

AUDITED CONSOLIDATED FINANCIAL
STATEMENTS

Wilton Re Holdings Limited and Subsidiaries
Years Ended December 31, 2009, 2008, and 2007
With Report of Independent Auditors

Wilton Re Holdings Limited and Subsidiaries

Audited Consolidated Financial Statements

Years Ended December 31, 2009, 2008 and 2007

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Report of Independent Auditors

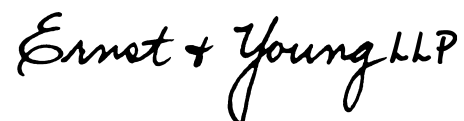
The Board of Directors
Wilton Re Holdings Limited and Subsidiaries

We have audited the accompanying consolidated balance sheets of Wilton Re Holdings Limited and Subsidiaries (the Company) as of December 31, 2009 and 2008, 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, 2009. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

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

In our opinion, the financial statements referred to above present fairly, in all material respects, the consolidated financial position of Wilton Re Holdings Limited and Subsidiaries at December 31, 2009 and 2008, and the consolidated results of their operations and their cash flows for each of the three years in the period ended December 31, 2009, in conformity with U.S. generally accepted accounting principles.

We also have audited, in accordance with attestation standards established by the American Institute of Certified Public Accountants and in accordance with the auditing standards of the Public Company Accounting Oversight Board (United States), the Company's internal control over financial reporting as of December 31, 2009, based on criteria established in Internal Control – Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission and our report dated March 26, 2010 expressed an unqualified opinion thereon.



March 26, 2010

Wilton Re Holdings Limited and Subsidiaries

Consolidated Balance Sheets

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

	December 31	
	2009	2008
Assets		
Investments	\$ 2,881,262	\$ 1,354,788
Short term investments	84,877	122,605
Policy loans	136,324	45,310
Funds withheld at interest	2,012,719	2,054,587
Other invested assets	3,745	2,990
Total investments	5,118,927	3,580,280
Cash and cash equivalents	194,254	699,509
Accrued investment income	28,167	15,409
Premiums receivable	183,543	75,520
Reinsurance recoverables	70,705	78,432
Deferred acquisition costs	131,617	83,691
Value of in-force business acquired	588,410	600,315
Subscription receivable	–	121,635
Deferred income taxes, net	–	68,074
Other assets	17,194	9,281
Total assets	\$ 6,332,817	\$ 5,332,147
Liabilities		
Reserves for future policy benefits	\$ 1,462,757	\$ 988,325
Interest sensitive contract liabilities	3,466,791	3,163,059
Other reinsurance liabilities	73,692	8,548
Funds held under reinsurance treaties	15,408	16,763
Accounts payable and accrued expenses	85,828	48,462
Deferred income taxes, net	12,581	–
Short-term debt	–	112,500
Collateral finance facility	–	250,000
Total liabilities	5,117,057	4,587,657
Shareholders' equity		
Class A common shares:		
(\$1.00 par value; 50,000 shares authorized, 20,547 issued and outstanding at December 31, 2009; 50,000 shares authorized, 18,320 issued and outstanding at December 31, 2008)	20,547	18,320
Class B common shares:		
(\$1.00 par value; 3,000 shares authorized; 0 issued and outstanding at December 31, 2009 and 2008)	–	–
Additional paid in-capital	1,049,208	923,743
Stock warrants	29	29
Retained earnings and accumulated other comprehensive income (deficit)	145,976	(197,602)
Total shareholders' equity	1,215,760	744,490
Total liabilities and shareholders' equity	\$ 6,332,817	\$ 5,332,147

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

Wilton Re Holdings Limited and Subsidiaries

Consolidated Statements of Operations

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

	Year Ended December 31		
	2009	2008	2007
Revenues			
Net premiums	\$ 355,258	\$ 258,015	\$ 169,909
Policy fees and charges	135,938	55,608	67,565
Inuring third party reinsurance commissions	42,078	45,355	27,582
Investment earnings	211,754	164,419	258,184
Net unrealized appreciation /(depreciation) on investments classified as trading and other	188,375	(129,011)	7,172
Change in value of derivatives and embedded derivatives, net	281,808	(278,218)	(14,130)
Total revenues	1,215,211	116,168	516,282
Expenses			
Claims and policy benefits, net of reinsurance ceded	403,634	172,648	196,698
Interest credited to interest sensitive contract liabilities	124,542	124,909	142,493
Acquisition costs and other insurance expenses	167,802	(11,023)	48,463
Operating expenses	74,304	64,999	51,236
Due diligence, transition and conversion costs	1,440	3,185	18,869
Collateral finance facility expense	9,937	13,077	12,837
Interest expense	4,373	10,379	12,077
Total benefits and expenses	786,032	378,174	482,673
Net income (loss) before income taxes	429,179	(262,008)	33,606
Income tax expense (benefit)	85,124	(36,139)	–
Net income (loss)	\$ 344,055	\$ (225,869)	\$ 33,606

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

Wilton Re Holdings Limited and Subsidiaries

Consolidated Statements of Changes in Shareholders' Equity

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

	Year Ended December 31		
	2009	2008	2007
Common shares			
Balance at beginning of year	\$ 18,320	\$ 11,516	\$ 11,609
Common shares repurchased during year	–	–	(2,000)
Common shares issued during year	2,227	6,804	1,907
Balance at end of year	20,547	18,320	11,516
Additional paid-in capital			
Balance at beginning of year	923,742	572,973	570,884
Common shares repurchased during year	–	–	(98,000)
Common shares issued during year, net of offering costs	121,284	345,848	98,192
Stock based compensation	4,182	4,922	1,894
Balance at end of year	1,049,208	923,743	572,970
Stock warrants			
Balance at beginning of year	29	29	29
Warrants issued during year	–	–	–
Balance at end of year	29	29	29
Retained earnings and accumulated other comprehensive income (deficit)			
Balance at beginning of year	(197,602)	28,267	(5,336)
Net income (loss)	344,055	(225,869)	33,606
Pension benefit, net of tax	(477)	–	–
Balance at end of year	145,976	(197,602)	28,270
Total shareholders' equity	\$ 1,215,760	\$ 744,490	\$ 612,785

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

Wilton Re Holdings Limited and Subsidiaries

Consolidated Statements of Cash Flows

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

	Year Ended December 31		
	2009	2008	2007
Cash flows from operating activities			
Net income (loss)	\$ 344,055	\$ (225,869)	\$ 33,606
Adjustments to reconcile net income (loss) to net cash from operating activities:			
Proceeds from sales of investments	862,990	257,744	491,099
Purchases of investments	(1,821,091)	(292,574)	(602,776)
Accretion and amortization of discounts and premiums on securities, net	(17,419)	(3,770)	(2,733)
Net realized losses on investments	25,940	35,782	1,056
Net unrealized (gains)/losses on investments	(188,417)	129,126	(8,056)
Mark to market on embedded derivative	(278,584)	278,432	12,301
Accretion and amortization of deferred acquisition costs	30,947	8,906	6,857
Accretion and amortization of value of business acquired	110,093	(44,010)	27,509
Interest credited to interest sensitive contracts	124,542	124,909	142,493
Non-cash equity compensation expense	4,182	4,922	1,894
Change in assets and liabilities:			
Accrued investment income	(8,825)	(2,441)	(579)
Deferred income taxes	70,039	(68,074)	-
Subscription receivable	(121,635)	-	-
Premiums receivable	(108,022)	23,742	(40,097)
Reinsurance recoverables	7,727	(11,745)	4,691
Funds withheld at interest	320,452	354,772	217,732
Deferred acquisition costs	(78,873)	(36,918)	(29,301)
Value of in-force business acquired	52,190	(30,499)	(141,354)
Other assets	132,452	2,746	5,316
Reserves for future policy benefits	204,576	271,080	133,601
Funds held under reinsurance treaties	(2,148)	74	1,061
Other reinsurance liabilities	45,780	(105,650)	108,953
Accounts payable and accrued expenses	29,701	17,034	(12,214)
Net cash flows from operating activities	(259,348)	687,719	351,059
Cash flows from investing activities			
Net purchases, sales and maturities of short term investments	38,240	(46,049)	(52,872)
Acquisition of TLIC, net	46,781	-	-
Change in other invested assets	(756)	141	3,617
Fixed assets purchased	753	(993)	(1,655)
Change in policy loans	(55,800)	(12,712)	459
Net cash flows from investing activities	29,218	(59,613)	(50,451)

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

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

	Year Ended December 31		
	2009	2008	2007
Cash flows from financing activities			
Proceeds from issuance of common shares	\$ 245,146	\$ 231,017	\$ 100,100
Repurchase of common shares	–	–	(100,000)
(Repayment)/proceeds of/from short-term debt	(112,500)	(25,000)	(12,500)
(Repayment)/proceeds of/from collateral finance facility	(250,000)	19,000	63,000
Proceeds from interest sensitive contracts	453,081	131,092	187,505
Redemption and benefit payments on interest sensitive contracts	(610,852)	(555,828)	(575,727)
Net cash flows from financing activities	(275,125)	(199,719)	(337,622)
(Decrease)/increase in cash and cash equivalents	(505,255)	428,391	(37,013)
Cash and cash equivalents at the beginning of the period	699,509	271,118	308,131
Cash and cash equivalents at the end of the period	\$ 194,254	\$ 699,509	\$ 271,118
Non cash transactions			
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, 2009

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

1. Organization

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

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

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

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

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

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

Wilton Re Holdings Limited and Subsidiaries

Notes to Consolidated Financial Statements (continued)

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

2. Summary of Significant Accounting Policies

a) Consolidation and Basis of Presentation

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

The accompanying consolidated financial statements include the accounts of Wilton Re Limited and its subsidiaries which include, Wilton Re Bermuda, Wilton Re US Holdings, Wilton Re Services, Inc., WRAC, WRNY, TLIC, 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 and 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 (depreciation) appreciation on investments classified as trading and other in the consolidated statements of operations. The fair value of publicly-traded securities is based on quoted market prices or obtained from independent third party dealers in the absence of quoted market prices. The fair value of private placements and credit tenant loans is obtained from independent, third party dealers.

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

Wilton Re Holdings Limited and Subsidiaries

Notes to Consolidated Financial Statements (continued)

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

2. Summary of Significant Accounting Policies (continued)

c) Short Term Investments

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

d) Cash and Cash Equivalents

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

e) Policy Loans

Policy loans are reported at the unpaid principal balance.

f) Funds Withheld at Interest

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

The Company accounts for the embedded derivatives in modified coinsurance and funds withheld contracts as total return swaps with a floating leg. Accordingly, the value of the derivative is equal to the unrealized gain or loss on the assets underlying the funds withheld portfolio associated with each agreement. The Company's funds withheld at interest are recorded at fair value with the changes in the fair value of the embedded derivative reflected in the change in value of derivatives and embedded derivatives, net, in the statements of operations. At December 31, 2009 and 2008, the fair value of these embedded derivatives included in the funds withheld at interest was (\$1,536) and (\$263,849), respectively.

Wilton Re Holdings Limited and Subsidiaries

Notes to Consolidated Financial Statements (continued)

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

2. Summary of Significant Accounting Policies (continued)

g) Premiums Receivable

Premiums receivables are recognized when due and in accordance with information received from the ceding company or when payment is due from the policyholder. Other factors impacting management estimates of premiums receivable include adjustments for lapsed policies, 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, 2009 and 2008.

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. The Company performs periodic tests to determine that DAC remains recoverable, and if financial performance significantly deteriorates to the point where a premium deficiency exists, a cumulative charge to current operations would be recorded. No such adjustments were made during 2009, 2008 or 2007. Deferred costs related to traditional life insurance contracts, all of which relate to long duration contracts, are amortized over one of the following time periods: (1) the premium-paying period (2) 25 years, or (3) 10 years of the related policies in proportion to the ratio of individual period premium revenues to total anticipated premium revenues over the amortization period. Such anticipated premium revenues are estimated using the same assumptions used for computing liabilities for future policy benefits. Deferred acquisition costs related to interest sensitive insurance products, such as universal life and annuities, are recognized as expense over the term of the policies in proportion to estimated gross profits (EGPs), arising principally from surrender charges, investment results and mortality and expense margins, over the amortization period.

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

Wilton Re Holdings Limited and Subsidiaries

Notes to Consolidated Financial Statements (continued)

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

2. Summary of Significant Accounting Policies (continued)

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

The Company's liability for traditional life policies and reinsurance of traditional life insurance policies is recognized as reserves for future policy benefits. All of the Company's material reinsurance contracts are long duration contracts. The Company monitors actual experience and, where circumstances warrant, revises assumptions and the related reserve estimates. The reserve is estimated using the net level premium method utilizing assumptions for mortality, persistency, interest and expenses established when the contract is underwritten. These assumptions are based on anticipated experience with a margin for adverse deviation. If the reserves for future policy benefits plus the present value of expected future gross premiums are insufficient to provide for expected future benefits and expense, deferred policy acquisition costs are expensed and, if required, a premium deficiency reserve is established by a charge to claims and policy benefits. Benefit liabilities for traditional payout annuities are recorded at the present value of expected future benefit payments. Reserves also are established to cover death claims that may have been incurred and reported to the applicable ceding company, but not yet reported to the Company. The average discount rates used to compute the Company's reserves for future policy benefits were approximately 5.54% and 5.0% for 2009 and 2008, respectively.

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

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

Wilton Re Holdings Limited and Subsidiaries

Notes to Consolidated Financial Statements (continued)

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

2. Summary of Significant Accounting Policies (continued)

j) Recognition of Revenue and Expenses

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

For each of its reinsurance contracts, the Company must determine whether the contract provides indemnification against loss or liability relating to insurance risk, in accordance with applicable accounting standards. The Company must review all contractual features, particularly those that may limit the amount of insurance risk to which the Company is subject or features that delay the timely reimbursement of claims. If the Company determines that a contract does not expose it to a reasonable possibility of a significant loss from insurance risk, the Company records the contract under the deposit method of accounting, with the net amount payable/receivable reflected in other reinsurance assets or liabilities on the consolidated balance sheet. Fees earned on these contracts are reflected as other revenues, as opposed to premiums, on the consolidated statements of operations. The Company did not have any contracts accounted for under the deposit method at December 31, 2009 or 2008.

Revenues for interest-sensitive products, such as universal life and annuity products, consist of investment income, policy charges for the cost of insurance, policy administration fees, and surrender fees that have been assessed against policy account balances during the period. Policy benefits and claims that are charged to expense include claims incurred in the period in excess of related policy account balances and interest credited to policy account balances. The weighted average interest-crediting rates for interest-sensitive products were 4.1%, 4.0%, and 4.1% during 2009, 2008, and 2007, respectively.

Wilton Re Holdings Limited and Subsidiaries

Notes to Consolidated Financial Statements (continued)

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

2. Summary of Significant Accounting Policies (continued)

k) Income Taxes

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

l) Closed Block Acquisitions

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

Wilton Re Holdings Limited and Subsidiaries

Notes to Consolidated Financial Statements (continued)

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

2. Summary of Significant Accounting Policies (continued)

VOBA represents the present value of future profits from the acquired contracts using the discount rate implicit in the pricing of such transactions. In establishing the VOBA, the Company considers costs which vary with and are primarily related to the acquisition to be part of the purchase price. Such costs include initial ceding allowances, advisory and legal fees, investment banking fees, and contractually obligated involuntary severance. Other costs incurred, 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 and annuity contracts. The EGP's and related amortization of VOBA for interest sensitive life and annuity products are updated (unlocked) periodically to reflect revised assumptions for lapses, mortality and investment earnings. The Company performs periodic tests to determine that VOBA associated with traditional life products remains recoverable, and when financial performance significantly deteriorates to the point where VOBA is not recoverable, a cumulative charge to current operations would be recorded.

The 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.

m) Business Combinations

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

n) Stock Warrants

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

Wilton Re Holdings Limited and Subsidiaries

Notes to Consolidated Financial Statements (continued)

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

2. Summary of Significant Accounting Policies (continued)

o) Derivatives

The Company used an interest rate swap to convert the floating interest rate payments on its term loan to a fixed rate. Interest had been 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. In 2009, 2008 and 2007, the Company recognized, pre-tax losses of \$3,223, \$200 and \$1,800, respectively, representing the change in value of these derivatives and related net settlements.

p) Collateral Finance Facility

The collateral finance facility represented 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 were capitalized and are included in other assets on the consolidated balance sheet and amortized over the term of the underlying debt. All other costs associated with the facility are reflected in Collateral Finance Facility Expense.

q) Reclassification

The Company has reclassified the presentation of certain prior period information to conform to the 2009 presentation.

Wilton Re Holdings Limited and Subsidiaries

Notes to Consolidated Financial Statements (continued)

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

2. Summary of Significant Accounting Policies (continued)

r) New Accounting Pronouncements

In June 2009, the Financial Accounting Standards Board (“FASB”) issued “The FASB Accounting Standards Codification™ and the Hierarchy of Generally Accepted Accounting Principles”. Effective July 1, 2009, FASB Accounting Standards Codification™ (“Codification”) has become the source of authoritative U.S. accounting and reporting standards for nongovernmental entities, in addition to guidance issued by the Securities and Exchange Commission for public companies. This statement is effective for financial statements issued for interim and annual periods ending after September 15, 2009. The Company adopted Codification on December 31, 2009 and has updated all disclosures to reference Codification herein.

In October 2008, the FASB amended the general accounting principles for *Fair Value Measurements and Disclosures* as it relates to determining the fair value of a financial asset when the market for that asset is not active. This amendment clarifies the application of fair value 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. The amendment was effective upon issuance on October 10, 2008, including prior periods for which financial statements had not been issued. The Company did not consider it necessary to change any valuation techniques as a result of the amendment. The Company also adopted an amendment that delayed the effective date of this amendment measurement for certain nonfinancial assets and liabilities that are recorded at fair value on a nonrecurring basis. The effective date was 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 adoption of this amendment had no impact on the Company’s consolidated financial statements.

In January 2009, the FASB amended the general accounting principles for determining other-than-temporary impairments on purchased beneficial interests and beneficial interests that continue to be held by a transferor in securitized financial assets. The primary effect of this amendment was to remove the requirement that a holder attempt to determine the underlying cash flows on an asset-backed security based on the assumptions that a market participant would make in determining the current fair value of the instrument. Instead, the focus has been placed on determining the estimated cash flows as determined by the holder for all sources, including its own comprehensive credit analysis. The provisions of this amendment were required to be applied prospectively for interim periods and fiscal years ending after December 15, 2008. The adoption of this amendment did not have any impact on how the Company values its structured investment securities.

Wilton Re Holdings Limited and Subsidiaries

Notes to Consolidated Financial Statements (continued)

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

2. Summary of Significant Accounting Policies (continued)

In April 2009, the FASB amended the general accounting principles for the recognition and presentation of other-than-temporary impairments. This amendment updates the other-than-temporary impairment guidance for debt securities to change the recognition criteria and to improve the presentation and disclosure of other-than-temporary impairments (“OTTI”) on debt and equity securities in the financial statements. The recognition provisions apply only to debt securities classified as available-for-sale and held-to-maturity, while the presentation and disclosure requirements apply to both debt and equity securities. An impaired debt security will be considered other-than-temporarily impaired if the Company has the intent to sell or it is more likely than not that it will be required to sell prior to recovery of the amortized cost. If the holder of a debt security does not expect recovery of the entire cost basis, even if there is no intention to sell the security, an OTTI has occurred. This amendment also changes how an entity recognizes an OTTI for a debt security by separating the loss between the amount representing the credit loss and the amount relating to other factors, if the Company does not have the intent to sell or it is more likely than not will not that it will be required to sell prior to recovery of the amortized cost. Credit losses will be recognized in net income and losses relating to other factors will be recognized in comprehensive income. If the Company has the intent to sell the security or if it is more likely than not that it will be required to sell before its recovery of amortized cost, the entire OTTI will be recognized in net income. This amendment is effective for interim and annual reporting periods ending after June 15, 2009. The adoption of this amendment had no impact on the Company’s consolidated financial statements.

In April 2009, the FASB amended the general accounting principles for *Fair Value Measurements and Disclosures* as it relates to determining fair value when the volume and level of activity for asset or liability have significantly decreased, as well as, identifying transactions that are not orderly. This amendment provides additional guidance for estimating fair value when the volume and level of activity for the asset or liability have significantly decreased in relation to normal market activity for the asset or liability and clarifies that the use of multiple valuation techniques may be appropriate. It also provides additional guidance on circumstances that may indicate a transaction is not orderly. Further, it requires additional disclosures about fair value measurements in annual and interim reporting periods. This amendment is effective prospectively for interim and annual reporting periods ending after June 15, 2009. The adoption of this amendment had no impact on the Company’s consolidated financial statements.

Wilton Re Holdings Limited and Subsidiaries

Notes to Consolidated Financial Statements (continued)

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

2. Summary of Significant Accounting Policies (continued)

In August 2009, the FASB amended the general accounting principles for *Fair Value Measurements and Disclosures* as it relates to measuring liabilities at fair value. This amendment provides guidance for measuring liabilities at fair value when a quoted price in an active market for the identical liability is not available. It also clarifies that the inclusion of a separate input, relating to the existence of a restriction that prevents the transfer of a liability, is not necessary in the fair value calculation. The amendment is effective for interim and annual reporting beginning after issuance. The adoption of this amendment had no impact on the Company's consolidated financial statements.

In January 2010, the FASB amended the general accounting principles for *Fair Value Measurements and Disclosures* as it relates to the disclosures about fair value measurements. This amendment requires new disclosures about the transfers in and out of Level 1 and 2 measurements and requires enhanced disclosures about the activity within the Level 3 measurements. It also clarifies the required level of disaggregation and the disclosures regarding valuation techniques and inputs to fair value measurements. The amendment is effective for interim and annual reporting periods beginning after December 15, 2009, except for the enhanced Level 3 disclosures. Those disclosures are effective for interim and annual reporting periods beginning after December 15, 2010. The Company is currently evaluating the impact of this amendment on its consolidated financial statements.

In January 2010, the FASB amended the general accounting principles for *Equity* as it relates to distributions to shareholders with components of stock and cash. This amendment clarifies that the stock portion of a distribution to shareholders, which allows the shareholders to elect to receive cash or stock, with a limitation on the total amount of cash that shareholders can receive, is considered a share issuance that is reflected in earnings per share prospectively and is not a stock dividend. The amendment is effective for fiscal years and interim periods beginning after December 15, 2009. The adoption of this amendment is not expected to have an impact on the consolidated financial statements.

Wilton Re Holdings Limited and Subsidiaries

Notes to Consolidated Financial Statements (continued)

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

2. Summary of Significant Accounting Policies (continued)

s) Subsequent Events

In May 2009, the FASB issued guidance which establishes general standards of accounting and disclosure requirements for subsequent events, events that occur after the balance sheet date but before the financial statements are issued or available to be issued. In addition, certain events subsequent to the balance sheet date may require recognition in the financial statements as of the balance sheet date based on the requirements. The Company adopted the guidance as of December 31, 2009, and evaluated the impact of subsequent events through March 26, 2010, representing the date at which the financial statements were available to be issued. No material subsequent events occurred.

3. Significant Closed Block Transactions

Effective July 1, 2008 the Company reinsured 100% of the individual life insurance operations of the life insurance subsidiaries of HealthMarkets, Inc. (together, HealthMarkets) through a series of indemnity reinsurance agreements.

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

Cash and cash equivalents	\$ 208,627
Policy loans	13,951
Funds withheld at interest	5,194
Value of inforce business acquired	88,460
Other assets	7,488
Total assets	<u>\$ 323,720</u>
Reserves for future policy benefits	<u>\$ 323,720</u>
Total liabilities	<u>\$ 323,720</u>

Wilton Re Holdings Limited and Subsidiaries

Notes to Consolidated Financial Statements (continued)

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

4. Business Combinations

Effective March 3, 2009 the Company completed the acquisition of 100% of the outstanding stock of TLIC for \$134,440 from MetLife, Inc. The balance sheet impact of the TLIC acquisition as of March 3, 2009 was as follows:

Cash and cash equivalents	\$ 46,781
Invested assets	388,989
Policy loans	35,213
Value of inforce business acquired	27,823
Other assets	23,892
Total assets	<u>\$ 522,698</u>
Reserves for future policy benefits	\$ 484,264
Other liabilities	38,434
Total liabilities	<u>\$ 522,698</u>

Wilton Re Holdings Limited and Subsidiaries

Notes to Consolidated Financial Statements (continued)

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

4. Business Combinations (continued)

The following unaudited pro forma information presents the combined results of operations of Wilton Re Holdings and TLIC as if TLIC was acquired as of January 1, 2009 and January 1, 2008. The unaudited pro forma combined financial information is presented for illustrative purposes only and does not indicate the financial results of the combined company had the companies actually been combined as of January 1, 2009 and as of January 1, 2008, nor is it indicative of the results of operations in future periods.

	Pro Forma Unaudited Results of Operations					
	Year Ended December 31, 2009			Year Ended December 31, 2008		
	WRHL as Reported	Pro Forma Adjustments for Acquisition (1)	Pro Forma Combined	WRHL as Reported	Pro Forma Adjustments for Acquisition (2)	Pro Forma Combined
Revenues						
Net premiums	\$ 355,258	\$ 3,374	\$ 358,632	\$ 258,015	\$ 17,268	\$ 275,283
Policy fees and charges	135,938	14,585	150,523	55,608	81,484	137,092
Inuring third party reinsurance commissions	42,078	–	42,078	45,355	–	45,355
Investment earnings	211,754	3,662	215,416	164,419	18,950	183,369
Net unrealized (depreciation)/ appreciation on investments classified as trading and other	188,375	(11,847)	176,528	(129,011)	(29,653)	(158,664)
Change in value of derivatives and embedded derivatives, net	281,808	–	281,808	(278,218)	–	(278,218)
Total revenues	1,215,211	9,774	1,224,985	116,168	88,049	204,217
Expenses						
Claims and policy benefits, net of reinsurance ceded	403,634	11,319	414,953	172,648	73,392	246,040
Interest credited to interest sensitive contract liabilities	124,542	2,912	127,454	124,909	17,423	142,332
Acquisition costs and other insurance expenses	167,802	(3,898)	163,904	(11,023)	873	(10,150)
Operating expenses	74,304	2,721	77,025	64,999	19,712	84,711
Due diligence, transition and conversion costs	1,440	–	1,440	3,185	–	3,185
Collateral finance facility expense	9,937	–	9,937	13,077	–	13,077
Interest expense	4,373	–	4,373	10,379	–	10,379
Total benefits and expenses	786,032	13,054	799,086	378,174	111,400	489,574
Net income (loss) before income taxes	429,179	(3,280)	425,899	(262,006)	(23,351)	(285,357)
Income tax expense (benefit)	85,124	(1,148)	83,976	(36,139)	(8,173)	(44,312)
Net income (loss)	\$ 344,055	\$ (2,132)	\$ 341,923	\$ (225,867)	\$ (15,178)	\$ (241,045)

(1) Adjustments include 2 months of 2009 activity related to TLIC assuming the TLIC acquisition was completed January 1, 2009

(2) Adjustments include full year of 2008 TLIC activity assuming the TLIC acquisition was completed January 1, 2008

Wilton Re Holdings Limited and Subsidiaries

Notes to Consolidated Financial Statements (continued)

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

5. Investments

The amortized cost, fair value and related gross unrealized appreciation and depreciation of fixed maturity and preferred stock investments, classified as trading as of December 31, 2009 and 2008 are as follows:

December 31, 2009

	Amortized Cost	Unrealized Appreciation	Unrealized Depreciation	Fair Value
Fixed maturities				
U.S. government and agencies	\$ 602,326	\$ 6,969	\$ (13,087)	\$ 596,209
State and political subdivisions	204,546	4,743	(7,276)	202,013
Corporate securities	1,008,662	63,174	(22,430)	1,049,407
Foreign securities	155,303	12,257	(544)	167,016
Asset-backed securities	171,134	15,462	(5,487)	181,109
Mortgage-backed securities	658,235	32,884	(29,395)	661,724
Total fixed maturities	2,800,207	135,489	(78,218)	2,857,478
Preferred stocks	24,175	1,162	(1,552)	23,784
Total investments	<u>\$ 2,824,382</u>	<u>\$ 136,651</u>	<u>\$ (79,770)</u>	<u>\$ 2,881,262</u>

December 31, 2008

	Amortized Cost	Unrealized Appreciation	Unrealized Depreciation	Fair Value
Fixed maturities				
U.S. government and agencies	\$ 170,004	\$ 13,462	\$ (22)	\$ 183,444
State and political subdivisions	31,073	182	(3,799)	27,457
Corporate securities	524,213	8,828	(77,569)	455,471
Foreign securities	64,888	392	(12,572)	52,708
Asset-backed securities	160,455	2,591	(20,908)	142,137
Mortgage-backed securities	515,316	17,062	(53,684)	478,694
Total fixed maturities	1,465,949	42,516	(168,553)	1,339,911
Preferred stocks	20,420	56	(5,600)	14,876
Total investments	<u>\$ 1,486,369</u>	<u>\$ 42,572</u>	<u>\$ (174,153)</u>	<u>\$ 1,354,788</u>

Wilton Re Holdings Limited and Subsidiaries

Notes to Consolidated Financial Statements (continued)

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

5. Investments (continued)

The unrealized depreciation and fair values by investment category and by the duration of the fixed maturity securities in a continuous unrealized loss position at December 31, 2009 and December 31, 2008 are as follows:

December 31, 2009

	Less than 12 Months		12 Months or More		Total	
	Fair Value	Unrealized Depreciation	Fair Value	Unrealized Depreciation	Fair Value	Unrealized Depreciation
Fixed maturities						
U.S. government and agencies	\$ 443,566	\$ (13,076)	\$ 108	\$ (11)	\$ 443,674	\$ (13,087)
State and political subdivisions	105,153	(3,342)	18,013	(3,933)	123,166	(7,276)
Corporate securities	261,773	(7,485)	132,433	(14,944)	394,206	(22,430)
Foreign securities	18,884	(316)	1,584	(228)	20,468	(544)
Asset-backed securities	29,417	(2,148)	24,103	(3,339)	53,519	(5,487)
Mortgage-backed securities	123,081	(6,704)	103,682	(22,691)	226,763	(29,395)
Total fixed maturities	<u>\$ 981,874</u>	<u>\$ (33,072)</u>	<u>\$ 279,923</u>	<u>\$ (45,146)</u>	<u>\$ 1,261,797</u>	<u>\$ (78,218)</u>

December 31, 2008

	Less than 12 Months		12 Months or More		Total	
	Fair Value	Unrealized Depreciation	Fair Value	Unrealized Depreciation	Fair Value	Unrealized Depreciation
Fixed maturities						
U.S. government and agencies	\$ 3,744	\$ (22)	\$ –	\$ –	\$ 3,744	\$ (22)
State and political subdivisions	8,358	(1,270)	11,528	(2,528)	19,887	(3,799)
Corporate securities	208,197	(33,547)	124,082	(44,022)	332,279	(77,569)
Foreign securities	31,604	(6,444)	8,500	(6,128)	40,104	(12,572)
Asset-backed securities	34,783	(6,803)	59,527	(14,105)	94,310	(20,908)
Mortgage-backed securities	100,206	(22,421)	47,191	(31,263)	147,396	(53,684)
Total fixed maturities	<u>\$ 386,892</u>	<u>\$ (70,507)</u>	<u>\$ 250,828</u>	<u>\$ (98,047)</u>	<u>\$ 637,720</u>	<u>\$ (168,553)</u>

At December 31, 2009, 197 fixed-maturity investments with a total unrealized loss of \$45,146 had been in an unrealized position for 12 months or more. Of those securities, five securities with a fair value of \$72 were trading below 70 percent of book value with a total unrealized loss of \$340. The remaining securities were trading above 70 percent of book value.

Wilton Re Holdings Limited and Subsidiaries

Notes to Consolidated Financial Statements (continued)

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

5. Investments (continued)

At December 31, 2008, 155 fixed-maturity investments with a total unrealized loss of \$98,047 had been in an unrealized position for 12 months or more. Of those securities, eight securities with a fair value of \$3,545 were trading below 70 percent of book value with a total unrealized loss of \$10,534. The remaining securities were trading above 70 percent of book value.

Contractual maturities of the Company's fixed maturity securities as of December 31, 2009 are shown below. Actual maturities may differ from contractual maturities because borrowers may have the right to call or prepay obligations with or without call or prepay penalties.

	Amortized	
	Cost	Fair Value
December 31, 2009		
Within one year	\$ 24,610	\$ 25,065
From one year to five years	525,850	528,268
From six years to ten years	407,715	440,762
More than ten years	1,012,661	1,020,548
Asset-backed securities	171,134	181,109
Mortgage-backed securities	658,235	661,724
Total fixed maturities	\$ 2,800,207	\$ 2,857,478

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

	2009	2008	2007
Cash and cash equivalents	\$ 1,180	\$ 13,247	\$ 6,523
Short-term investments	243	2,267	6,848
Fixed maturities	136,961	82,494	84,141
Policy loans	12,237	8,474	9,178
Other invested assets	5,179	417	4,736
Total investment income	155,800	106,900	111,426
Investment expenses	(4,975)	(2,718)	(3,198)
Subtotal investment income	150,825	104,182	108,228
Realized gains on investments	11,337	1,977	\$724
Realized losses on investments	(37,268)	(37,756)	(4,164)
Investment income on funds withheld at interest	109,878	132,128	150,307
Realized gains on funds withheld at interest	14,348	4,020	3,089
Realized losses at funds withheld at interest	(37,366)	(40,132)	-
Investment earnings	\$ 211,754	\$ 164,419	\$ 258,184

Wilton Re Holdings Limited and Subsidiaries

Notes to Consolidated Financial Statements (continued)

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

5. Investments (continued)

Credit ratings of the Company's fixed maturity securities as of December 31, 2009 and 2008 are shown below. Ratings are assigned by Standard & Poor's Corporation, Moody's Investor's Service or Fitch Ratings.

	Amortized	
	Cost	Fair Value
December 31, 2009		
AAA	\$ 1,311,030	\$ 1,323,102
AA	314,802	320,115
A	611,065	633,780
BBB	496,361	516,392
BB	29,944	30,351
B	5,004	4,535
CCC or lower	15,560	11,795
Not rated	16,440	17,406
Total fixed maturity securities	\$ 2,800,207	\$ 2,857,478
 December 31, 2008		
AAA	\$ 786,070	\$ 758,906
AA	128,026	112,624
A	298,385	256,783
BBB	210,540	172,615
BB	20,194	16,455
B	1,021	595
CCC or lower	454	110
Not rated	21,260	21,823
Total fixed maturity securities	\$ 1,465,949	\$ 1,339,911

The Company's largest 5 exposures by issuer as of December 31, 2009 were Berkshire Hathaway, Inc., International Business Machines Corporation, Duke Energy Corporation, Progress Energy and The Boeing Company, each of which comprised less than 0.5% of total invested assets.

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.

Wilton Re Holdings Limited and Subsidiaries

Notes to Consolidated Financial Statements (continued)

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

5. Investments (continued)

Policy loans comprised approximately 2.7% and 1.3% of the Company's investments as of December 31, 2009 and 2008, 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, 2009 and 2008, fixed maturity securities of \$25,785 and \$23,853, respectively, were held on deposit with various state insurance departments in which WRAC, TLIC and WRNY are licensed to operate to provide security and to meet regulatory requirements.

6. Funds Withheld at Interest

Funds withheld at interest comprised approximately 39.3% and 57.4% of the Company's total investments as of December 31, 2009 and 2008, respectively. The risk of loss to the Company due to the insolvency of a ceding company is mitigated by the Company's contractual right to offset amounts it owes the ceding company for claims or allowances with amounts owed to the Company from the ceding company. Interest generally accrues on these assets at rates defined by the treaty terms. 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 thousands of U.S. dollars, except warrants and per share amounts)

6. Funds Withheld at Interest (continued)

The amortized cost, fair value and related gross unrealized appreciation and depreciation of the assets supporting the funds withheld at interest as of December 31, 2009 and 2008 are as follows:

	Amortized Cost	Unrealized Appreciation	Unrealized Depreciation	Fair Value
December 31, 2009				
U.S. government and agencies	\$ 37,018	\$ 847	\$ (310)	\$ 37,555
Municipal, state & political subdivisions	25,378	–	(670)	24,708
Corporate securities	1,158,644	49,962	(24,119)	1,184,487
Foreign Securities	2,636	272	–	2,907
Mortgage and other asset- backed securities	425,721	9,582	(39,893)	395,410
Total fixed maturities	1,649,397	60,663	(64,992)	1,645,067
Preferred stock	3,188	42	(45)	3,185
Short term investments	80,954	–	–	80,954
Cash and cash equivalents	161,451	–	–	161,451
Other invested assets	100,822	–	–	100,822
Invested funds held at interest	\$ 1,995,811	\$ 60,705	\$ (65,037)	\$ 1,991,478
December 31, 2008				
U.S. government and agencies	\$ 2,747	\$ 288	\$ –	\$ 3,035
Public utilities	192,518	823	(16,210)	177,131
Corporate securities	1,309,343	6,803	(166,973)	1,149,173
Mortgage and other asset- backed securities	654,777	5,193	(88,296)	571,674
Total fixed maturities	2,159,386	13,106	(271,479)	1,901,013
Preferred stock	2,582	56	(234)	2,404
Cash and cash equivalents	65,547	–	–	65,547
Other invested assets	109,923	–	–	109,923
Invested funds held at interest	\$ 2,337,438	\$ 13,162	\$ (271,713)	\$ 2,078,887

Wilton Re Holdings Limited and Subsidiaries

Notes to Consolidated Financial Statements (continued)

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

6. Funds Withheld at Interest (continued)

The unrealized depreciation and fair values by investment category and by duration of the fixed maturity securities in a continuous unrealized loss position of assets supporting funds withheld at interest at December 31, 2009 and 2008 are as follows:

December 31, 2009

	Less than 12 Months		12 Months or More		Total	
	Fair Value	Unrealized Depreciation	Fair Value	Unrealized Depreciation	Fair Value	Unrealized Depreciation
Government and agencies Municipal, state & political subdivisions	\$ 15,690	\$ (310)	-	-	\$ 15,690	\$ (310)
Corporate securities	24,708	(670)			24,708	(670)
Mortgage and other asset- backed securities	78,378	(1,427)	\$ 238,160	\$ (22,692)	316,538	(24,119)
	2,311	(441)	200,634	(39,453)	202,945	(39,893)
Total funds held at interest	\$ 121,087	\$ (2,848)	\$ 438,794	\$ (62,145)	\$ 559,881	\$ (64,992)

At December 31, 2009, 115 fixed-maturity investments with a total unrealized loss of \$62,145 had been in an unrealized position for 12 months or more. Of those securities in an unrealized loss 12 months or more, one security was trading below 70 percent of book value with a total unrealized loss of less than five thousand dollars. The remaining securities were trading above 70 percent of book value.

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	\$ 107,237	\$ (6,122)	\$ 28,379	\$ (10,088)	\$ 135,616	\$ (16,210)
Corporate securities	678,465	(92,149)	170,684	(74,824)	849,149	(166,973)
Mortgage and other asset- backed securities	465,411	(84,465)	11,715	(3,831)	477,125	(88,296)
Total funds held at interest	\$ 1,251,112	\$ (182,737)	\$ 210,778	\$ (88,742)	\$ 1,461,890	\$ (271,479)

At December 31, 2008, 81 fixed-maturity investments with a total unrealized loss of \$88,742 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 \$3,674. The remaining securities were trading above 70 percent of book value.

Wilton Re Holdings Limited and Subsidiaries

Notes to Consolidated Financial Statements (continued)

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

6. Funds Withheld at Interest (continued)

The contractual maturities of the fixed maturity securities supporting funds withheld at interest as of December 31, 2009 are shown below. Actual maturities may differ from contractual maturities because borrowers may have the right to call or prepay obligations with or without call or prepay penalties.

	Amortized Cost	Estimated Fair Value
December 31, 2009		
Within one year	\$ 109,996	\$ 112,061
From one year to five years	413,363	434,898
From six years to ten years	348,840	358,998
More than ten years	351,476	343,701
	1,223,676	1,249,657
 Mortgage and asset-backed	 425,721	 395,410
Total fixed maturity securities	\$ 1,649,397	\$ 1,645,067

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, 2009.

	Amortized Cost	Estimated Fair Value
December 31, 2009		
AAA	\$ 221,587	\$ 228,443
AA	40,236	38,901
A	405,226	413,760
BBB	724,087	741,801
BB	55,115	50,731
B	71,291	62,948
CCC or lower	131,856	108,483
Total fixed maturity securities	\$ 1,649,397	\$ 1,645,067

Also included in funds withheld at interest are amounts due from Protective Life which are on a discounted basis of approximately \$4,904 and \$7,286 at December 31, 2009 and 2008, respectively. These amounts are not supported by specified assets.

Wilton Re Holdings Limited and Subsidiaries

Notes to Consolidated Financial Statements (continued)

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

7. Concentration of Credit Risk

As of December 31, 2009 and 2008, 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 \$1,993,715, or 99.0% of the balance as of December 31, 2009, and \$2,025,521, or 98.6% of the balance as of December 31, 2008. The Protective insurance companies are rated A+ by A.M. Best at December 31, 2008.

8. Reinsurance

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

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

Reinsurance and retrocession treaties do not relieve the Company from its obligations to counterparties. Failure of reinsurers or retrocessionaires to honor their obligations could result in losses to the Company. Consequently, allowances for uncollectible amounts would be established. At December 31, 2009 and 2008, no allowances were deemed necessary.

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

	<u>2009</u>	<u>2008</u>	<u>2007</u>
Direct	\$ 53,916	\$ 39,748	\$ 43,432
Reinsurance assumed	336,562	254,474	165,228
Reinsurance ceded	(35,220)	(36,207)	(38,750)
Net premiums	<u>\$ 355,258</u>	<u>\$ 258,015</u>	<u>\$ 169,910</u>

Wilton Re Holdings Limited and Subsidiaries

Notes to Consolidated Financial Statements (continued)

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

8. Reinsurance (continued)

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

	2009	2008	2007
Direct	\$ 126,831	\$ 62,717	\$ 45,173
Reinsurance assumed	289,079	152,106	159,156
Reinsurance ceded	(12,276)	(42,175)	(7,630)
Net claims and policy benefits	\$ 403,633	\$ 172,648	\$ 196,699

At December 31, 2009 and 2008, there were no reinsurance ceded or retrocessional receivables associated with a single reinsurer in excess of 5% of total assets.

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

	Direct	Assumed	Ceded	Net	Assumed/ Net %
December 31, 2009	\$ 37,772	\$ 65,351	\$ (13,135)	\$ 89,988	72.62%
December 31, 2008	\$ 21,528	\$ 64,140	\$ (14,166)	\$ 71,503	89.7%

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

Wilton Re Holdings Limited and Subsidiaries

Notes to Consolidated Financial Statements (continued)

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

8. Reinsurance (continued)

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

	2009	2008
Value of business acquired	\$ 248,500	\$ 259,800
Reserves for future policy benefits	\$ 755,900	\$ 728,700
Life insurance inforce	\$ 95,453,500	\$ 103,400,000

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

At December 31, 2009, approximately 80% 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 as of December 31, 2009 of B++.

At December 31, 2008, 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 as of December 31, 2008 of A+.

9. Deferred Acquisition Costs and Value of Business Acquired

The balances and changes in DAC are as follows:

	For the Year Ended December 31		
	2009	2008	2007
Beginning of year	\$ 83,691	\$ 55,681	\$ 33,239
Capitalized:			
Direct	25,270	-	-
Assumed	53,603	36,918	29,301
Amortized:			
Direct	(5,997)	-	-
Assumed	(24,950)	(8,907)	(6,860)
End of year	\$ 131,617	\$ 83,691	\$ 55,681

Wilton Re Holdings Limited and Subsidiaries

Notes to Consolidated Financial Statements (continued)

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

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

The balances and changes in VOBA are as follows:

	For the Year Ended December 31		
	2009	2008	2007
Beginning of year	\$ 600,316	\$ 525,807	\$ 411,962
Purchase accounting refinements	(711)	(60,680)	27,580
Acquisitions	98,898	91,179	113,774
Amortization	(119,806)	49,634	(24,560)
Impact of unlocking	9,713	(5,624)	(2,949)
End of year	<u>\$ 588,410</u>	<u>\$ 600,316</u>	<u>\$ 525,807</u>

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 a net deferred tax asset valuation allowance.

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

2010	\$ 52,472
2011	48,915
2012	43,509
2013	40,209
2014	36,235

10. Income Taxes

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

Wilton Re Holdings Limited and Subsidiaries

Notes to Consolidated Financial Statements (continued)

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

10. Income Taxes (continued)

At December 31, 2009, the Company had U.S. net operating loss carryforwards of approximately \$20,029 that if not utilized will begin to expire in 2015, and capital loss carryforwards of approximately \$13,324 that, if not utilized, will begin to expire in 2014. Approximately \$19,222, of the net operating loss, is limited under Section 382 of the Internal Revenue Code. The Company expects to utilize approximately \$7,843 of these net operating losses and expects the remainder to expire unused due to this limitation. None of the capital losses are limited by Section 382.

Income tax benefits attributable to income from continuing operations for the years ended December 31, 2009, 2008 and 2007 are as follows:

	2009	2008	2007
Current tax expense	\$ 12,338	\$ –	\$ –
Deferred tax expense/(benefit)	72,786	(36,139)	–
	\$ 85,124	\$ (36,139)	\$ –

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:

	2009	2008	2007
Computed expected tax benefit (loss) at 35%	\$ 150,213	\$ (91,703)	\$ 11,762
Foreign (income) loss not subject to U.S. tax	(53,780)	43,649	(1,398)
Foreign tax DAC	–	1,623	(1,974)
Effect of change in tax valuation allowance	(11,363)	12,047	(8,359)
Other	54	(1,755)	(30)
Actual income tax expense/(benefit)	\$ 85,124	\$ (36,139)	\$ –

Wilton Re Holdings Limited and Subsidiaries

Notes to Consolidated Financial Statements (continued)

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

10. Income Taxes (continued)

The tax effects of temporary differences that give rise to significant portions of the deferred income tax assets and liabilities at December 31, 2009 and 2008 are presented in the following table:

	2009	2008	2007
Deferred income tax assets			
Differences between tax and financial reporting amounts concerning certain reinsurance transactions	\$ 164,668	\$ 147,078	\$ 18,124
Net operating loss and capital loss	11,674	121,304	110,956
Nondeductible accruals	4,089	3,159	1,370
Investments	21,601	87,011	759
Organizational costs	466	513	560
Employee benefits-stock options	5,889	-	-
Other	12,639	5,065	5,960
Total deferred tax assets	221,025	364,129	137,729
Deferred income tax liabilities			
Reserves for future policy benefits	(192,702)	(181,051)	(16,521)
Deferred acquisition costs	(36,238)	(101,915)	(87,123)
Other	-	(1,042)	(2,150)
Total deferred tax liabilities	(228,940)	(284,008)	(105,794)
Valuation allowance	(4,667)	(12,047)	(31,935)
Net deferred tax (liability)/asset	\$ (12,581)	\$ 68,074	\$ -

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, 2009, the valuation allowance recorded against approximately \$4,667 of deferred tax assets, reflected net operating losses on the non-life companies not likely to be recognized in the foreseeable future. No valuation allowance was recorded against realized and unrealized losses, nor operating deferred tax assets. The Company believes the realized and 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 Limited and Subsidiaries

Notes to Consolidated Financial Statements (continued)

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

10. Income Taxes (continued)

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. Any distributions in a current year will be subject to 30% withholding tax to the extent there is current taxable income in such current year. There were none in 2009, 2008 and 2007.

As of December 31, 2009 and 2008, the Company had no unrecognized tax benefits.

11. Statutory Requirements and Dividend Restrictions

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

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

Wilton Re Holdings Limited and Subsidiaries

Notes to Consolidated Financial Statements (continued)

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

11. Statutory Requirements and Dividend Restrictions (continued)

WRAC, WRNY, TLIC 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, 2009 and 2008, WRAC, WRNY, TLIC 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. WRAC cannot pay any dividends in 2010 without prior to regulatory approval. WRNY is subject to statutory regulations of the state of New York. Under these regulations, the maximum amount of dividends which can be paid by a company to shareholders in any twelve month period without prior approval of the New York Department of Insurance is restricted to the lesser of 10% of equity or net income less realized gains of the preceding year. WRNY cannot pay any dividends in 2010 without prior regulatory approval. TLIC is subject to statutory regulations of the state of Texas. Under these regulations, the maximum amount of dividends which can be paid by a company to shareholders in any twelve month period without prior approval of the Texas Department of Insurance is restricted to the prior year net gains from operations after federal income tax and before capital gains and losses or 10% of statutory capital and surplus. TLIC can pay dividends of \$17,362 in 2010 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.

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

	2009	2008
	(unaudited)	
Wilton Reinsurance Bermuda Limited	\$ 408,941	\$ 240,362
Wilton Reassurance Company	258,305	126,425
Wilton Reassurance Life Co. of New York	95,258	70,632
Redding Reassurance Company	258	92,382
Texas Life Insurance Company	48,359	–

Wilton Re Holdings Limited and Subsidiaries

Notes to Consolidated Financial Statements (continued)

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

11. Statutory Requirements and Dividend Restrictions (continued)

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

	<u>2009</u>	<u>2008</u>	<u>2007</u>
	(unaudited)		
Wilton Reinsurance Bermuda Limited	\$ 150,879	\$ (108,889)	\$ 19,851
Wilton Reassurance Company	1,636	5,062	(79,942)
Wilton Reassurance Life Co of New York	28,017	(26,150)	(15,293)
Redding Reassurance Company	256,456	(10,266)	(23,003)
Texas Life Insurance Company	18,080	-	-

12. Shareholders' 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, 2009 and 2008. Upon incorporation, the Company issued 32,000 Class A common shares at \$25 per share for a total of \$800.

On March 20, 2007, the Company closed on an additional irrevocable equity commitment of \$300,000 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 \$100,000 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 \$352,452 expiring in September 2009. During 2008, the Company collected from its investors approximately \$230,000 of commitments. On February 6, 2009, the Company received the subscription receivable of \$121,634.

On December 7, 2009, the Company, through a privately negotiated transaction of \$57.50 per share Class A common share, received \$128,105 for 2,227,122 shares from one new investor, one existing investor, board members and management. The Company incurred \$4,593 of expenses in relation to the equity raise which reduced the gross proceeds.

Wilton Re Holdings Limited and Subsidiaries

Notes to Consolidated Financial Statements (continued)

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

12. Shareholders' Equity (continued)

Founders Warrants

At the date of incorporation, the Company issued to certain persons, in connection with the stock issuances, warrants to purchase up to 8% of the aggregate number of the applicable class of outstanding common shares. The warrants are exercisable at \$50.00 per share. The warrants were immediately and fully exercisable at the time of issuance and remain exercisable for a period of 10 years. As of December 31, 2004, the Company had issued 2,560 warrants with a fair value of \$11.14. No new warrants have been issued since 2004 and none have been exercised as of December 31, 2009.

Equity Based Compensation

The Company has granted to certain of its employees and officers, options to purchase approximately 4.9% of the aggregate number of outstanding common shares. The options are exercisable price of at \$50.00 to \$57.50 per share. The options will become exercisable based upon vesting schedules over 7 years and remain exercisable for not less than 10 years. As of December 31, 2009 and 2008, there were 1,148 and 988 options outstanding. No options have been exercised. During 2009 and 2008, 36,832 and 20,042 options were forfeited, respectively. Equity based compensation expense of \$5,486, \$4,900, and \$1,900 related to the granting of the options was recognized in 2009, 2008, and 2007, respectively. The weighted average contractual life for all grants is 2.5 years. Options vested as of December 31, 2009 and 2008 were 715 and 358, respectively. Option awards provide for accelerated vesting if there is a change in control (as defined in the Option Plan).

The Black-Scholes model was used to determine the fair value of stock options granted and recognized in the financial statements. The Company used daily historical volatility of several competitors with whom the Company believes would represent a similar volatility if its stock was publicly traded. The risk free rate is based on observed interest rates for instruments with maturities similar to the expected term of the options. There were no options granted during 2007. The per share weighted-average fair value of stock options granted during 2009 and 2008 was \$22.39 and \$17.08 on the date of grant using Black-Scholes option pricing model with the following weighted average assumptions: 2009-expected dividend yield of 0%, risk free interest rate of 3.23%, expected life of 6.0 years and an expected rate of volatility of the stock of 33.9% over the expected life of the options; 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.

Wilton Re Holdings Limited and Subsidiaries

Notes to Consolidated Financial Statements (continued)

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

13. Commitments and Contingencies

Letters of Credit

The Company obtains letters of credit for the benefit of various affiliated and unaffiliated insurance companies from which the Company assumes business. These letters of credit represent guarantees of performance under the reinsurance agreements and allow ceding companies to take statutory reserve credits. In June 2006, the Company obtained a syndicated \$100,000, 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 two years in June 2007. In June 2009, the Wachovia Revolver/LOC Facility was replaced with a \$65,000, 364 day letter of credit facility (the Wells Fargo Facility). The Wells Fargo Facility contains financial covenant restrictions that require the Company not to exceed a consolidated leverage ratio of greater than 0.25 to 1.00, and maintain a minimum consolidated tangible net worth. LOCs issued under the Wells Fargo facility may be collateralized by either a pledge of common stock of Wilton Re US Holdings and Wilton Re Bermuda, or qualifying cash and securities (liquid collateral). At December 31, 2009 and 2008, there were approximately \$64,730 and \$69,928, respectively, of outstanding bank letters of credit issued under the respective facilities.

Legal Proceedings

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

Wilton Re Holdings Limited and Subsidiaries

Notes to Consolidated Financial Statements (continued)

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

14. Term Debt

In July of 2006, the Company completed a syndicated \$150,000 three year Senior Term Loan Credit Facility for which Wachovia Capital Markets, LLC served as the lead arranger (Wachovia Term Loan). 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 agreement to convert the floating LIBOR base rate to a fixed rate of 5.50%. At December 31, 2009, 2008 and 2007, the fixed rate, including applicable margin, was 7.25% annually. The Wachovia Term Loan provided for no payments in the first year, quarterly amortization of \$6,250 beginning in September 2007, with a final bullet payment of \$106,250 payable upon maturity in 2009. The company repaid the outstanding principal balance of \$112,500 along with accrued interest on March 27, 2009.

15. 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).

Prior to September, 2009, Redding Re Holdings was considered to be a variable interest entity and the Company was deemed to be the primary beneficiary. Subsequent to September 30, 2009 Redding Re Holdings is considered to be a wholly owned subsidiary. As a result, all of the accounts and activities of Redding Re Holdings and Redding Re are consolidated in the Company's financial statements.

Through the Redding Facility, amounts were 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, Redding Re held assets in trust of \$260,366 for this purpose.

Interim financing of \$250,000 for the Redding Facility was provided by a third party under the terms of a revolving credit facility (the Redding Warehouse Facility). Interest was 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 increased to 2.75% per annum effective July 1, 2009.

Wilton Re Holdings Limited and Subsidiaries

Notes to Consolidated Financial Statements (continued)

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

15. Collateral Finance Facility (continued)

In September of 2009, WRAC recaptured 100% of the business previously ceded to Redding Re. This business was subsequently ceded to WREB. As a result, assets held in the reinsurance trust were released and utilized to repay the Redding Warehouse Facility. Redding Re Holdings and Redding Re have been placed in dormant status and may be used in the future to facilitate one or more securitization transactions. The Company expensed \$2,165 of previously deferred costs.

16. Fair Value

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

The following table presents the carrying amounts and fair values of the Company's financial instruments at December 31, 2009 and 2008:

	2009		2008	
	Carrying Value	Estimated Fair Value	Carrying Value	Estimated Fair Value
Assets:				
Investments	\$ 2,881,262	\$ 2,881,262	\$ 1,354,788	\$ 1,354,788
Policy loans	136,324	136,324	45,310	45,310
Funds withheld at interest	2,012,719	2,012,719	2,054,587	2,054,587
Short-term investments	84,877	84,877	122,605	122,605
Other invested assets	3,745	3,745	2,990	2,990
Liabilities:				
Annuities-deferred and without life contingencies	1,787,582	1,791,071	2,068,000	1,915,000
Funds withheld	15,408	15,408	16,763	16,763
Short-term debt	-	-	112,500	115,000
Collateral finance facility	-	-	250,000	243,000

Wilton Re Holdings Limited and Subsidiaries

Notes to Consolidated Financial Statements (continued)

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

16. Fair Value (continued)

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

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

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

Wilton Re Holdings Limited and Subsidiaries

Notes to Consolidated Financial Statements (continued)

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

16. Fair Value (continued)

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

16. Fair Value (continued)

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

	December 31, 2009			
	Total	Fair Value Measurements Using:		
		Level 1	Level 2	Level 3
Assets				
Investments:				
U.S. government and agencies	\$ 596,209	\$ 407,019	\$ 189,190	\$ –
State and political subdivisions	202,013	–	200,867	1,147
Corporate securities	1,049,407	–	993,226	56,181
Foreign securities	167,016	–	163,482	3,534
Asset-backed securities	181,109	–	174,412	6,696
Mortgage-backed securities	661,724	–	655,470	6,254
Total fixed maturity securities	2,857,478	407,019	2,376,647	73,812
Preferred stocks	23,784	9,600	13,485	700
Total investments	2,881,262	416,619	2,390,132	74,512
Funds withheld at interest:				
Government and agencies	37,555	27,964	9,590	–
State and political subdivisions	24,708	–	24,708	–
Corporate securities	1,184,487	–	1,184,421	67
Foreign securities	2,907	–	2,907	–
Mortgage and asset backed securities	395,410	–	395,410	–
Total fixed maturity securities	1,645,067	27,964	1,617,036	67
Preferred stocks	3,185	2,579	–	606
Total funds withheld at interest	1,648,252	30,543	1,617,036	673
Short-term investments	84,877	72,062	12,815	–
Total assets	\$ 4,614,391	\$ 519,223	\$ 4,019,983	\$ 75,185

Wilton Re Holdings Limited and Subsidiaries

Notes to Consolidated Financial Statements (continued)

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

16. Fair Value (continued)

	December 31, 2008			
	Total	Fair Value Measurements Using:		
		Level 1	Level 2	Level 3
Assets				
Investments:				
U.S. government and agencies	\$ 183,444	\$ 20,338	\$ 163,105	\$ –
State and political subdivisions	27,457	–	27,457	–
Corporate securities	455,471	–	421,535	33,936
Foreign securities	52,708	–	52,178	531
Asset-backed securities	142,137	–	140,464	1,673
Mortgage-backed securities	478,694	–	476,796	1,899
Total fixed maturity securities	1,339,911	20,338	1,281,535	38,039
Preferred stocks	14,876	14,843	8	34
Total investments	1,354,788	35,181	1,281,535	38,072
Funds withheld at interest:				
Government and agencies	3,035	263	2,772	–
Public utilities	177,131	–	177,131	–
Corporate securities	1,149,173	–	1,148,933	239
Mortgage and asset backed securities	571,674	–	567,850	3,825
Total fixed maturity securities	1,901,013	263	1,896,686	4,064
Preferred stocks	2,404	2,404	–	–
Total funds withheld at interest	1,903,417	2,667	1,896,686	4,064
Short-term investments	122,605	120,605	2,000	–
Total assets	\$ 3,380,810	\$ 158,453	\$ 3,180,221	\$ 42,136

Wilton Re Holdings Limited and Subsidiaries

Notes to Consolidated Financial Statements (continued)

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

16. Fair Value (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, 2009.

	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	-	-	-	1,147	1,147	268
Corporate securities	33,936	3,037	18,529	679	56,181	4,149
Foreign securities	531	(84)	3,087	-	3,534	(82)
Asset-backed securities	1,673	(3)	3,589	1,437	6,696	115
Mortgage-backed securities	1,899	656	363	3,336	6,254	(899)
Total fixed maturity securities	38,039	3,607	25,569	6,598	73,812	3,551
Preferred stocks	34	(28)	694	-	700	-
Total investments	38,072	3,579	26,263	6,598	74,512	3,551
Funds withheld at interest:						
Government and agencies	-	-	-	-	-	-
Corporate securities	81	(1)	(13)	-	67	-
Mortgage & asset backed securities	3,983	383	(1,354)	(3,012)	-	-
Total fixed maturity securities	4,064	382	(1,367)	(3,012)	67	-
Preferred stocks	-	-	606	-	606	-
Other invested assets	-	-	-	-	-	-
Total funds withheld at interest	4,064	382	(761)	(3,012)	673	-
Short-term investments	-	-	-	-	-	-
Total assets	\$ 42,136	\$ 3,961	\$ 25,502	\$ 3,586	\$ 75,185	\$ 3,551

17. 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 LOC and term loan facilities (see Notes 14 and 15). In addition, Wells Fargo, NA holds a \$25,000 participation in the LOC syndicate. During 2009, the Company paid Wells Fargo \$2,291 in conjunction with fees related to the private equity raise (see Note 12).

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

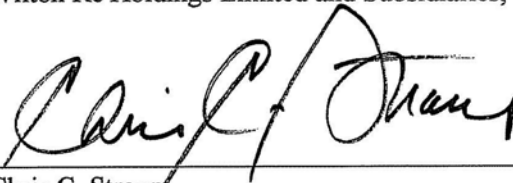
Management of Wilton Re Holdings Limited and Subsidiaries (the Company) is responsible for establishing and maintaining effective internal controls over financial reporting. Internal controls are designed to provide reasonable assurance to the Company's management, Board of Directors and Investors regarding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

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

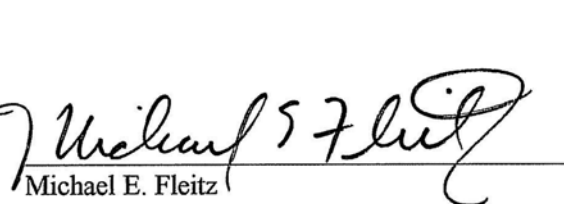
On March 3, 2009, the Company acquired Texas Life Insurance Company (TLIC). Refer to Note 4 of Notes to Consolidated Financial Statements for additional information regarding this transaction. In accordance with SEC Staff guidance, management has excluded this acquired business from its evaluation of the effectiveness of the Company's internal control over financial reporting as of December 31, 2009. Total revenues attributable to these acquired businesses represented approximately 11.5 percent of the Company's consolidated total revenues for the year ended December 31, 2009, and the aggregate total assets represented approximately 12.0 percent of the Company's consolidated total assets at December 31, 2009.

Management assessed the Company's internal control as of December 31, 2009 based on criteria for effective internal control over financial reporting described in "Internal Control—Integrated Framework" issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO). Management concluded that the Company's internal control over financial reporting, excluding TLIC, is effective as of December 31, 2009 in providing reasonable assurance regarding the reliability of financial reporting in accordance with generally accepted accounting principles. Ernst & Young LLP, our independent registered public accounting firm, has issued an audit report on the effectiveness of the Company's internal control over financial reporting.

Wilton Re Holdings Limited and Subsidiaries,



Chris C. Stroup
Chairman and Chief Executive Officer
Wilton Re Holdings Ltd.



Michael E. Fleitz
Senior Vice President and Chief Financial Officer
Wilton Re Holdings Ltd.

March 26, 2010

Report of Independent Registered Public Accounting Firm on the Effectiveness of Internal Control over Financial Reporting

The Board of Directors
Wilton Re Holdings Limited and Subsidiaries

We have audited Wilton Re Holdings Limited and Subsidiaries' (the Company) internal control over financial reporting as of December 31, 2009, based on criteria established in Internal Control—Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission (the COSO criteria). The Company's management is responsible for maintaining effective internal control over financial reporting, and for its assessment of the effectiveness of internal control over financial reporting included in the accompanying Report of Management on the Company's Internal Control over Financial Reporting. Our responsibility is to express an opinion on the Company's internal control over financial reporting based on our audit.

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

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

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

As indicated in the accompanying Report of Management on the Company's Internal Control over Financial Reporting, management's assessment of and conclusion on the effectiveness of internal control over financial reporting did not include the internal controls of Texas Life Insurance Company, which is included in the 2009 consolidated financial statements of the Company and constituted \$760.4 million and \$147.4 million of total and net assets, respectively, as of December 31, 2009 and \$140.3 million and \$49.0 million of revenues and net income, respectively, for the year then ended. Our audit of internal control over financial reporting of the Company also did not include an evaluation of the internal control over financial reporting of Texas Life Insurance Company.

In our opinion, the Company maintained, in all material respects, effective internal control over financial reporting as of December 31, 2009, based on the COSO criteria.

We also have audited, in accordance with generally accepted auditing standards as established by the Auditing Standards Board (United States) and in accordance with the auditing standards of the Public Company Accounting Oversight Board (United States), the consolidated balance sheets of the Company as of December 31, 2009 and 2008, and the related consolidated statements of operations, changes in shareholders' equity, and cash flows for the three years then ended and our report dated March 26, 2010 expressed an unqualified opinion thereon.

Ernst + Young LLP

March 26, 2010