761
<b>Shareholders' equity</b>						
Class A common shares	18,319,632	250,000	10	2,500,000	–	250,000
Additional paid-in capital	923,741,809	304,633,780	496,724,990	475,815,013	46,571,000	260,050,000
Stock warrants	28,523	–	–	–	–	–
Retained (deficit) earnings	(197,602,165)	(64,522,120)	(70,745)	(57,130,605)	(24,655,913)	48,123,794
Total shareholders' equity	744,487,799	240,361,660	496,654,255	421,184,409	21,915,088	308,423,794
Total liabilities and shareholders' equity	\$ 860,171,477	\$ 2,197,777,065	\$ 496,654,255	\$ 1,455,892,803	\$ 271,922,088	\$ 429,324,555

Wilton Re Holdings Limited and Subsidiaries

Consolidating Balance Sheet (continued)

December 31, 2008

	Wilton Reassurance Life Co. of NY	Wilton Re Services	Financial Services Reinsurance	US Managers	Inter-co Eliminations	Consolidated
<b>Assets</b>						
Investments	\$ 986,818,532	\$ –	\$ –	\$ –	\$ –	\$ 1,354,787,877
Short term investments	17,114,790	–	–	–	–	122,605,258
Policy loans	31,053,357	–	–	–	–	45,310,371
Funds withheld at interest	809,447	–	–	–	–	2,054,586,843
Other invested assets	2,989,500	–	–	–	–	2,989,500
Total investments, at fair value	1,038,785,626	–	–	–	–	3,580,279,850
Cash and cash equivalents	8,176,118	1,013,408	2,125,267	1,287,607	–	699,508,683
Accrued investment income	10,721,771	–	35,153	13,620	–	15,408,715
Premiums receivable	10,554,651	–	–	–	–	75,520,404
Reinsurance recoverables	70,299,113	–	–	–	(14,158,012)	78,431,798
Deferred acquisition costs	–	–	–	–	–	83,691,006
Value of in-force business acquired	28,857,106	–	–	–	–	600,316,139
Subscription receivable	–	–	–	–	–	121,634,509
Deferred income taxes	53,293,399	–	–	–	–	68,073,873
Other assets	(1,724,061)	16,804,402	31,269	77,809	(1,605,789,368)	9,282,143
Total assets	\$ 1,218,963,723	\$ 17,817,810	\$ 2,191,689	\$ 1,379,036	\$ (1,619,947,380)	\$ 5,332,147,120
<b>Liabilities</b>						
Reserve for future policy benefits	\$ 146,178,210	\$ –	\$ –	\$ –	\$ –	\$ 988,324,671
Interest sensitive contract liabilities	934,758,918	–	–	–	–	3,163,058,876
Other reinsurance liabilities	2,857,766	–	–	–	(14,158,012)	8,547,650
Funds held under reinsurance treaties	16,764,136	–	–	–	–	16,764,136
Accounts payable and accrued expenses	13,444,315	10,112,854	–	–	(1,014,105)	48,463,989
Short-term debt	–	–	–	–	–	112,500,000
Collateral finance facility	–	–	–	–	–	250,000,000
Total liabilities	1,114,003,345	10,112,854	–	–	(15,172,117)	4,587,659,321
<b>Shareholders' equity</b>						
Class A common shares	2,502,500	10	79	79	(5,502,678)	18,319,632
Additional paid-in capital	160,560,782	8,699,990	2,331,396	1,333,062	(1,756,720,015)	923,741,807
Stock warrants	–	–	–	–	–	28,523
Retained (deficit) earnings	(58,102,904)	(995,044)	(139,786)	45,895	157,447,431	(197,602,163)
Total shareholders' equity	104,960,378	7,704,956	2,191,689	1,379,036	(1,604,775,263)	744,487,799
Total liabilities and shareholders' equity	\$ 1,218,963,723	\$ 17,817,810	\$ 2,191,689	\$ 1,379,036	\$ (1,619,947,380)	\$ 5,332,147,120

# Wilton Re Holdings Limited and Subsidiaries

## Consolidating Statement of Operations

For the Twelve Months Ended December 31, 2008

	<b>Wilton Re Holdings Limited</b>	<b>Wilton Reinsurance Bermuda Limited</b>	<b>Wilton Re US Holdings</b>	<b>Redding Re Holdings, LLC</b>	<b>Redding Reassurance Co.</b>
<b>Revenues</b>					
Net premiums	\$ —	\$ 84,500,593	\$ —	\$ —	\$ 85,517,260
Policy fees and charges	—	2,024,752	—	—	—
Investment return	1,304,705	69,720,549	90,683	111,502	6,205,195
Net unrealized appreciation/(depreciation) on investments classified as trading and other	(280,484)	(6,962,402)	—	(1,483)	(4,893,418)
Change in value of derivatives and embedded derivatives, net	372,648	(183,328,047)	—	—	—
Total revenues	<u>1,396,868</u>	<u>(34,044,556)</u>	<u>90,683</u>	<u>110,019</u>	<u>86,829,037</u>
<b>Expenses</b>					
Claims and policy benefits, net of reinsurance ceded	—	65,284,007	—	—	43,303,183
Interest credited to interest sensitive contract liabilities	—	55,772,056	—	—	—
Acquisition costs and other insurance expenses	—	(55,811,705)	—	—	11,466,697
Operating expenses	6,840,875	9,858,684	141,578	86,458	2,837,572
Due diligence, transition and conversion costs	—	(258,483)	—	—	—
Collateral finance facility expense	—	—	—	11,797,067	—
Interest expense	10,378,581	—	—	—	—
Total benefits and expenses	<u>17,219,456</u>	<u>74,844,560</u>	<u>141,578</u>	<u>11,883,525</u>	<u>57,607,451</u>
Net (loss) income before income taxes	<u>(15,822,589)</u>	<u>(108,889,116)</u>	<u>(50,895)</u>	<u>(11,773,506)</u>	<u>29,221,585</u>
Income tax expense/(benefit)	—	—	—	—	24,807,752
Net (loss) income	<u>\$ (15,822,589)</u>	<u>\$ (108,889,116)</u>	<u>\$ (50,895)</u>	<u>\$ (11,773,506)</u>	<u>\$ 4,413,833</u>

Wilton Re Holdings Limited and Subsidiaries  
Consolidating Statement of Operations (continued)

For the Twelve Months Ended December 31, 2008

	Wilton Reassurance Life Co. of NY	Wilton Reassurance	Wilton Re Services	Financial Services Reinsurance	US Managers	Consolidated
<b>Revenues</b>						
Net premiums	\$ 7,995,050	\$ 75,019,500	\$ –	\$ 3,005,840	\$ 1,976,652	\$ 258,014,894
Policy fees and charges	36,232,025	17,351,219	–	–	–	55,607,996
Investment return	43,425,777	44,379,748	26,924	111,284	42,547	164,418,912
Net unrealized appreciation/(depreciation) on investments classified as trading and other	(118,280,423)	1,405,940	–	–	–	(129,012,269)
Change in value of derivatives and embedded derivatives, net	–	(95,264,011)	–	–	–	(278,219,411)
Total revenues	(31,627,571)	42,892,396	26,294	3,117,124	2,019,199	70,810,123
<b>Expenses</b>						
Claims and policy benefits, net of reinsurance ceded	20,658,049	40,399,644	–	1,881,534	1,121,429	172,647,846
Interest credited to interest sensitive contract liabilities	40,127,667	29,009,175	–	–	–	124,908,898
Acquisition costs and other insurance expenses	(7,643,560)	(6,427,828)	–	1,245,095	793,353	(56,377,948)
Operating expenses	11,510,204	33,611,548	(76,747)	130,282	58,527	64,998,981
Due diligence, transition and conversion costs	594,115	2,737,886	112,586	–	–	3,186,104
Collateral finance facility expense	–	1,279,759	–	–	–	13,076,826
Interest expense	–	–	–	–	–	10,378,581
Total benefits and expenses	65,246,475	100,610,184	35,839	3,256,911	1,973,309	332,819,289
Net (loss) income before income taxes	(96,874,046)	(57,717,788)	(8,915)	(139,787)	45,890	(262,009,167)
Income tax expense/(benefit)	(20,344,327)	(40,602,331)	–	–	–	(36,138,906)
Net(loss) income	\$ (76,529,719)	\$ (17,115,457)	\$ (8,915)	\$ (139,787)	\$ 45,890	\$ (225,870,261)

# Wilton Re Holdings Limited and Subsidiaries

## Consolidating Balance Sheet

December 31, 2007

	Wilton Re Holdings Limited	Wilton Reinsurance Bermuda Limited	Wilton Re US Holdings	Wilton Reassurance	Redding Re Holdings, LLC	Redding Reassurance Co.	Wilton Reassurance Life Co. of NY	Wilton Re Services	Inter-co Eliminations	Consolidated
<b>Assets</b>										
Investments	\$ 3,919,352	\$ 137,010,360	\$ -	\$ 106,862,933	\$ 249,315	\$ 103,889,192	\$ 1,129,457,335	\$ -	\$ -	\$ 1,481,388,486
Short term investments	-	-	-	-	1,480,453	47,913,041	26,871,508	-	-	76,265,002
Policy loans	-	-	-	1,733,000	-	-	30,865,178	-	-	32,598,178
Funds withheld at interest	-	1,867,712,040	-	819,447,757	-	-	632,010	-	-	2,687,791,808
Other invested assets	-	160,349	-	-	-	-	2,970,221	-	-	3,130,570
Total investments, at fair value	3,919,352	2,004,882,749	-	928,043,690	1,729,768	151,802,233	1,190,796,252	-	-	4,281,174,044
Cash and cash equivalents	30,708,280	17,895,222	5,190,281	84,214,860	93,519	125,591,769	7,008,724	414,987	-	271,117,643
Accrued investment income	10,275	943,642	-	807,981	1,868	443,145	10,761,304	-	-	12,968,215
Premiums receivable	-	44,610,255	-	31,642,212	-	21,558,092	1,451,424	-	-	99,261,983
Reinsurance recoverables	-	1,006,443	-	226,951,390	-	-	63,959,652	-	(225,230,389)	66,687,095
Deferred acquisition costs	-	13,393,380	-	12,718,760	-	29,568,577	-	-	-	55,680,717
Value of in-force business acquired	-	198,929,685	-	220,267,589	-	52,257,151	54,352,883	-	-	525,807,308
Other assets	719,157,570	(245,684)	434,014,868	188,876,308	241,305,888	369,024	(3,064,322)	11,930,961	(1,581,308,319)	11,036,295
Total assets	\$ 753,795,477	\$ 2,281,415,693	\$ 439,205,149	\$ 1,693,522,790	\$ 243,131,043	\$ 381,589,991	\$ 1,325,265,916	\$ 12,345,951	\$ (1,806,538,708)	\$ 5,323,733,300
<b>Liabilities</b>										
Reserve for future policy benefits	\$ -	\$ 186,637,777	\$ -	\$ 463,536,871	\$ -	\$ 94,556,251	\$ 139,260,040	\$ -	\$ (166,747,270)	\$ 717,243,670
Interest sensitive contract liabilities	-	1,761,867,040	-	722,774,096	-	-	978,245,088	-	-	3,462,886,224
Other reinsurance liabilities	-	57,274,218	-	111,670,115	-	1,780,394	1,955,933	-	(58,483,119)	114,197,540
Funds held under reinsurance treaties	-	-	-	-	-	-	16,690,625	-	-	16,690,625
Accounts payable and accrued expenses	3,510,614	4,885,882	-	10,241,842	42,449	493,386	7,624,132	4,632,080	-	31,430,384
Short-term debt	137,500,000	-	-	-	-	-	-	-	-	137,500,000
Collateral finance facility	-	-	-	-	231,000,000	-	-	-	-	231,000,000
Total liabilities	141,010,614	2,010,664,917	-	1,308,222,924	231,042,449	96,830,031	1,143,775,818	4,632,080	(225,230,389)	4,710,948,443
<b>Shareholders' equity</b>										
Class A common shares	11,515,729	250,000	10	2,500,000	-	250,000	2,502,500	10	(5,502,520)	11,515,729
Additional paid-in capital	572,972,517	226,133,780	439,224,990	422,815,013	24,971,000	240,800,000	160,560,782	8,699,990	(1,523,205,557)	572,972,514
Stock warrants	28,523	-	-	-	-	-	-	-	-	28,523
Retained earnings	28,268,095	44,366,996	(19,851)	(40,015,148)	(12,882,406)	43,709,961	18,426,814	(986,129)	(52,600,242)	28,268,091
Total shareholders' equity	612,784,863	270,750,776	439,205,149	385,299,866	12,088,594	284,759,961	181,490,097	7,713,871	(1,581,308,319)	612,784,857
Total liabilities and shareholders' equity	\$ 753,795,477	\$ 2,281,415,693	\$ 439,205,149	\$ 1,693,522,790	\$ 243,131,043	\$ 381,589,991	\$ 1,325,265,917	\$ 12,345,951	\$ (1,806,538,708)	\$ 5,323,733,300

# Wilton Re Holdings Limited and Subsidiaries

## Consolidating Statement of Operations

For the Twelve Months Ended December 31, 2007

	Wilton Re Holdings Limited	Wilton Reinsurance Bermuda Limited	Wilton Re US Holdings	Redding Re Holdings, LLC	Redding Reinsurance Co.	Wilton Reinsurance Life Co. of NY	Wilton Reinsurance	Wilton Re Services	Consolidated
<b>Revenues</b>									
Net premiums	\$ -	\$ 34,576,939	\$ -	\$ -	\$ 83,065,944	\$ 7,895,964	\$ 44,371,518	\$ -	\$ 169,910,366
Policy fees and charges	-	6,150,670	-	-	-	35,566,581	25,847,622	-	67,564,873
Investment income net of related expenses	1,034,995	118,442,135	200,584	214,950	11,162,366	68,413,328	58,636,443	78,877	258,183,683
Net unrealized appreciation/ (depreciation) on investments classified as trading and other	(106,080)	(629,278)	-	(539)	(2,208,030)	10,371,708	(256,099)	-	7,171,682
Change in value of derivatives and embedded derivatives, net	(1,788,694)	(10,134,358)	-	-	-	-	(2,208,380)	-	(14,131,432)
Total revenues	(859,780)	148,406,109	200,584	214,417	92,020,280	122,247,581	126,391,104	78,877	488,699,172
<b>Expenses</b>									
Claims and policy benefits, net of reinsurance ceded	-	21,375,712	-	-	53,802,178	44,826,938	76,694,361	-	196,699,192
Interest credited to interest sensitive contract liabilities	-	71,464,680	-	-	-	40,916,244	30,113,163	-	142,494,088
Acquisition costs and other insurance expenses	-	27,055,122	-	-	(2,636,052)	1,727,700	(5,266,190)	-	20,880,580
Operating expenses	2,913,192	8,049,631	150,485	85,735	1,724,872	10,811,693	27,502,058	(1,881)	51,235,785
Due diligence, transition and conversion costs	4,569	610,278	-	-	-	526,159	17,674,527	53,182	18,868,715
Collateral finance facility expense	-	-	-	12,121,976	-	-	715,006	-	12,836,984
Interest expense	12,078,187	-	-	-	-	-	-	-	12,078,187
Total benefits and expenses	14,995,947	128,555,424	150,485	12,207,711	52,890,998	98,808,734	147,432,928	51,301	455,093,531
Net income (loss) before income taxes	(15,855,727)	19,850,685	50,098	(11,993,294)	39,129,282	23,438,847	(21,041,824)	27,575	33,605,641
Income taxes	-	-	-	-	-	2,572,966	(2,572,966)	-	-
Net income (loss)	\$(15,855,727)	\$ 19,850,685	\$ 50,098	\$(11,993,294)	\$ 39,129,282	\$ 20,865,882	\$(18,468,858)	\$ 27,575	\$ 33,605,641