CONSOLIDATED FINANCIAL STATEMENTS

Primus Guaranty, Ltd.
Years Ended December 31, 2012 and 2011
With Report of Independent Auditors

Primus Guaranty, Ltd.
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Report of Independent Auditors

The Board of Directors and Shareholders of Primus Guaranty, Ltd.

We have audited the accompanying consolidated financial statements of Primus Guaranty, Ltd. (the "Company"), which comprise the consolidated statements of financial condition as of December 31, 2012 and 2011, and the related consolidated statements of operations, comprehensive income, shareholders' equity (deficit) and cash flows for the years then ended, and the related notes to the consolidated financial statements.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

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

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

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

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the consolidated financial position of the Company at December 31, 2012 and 2011, and the consolidated results of their operations and their cash flows for the years then ended in conformity with U.S. generally accepted accounting principles.

Ernst + Young LLP

New York, New York
May 6, 2013

Primus Guaranty, Ltd.
Consolidated Statements of Financial Condition
(in thousands except share amounts)

	December 31, 2012	December 31, 2011
Assets		
Cash and cash equivalents	$ 51,860	$ 87,247
Investments (includes $213,107 and $341,485 at fair value as of December 31, 2012 and 2011, respectively)	213,107	341,656
Restricted cash and investments	144,077	137,759
Accrued interest and premiums	3,210	5,725
Unrealized gain on credit swaps, at fair value	721	-
Debt issuance costs, net	510	3,444
Other assets (includes $2,701 and $7,424 at fair value as of December 31, 2012 and 2011, respectively)	4,019	9,993
Total assets	$ 417,504	$ 585,824
Liabilities and Equity (deficit)		
Liabilities		
Accounts payable and accrued expenses	$ 5,202	$ 5,847
Unrealized loss on credit swaps, at fair value	43,682	457,939
Payable for credit events	1,280	1,985
Long-term debt	57,700	172,334
Restructuring liabilities	-	36
Other liabilities (includes $2,204 and $2,398 at fair value as of December 31, 2012 and 2011, respectively)	2,721	3,175
Total liabilities	$ 110,585	$ 641,316
Equity (deficit)		
Common shares, $0.08 par value, 62,500,000 shares authorized, 26,125,564 and 34,838,420 shares issued and outstanding at December 31, 2012 and 2011, respectively	2,090	2,787
Additional paid-in capital	203,232	260,258
Accumulated other comprehensive income	2,723	1,086
Retained earnings (deficit)	22,619	(409,769)
Total shareholders' equity (deficit) of Primus Guaranty, Ltd.	230,664	(145,638)
Preferred securities of subsidiary	76,255	90,146
Total equity (deficit)	306,919	(55,492)
Total liabilities and equity (deficit)	$ 417,504	$ 585,824

See accompanying Notes to Consolidated Financial Statements.

Primus Guaranty, Ltd.
Consolidated Statements of Operations
(in thousands except per share amounts)

	Year Ended December 31, 2012	Year Ended December 31, 2011
Revenues (losses)		
Net credit swap revenue (loss)	$ 438,961	$ (39,029)
Interest income	9,497	9,794
Gain on retirement of long-term debt	2,638	9,145
Other income	1,429	1,608
Total revenues (losses)	452,525	(18,482)
Expenses		
Compensation and employee benefits	7,117	6,527
Professional and legal fees	1,501	2,719
Interest expense	9,587	5,998
Other	3,497	4,156
Total expenses	21,702	19,400
Income (loss) from continuing operations before provision for income taxes	430,823	(37,882)
Provision for income taxes	97	16
Income (loss) from continuing operations, net of tax	430,726	(37,898)
Income from discontinued operations, net of tax	4,388	4,133
Net income (loss)	435,114	(33,765)
Less:		
Distributions on preferred securities of subsidiary	2,726	3,035
Net income (loss) available to common shares	$ 432,388	$ (36,800)
Income (loss) per common share:		
Basic:		
Income (loss) from continuing operations	$ 14.30	$ (1.11)
Income from discontinued operations	$ 0.15	$ 0.11
Net income (loss) available to common shares	$ 14.45	$ (1.00)
Diluted:		
Income (loss) from continuing operations	$ 14.26	$ (1.11)
Income from discontinued operations	$ 0.15	$ 0.11
Net income (loss) available to common shares	$ 14.41	$ (1.00)
Weighted average common shares outstanding:		
Basic	30,189	36,849
Diluted	30,277	36,849

See accompanying Notes to Consolidated Financial Statements.

Primus Guaranty, Ltd.
Consolidated Statements of Comprehensive Income
(in thousands)

	Year Ended December 31,	
	2012	**2011**
Net income (loss)	$ 435,114	$ (33,765)
Other comprehensive income (loss), net of tax:		
Change in net unrealized gains (losses) on available-for-sale investments	1,637	(2,247)
Comprehensive income (loss)	436,751	(36,012)
Less: Distributions on preferred securities of subsidiary	2,726	3,035
Comprehensive income (loss) available to common shares	$ 434,025	$ (39,047)

See accompanying Notes to Consolidated Financial Statements.

Primus Guaranty, Ltd.
Consolidated Statements of Shareholders' Equity (Deficit)
(in thousands)

	Year Ended December 31, 2012	Year Ended December 31, 2011
Common shares		
Balance at beginning of period	$ 2,787	$ 3,046
Common shares purchased and retired	(704)	(298)
Shares issued under employee compensation plans	7	39
Balance at end of period	2,090	2,787
Additional paid-in capital		
Balance at beginning of period	260,258	275,453
Common shares purchased and retired	(63,485)	(19,205)
Shares vested under employee compensation plans	2,628	2,929
Preferred shares purchased by subsidiary	3,831	1,081
Balance at end of period	203,232	260,258
Accumulated other comprehensive income (loss)		
Balance at beginning of period	1,086	3,333
Change in unrealized holding gains on available-for-sale securities	1,637	(2,247)
Balance at end of period	2,723	1,086
Retained earnings (deficit)		
Balance at beginning of period	(409,769)	(372,969)
Net income (loss)	435,114	(33,765)
Distributions on preferred securities of subsidiary	(2,726)	(3,035)
Balance at end of period	22,619	(409,769)
Total shareholders' equity (deficit) of Primus Guaranty, Ltd.	230,664	(145,638)
Preferred securities of subsidiary		
Balance at beginning of period	90,146	93,102
Net purchase of preferred shares	(13,891)	(2,956)
Balance at end of period	76,255	90,146
Total equity (deficit) at end of period	$ 306,919	$ (55,492)

See accompanying Notes to Consolidated Financial Statements.

Primus Guaranty, Ltd.
Consolidated Statements of Cash Flows
(in thousands)

	Year Ended December 31, 2012	Year Ended December 31, 2011
Cash flows from operating activities		
Net income (loss) available to common shares	$ 432,388	$ (36,800)
Distributions on preferred securities of subsidiary	2,726	3,035
Net income (loss)	435,114	(33,765)
Adjustments to reconcile net income (loss) to net cash provided by operating activities:		
Non-cash items included in net income (loss):		
Depreciation and amortization	40	53
Share-based compensation	3,393	1,987
Net unrealized (gains) losses on credit swaps	(414,978)	64,781
Net amortization of premium and discount on securities	6,545	10,288
Gain on retirement of long-term debt	(2,638)	(9,145)
Other	1,254	(4,073)
Increase (decrease) in cash resulting from changes in:		
Restricted cash	(4,974)	(4,034)
Accrued interest and premiums	2,515	135
Other assets	5,933	5,044
Sales of trading account assets	-	5,253
Accounts payable and accrued expenses	(1,410)	(1,913)
Payable for credit events	(704)	(1,462)
Restructuring liabilities	(36)	(3,693)
Other liabilities	(454)	(1,775)
Net cash provided by operating activities	29,600	27,681
Cash flows from investing activities		
Fixed asset purchases	-	(36)
Payments received from CLO investments	287	2,163
Payments received from ABS investments	104	-
Purchases of available-for-sale investments	(60,476)	(214,354)
Maturities and sales of available-for-sale investments, including restricted investments	183,407	149,685
Maturities and sales of held-to-maturity investments	171	-
Net cash provided by (used in) investing activities	123,493	(62,542)
Cash flows from financing activities		
Retirement of long-term debt	(111,512)	(31,254)
Purchase and retirement of common shares	(64,182)	(19,464)
Purchase of preferred securities of subsidiary	(10,060)	(1,875)
Net preferred distributions of subsidiary	(2,726)	(3,035)
Net cash used in financing activities	(188,480)	(55,628)
Net decrease in cash	(35,387)	(90,489)
Cash and cash equivalents at beginning of period	87,247	177,736
Cash and cash equivalents at end of period	$ 51,860	$ 87,247
Supplemental disclosures of cash flow information:		
Cash paid for interest	$ 7,178	$ 5,800
Cash paid for taxes	$ 87	$ -

See accompanying Notes to Consolidated Financial Statements.

Primus Guaranty, Ltd.
Notes to Consolidated Financial Statements

1. Organization and Business

Primus Guaranty, Ltd., together with its consolidated subsidiaries ("Primus Guaranty" or "the Company"), is a Bermuda holding company that conducts business currently through its principal operating subsidiary, Primus Financial Products, LLC (individually or collectively with its subsidiaries, as the context requires, "Primus Financial"). Primus Asset Management, Inc. ("Primus Asset Management"), a Delaware corporation and a subsidiary of Primus Guaranty, acts as manager of the credit swap and cash investment portfolios of its affiliates, Primus Guaranty and Primus Financial. In addition, Primus Asset Management provides management, consulting and information technology services, among others, to its affiliates pursuant to a services agreement with such affiliates.

Primus Financial is a Delaware limited liability company that, as a credit derivative product company, was established to sell credit protection in the form of credit swaps primarily to global financial institutions, referred to as "counterparties," against primarily investment grade credit obligations of corporate issuers. In exchange for a fixed quarterly premium, Primus Financial has agreed, upon the occurrence of a defined credit event (e.g., bankruptcy, failure to pay or restructuring) affecting a designated issuer, referred to as a "Reference Entity," to pay to its counterparty an amount determined through industry-sponsored auctions equivalent to the notional amount of the credit swap less the auction-determined recovery price of the underlying debt obligation. Primus Financial may elect to acquire the underlying security in the related auction or in the market and seek to sell such obligation at a later date.

Credit swaps sold by Primus Financial on a single specified Reference Entity are referred to as "single name credit swaps." Primus Financial also has sold credit swaps referencing portfolios containing obligations of multiple Reference Entities, which are referred to as "tranches." Additionally, Primus Financial has sold credit swaps on asset-backed securities, which are referred to as "CDS on ABS." These asset-backed securities ("ABS") are referenced to residential mortgage-backed securities. Credit events related to CDS on ABS may include any or all of the following: failure to pay principal, write-down in the reference obligation and distressed ratings downgrades on the reference obligation as defined in the related credit swap agreement.

During 2009, the Company announced its intention to amortize Primus Financial's credit swap portfolio. Under the amortization model, Primus Financial's existing credit swap contracts will expire at maturity (unless terminated early) and it is not expected that additional credit swaps will be added to its portfolio, unless associated with a risk mitigation transaction. Risk mitigation transactions may include the termination of selected credit swap transactions as well as portfolio repositioning transactions with individual counterparties.

In addition to its credit swap business, the Company had developed an asset management business which chiefly comprised the management of collateralized loan obligations ("CLOs"). The CLOs were managed by Primus Asset Management, together with its then wholly owned subsidiary, CypressTree Investment Management, LLC ("CypressTree"), which had been acquired by Primus Asset Management in 2009. The terms of the agreement for the acquisition of CypressTree included a contingent liability to the former owners of CypressTree, the amount of which is primarily based on the future estimated cash flows on certain CLO management fees, subject to the terms of the agreement.

On December 1, 2010, the Company divested its CLO asset management business, which included the sale of CypressTree to a third party CLO manager. In connection with the sale of CypressTree, the Company recorded a contingent receivable from the buyer, the amount of which is primarily based on the future estimated cash flows on certain CLO management fees, subject to the terms of the agreement.

2. Summary of Significant Accounting Policies

Basis of Presentation

The consolidated financial statements are presented in accordance with U.S. generally accepted accounting principles ("GAAP"). Significant intercompany transactions have been eliminated in consolidation.

The consolidated financial statements are presented in U.S. dollar equivalents. During the periods presented, the Company's credit swap activities were conducted in U.S. dollars and euros.

Use of Estimates

The preparation of financial statements in conformity with GAAP requires management to make estimates and assumptions that affect the amounts reported in the financial statements and accompanying notes. Actual results could differ from those estimates. Management's estimates and assumptions are used mainly in estimating the fair value of credit swaps, contingent asset and liability, investments in securities issued by CLOs, ABS investments and the deferred tax asset valuation.

Cash and Cash Equivalents

The Company's cash and cash equivalents include interest bearing bank deposits, money market accounts and money market funds. The Company defines cash equivalents as short-term, highly liquid securities and interest earning deposits with maturities at time of purchase of 90 days or less.

Investments

The Company determines the appropriate classification of securities at the time of purchase which are recorded in the consolidated statements of financial condition on the trade date. Debt and equity securities are classified as available-for-sale, held-to-maturity or trading. The Company's available-for-sale investments primarily include corporate debt securities. Available-for-sale investments are carried at fair value with the unrealized gains or losses reported in accumulated other comprehensive income (loss) as a separate component of shareholders' equity (deficit) of Primus Guaranty in the consolidated statements of financial condition. Available-for-sale investments have maturities at time of purchase greater than 90 days. Held-to-maturity investments are those securities that the Company has the intent and ability to hold until maturity. The Company's held-to-maturity investments included a certificate of deposit which was recorded at amortized cost. Trading account investments are carried at fair value, with unrealized gains or losses included in the "Other income" caption in the consolidated statements of operations.

Restricted Cash and Investments

Restricted investments are comprised of a held-to-maturity corporate note issued by a counterparty as security for credit swap contracts, which matured in March 2013. The accounting for restricted investments is consistent with the Investments section noted above. As of December 31, 2012, the Company's consolidated statements of financial condition include $144.1 million of restricted cash and investments. See note 4 of these notes to consolidated financial statements for further discussion.

Interest Income

The Company earns interest income on its cash and cash equivalents and investments. Interest income is accrued as earned.

Other Income

Other income includes foreign currency revaluation gains or losses, sublease rental income, realized and unrealized gains or losses on trading investments and management fees.

Credit Swaps

Credit swaps include single name, tranches and CDS on ABS, which are over-the-counter ("OTC") derivative financial instruments and are recorded at fair value. Obtaining the fair value for such instruments requires the use of management's judgment. These instruments are valued using pricing models based on the net present value of expected future cash flows and observed prices for other OTC transactions bearing similar risk characteristics. The fair values of these instruments appear on the consolidated statements of financial condition as "Unrealized gain on credit swaps" or "Unrealized loss on credit swaps." See note 6 of these notes to consolidated financial statements for further discussion on fair value and valuation techniques.

"Net credit swap revenue (loss)" as presented in the consolidated statements of operations comprises changes in the fair value of credit swaps, realized gains or losses on the termination of credit swaps before their stated maturity, realized losses on credit events and premium income. Premiums are recognized as income as they are earned over the life of the credit swap transaction.

Deferred Debt Issuance Costs

The Company has incurred costs in connection with its debt issuances. These costs are capitalized as debt issuance costs in the consolidated statements of financial condition and are being amortized over the life of the related debt arrangement which ranges from fifteen to thirty years from the date of issuance. Amortization of debt issuance costs is included in the "Interest expense" caption in the consolidated statements of operations.

Contingent Asset and Liability

The Company has made an accounting policy election to measure both the contingent liability to the former owners of CypressTree and the contingent receivable from the buyer of Primus Asset Management's CLO business at fair value. The Company re-measures the contingent liability and the contingent receivable each reporting period at fair value. Changes in fair value are recorded in the "Income from discontinued operations, net of tax" caption in the consolidated statements of operations.

Income Taxes

Income tax expense is computed using the asset and liability approach to accounting for income taxes. The asset and liability approach requires the recognition of deferred tax liabilities and assets for the expected future tax consequences of temporary differences between the carrying amounts and the tax bases of assets and liabilities. The Company establishes a valuation allowance against deferred tax assets when it is more likely than not that some portion or all of those deferred tax assets will not be realized.

Share-Based Compensation

The Company measures and recognizes compensation expense for all share-based payment awards made to employees and directors including share options and other forms of equity compensation based on the estimated fair value of share options, performance shares and share units. The Company has classified performance shares and employee share units as a share-based liability plan, which requires those share awards to be re-measured at fair value at each reporting period until settlement. As a result of this classification, the Company elected to use the accelerated expense recognition method for these awards that are subject to graded vesting based on a service condition. Under this method, expense is recorded on a straight-line method for each separately vesting portion of the award, as if the award was, in substance, multiple awards. During 2012, the Company made payments of $1.8 million to settle share awards under this share-based liability plan.

The fair value of share options granted is determined using the Black-Scholes option-pricing model. The use of the Black-Scholes option-pricing model requires certain estimates for values of variables used in the model. The fair value of performance shares awarded with a market condition are determined using a Monte Carlo simulation pricing model which requires certain estimates for values of variables used in the model. Performance shares with a market condition are amortized over the estimated expected term derived from the model.

Share-based compensation expense is included in the "Compensation and employee benefits" caption in the consolidated statements of operations. See note 15 of these notes to consolidated financial statements for further discussion.

Recent Accounting Pronouncements

In May 2011 the FASB issued ASU No. 2011-04, *Fair Value Measurement* (Topic 820), "Amendments to Achieve Common Fair Value Measurement and Disclosure Requirements in U.S. GAAP and International Financial Report Standards ("IFRS")" (ASU No. 2011-04). The amendments establish common fair value measurement and disclosure requirements in U.S. GAAP and IFRS. ASU No. 2011-04 requires additional disclosures of valuation techniques and reporting. These disclosure requirements were effective for the

Company for its fiscal year ended December 31, 2012. The adoption of this new standard did not have a material impact on the Company's consolidated financial statements.

In June 2011, the FASB issued ASU No. 2011-05, *Comprehensive Income* (Topic 220), "Presentation of Comprehensive Income" (ASU No. 2011-05). Among other presentation amendments, ASU No. 2011-05 eliminated the option to present the components of other comprehensive income ("OCI") as part of the statement of changes in shareholders' equity. This requirement is effective for periods beginning after December 15, 2011. In December 2011, the FASB issued ASU No. 2011-12, *Comprehensive Income* (Topic 220), "Deferral of the Effective Date for Amendments to the Presentation of Reclassifications of Items Out of Accumulated Other Comprehensive Income in ASU No. 2011-05" ("ASU No. 2011-12"). This requirement is effective for periods beginning after December 15, 2012. The Company adopted ASU No. 2011-05 on December 31, 2012. See the consolidated statements of comprehensive income for further information.

3. Investments

The following table presents the estimated fair value of investments for the years ended December 31, 2012 and 2011 (in thousands):

	Year Ended December 31, 2012	Year Ended December 31, 2011
Available-for-sale	$ 212,015	$ 340,212
Held-to-maturity	-	171
Trading	1,092	1,273
Total investments	$ 213,107	$ 341,656

The following tables summarize the composition of the Company's available-for-sale and held-to-maturity investments at December 31, 2012 and 2011 (in thousands):

	December 31, 2012			
	Amortized Cost	Unrealized Gains	Unrealized Losses	Estimated Fair Value
Available-for-sale:				
Corporate debt securities	$ 209,292	$ 2,745	$ (22)	$ 212,015
Total available-for-sale	$ 209,292	$ 2,745	$ (22)	$ 212,015

	December 31, 2011			
	Amortized Cost	Unrealized Gains	Unrealized Losses	Estimated Fair Value
Available-for-sale:				
Corporate debt securities	$ 339,126	$ 3,086	$ (2,000)	$ 340,212
Total available-for-sale	$ 339,126	$ 3,086	$ (2,000)	$ 340,212
Held-to-maturity:				
Certificate of deposit	$ 171	$ -	$ -	$ 171
Total held-to-maturity	$ 171	$ -	$ -	$ 171

As of December 31, 2012 and 2011, all of the Company's investments in corporate debt securities will mature before December 31, 2014.

As of December 31, 2012, the Company held a trading investment in a security issued by a CLO with an estimated fair value of $620 thousand, compared with an estimated fair value of $635 thousand as of December 31, 2011. As of December 31, 2012, the CLO investment was estimated to mature in 2016.

As of December 31, 2012, the Company held trading investments in ABS with an estimated fair value of $472 thousand, compared with $638 thousand as of December 31, 2011. As of December 31, 2012, the ABS investments were estimated to mature between 2013 and 2026.

The following tables summarize the fair value of the available-for-sale investments that have been in a continuous unrealized loss position for less than 12 months and for 12 months or more at December 31, 2012 and 2011 (in thousands):

	December 31, 2012 Securities with Unrealized Losses					
	Less than 12 Months		12 Months or More		Total	
	Fair Value	Gross Unrealized Losses	Fair Value	Gross Unrealized Losses	Fair Value	Gross Unrealized Losses
Corporate debt securities	$ 12,164	(21)	$ 1,541	(1)	$ 13,705	(22)
Total	$ 12,164	(21)	$ 1,541	(1)	$ 13,705	(22)

	December 31, 2011 Securities with Unrealized Losses					
	Less than 12 Months		12 Months or More		Total	
	Fair Value	Gross Unrealized Losses	Fair Value	Gross Unrealized Losses	Fair Value	Gross Unrealized Losses
Corporate debt securities	$ 157,078	(2,000)	$ -	-	$ 157,078	(2,000)
Total	$ 157,078	(2,000)	$ -	-	$ 157,078	(2,000)

The Company makes an assessment to determine whether unrealized losses reflect declines in value of securities that are other-than-temporarily impaired. The Company considers many factors, including the length of time and significance of the decline in fair value of the investment; the intent to sell the investment or if it is more likely than not it will be required to sell the investment before recovery in fair value; recent events specific to the issuer or industry; credit ratings and asset quality of collateral structure; and any significant changes in estimated cash flows of the investment. If the Company, based on its evaluation, determines that the credit related impairment is other-than-temporary, the carrying value of the security is written down to fair value and the unrealized loss is recognized through a charge to earnings in the consolidated statements of operations.

During the years ended December 31, 2012 and 2011, it was determined that there were no credit related impairment losses on investments.

During the years ended December 31, 2012 and 2011, the Company recognized net realized gains of $987 thousand and $282 thousand, respectively, from the sale of corporate debt securities, held as available-for-sale investments.

4. Restricted Cash and Investments

Restricted cash represents amounts held by a counterparty as security for credit swap contracts. Restricted investments are comprised of a held-to-maturity corporate note issued by a counterparty as security for credit swap contracts, which matured in March 2013. The carrying value of the held-to-maturity corporate note was $40.4 million and $39.1 million at December 31, 2012 and December 31, 2011, respectively. The amortized cost of the held-to-maturity corporate note approximates fair value. As of December 31, 2012 and December 31, 2011, the Company's consolidated financial statements include $144.1 million and $137.8 million, respectively, of restricted cash and investments.

5. Net Credit Swap Revenue (Loss) and Credit Swap Portfolio

Overview

"Net credit swap revenue (loss)" as presented in the consolidated statements of operations comprises changes in the fair value of credit swaps, realized gains or losses on the termination of credit swaps before their stated maturity, realized losses on credit events and premium income. The realization of gains or losses on the termination of credit swaps or credit events generally will result in a reduction in unrealized gains or losses and accrued premium at the point in time realization occurs.

Credit swaps are derivative transactions that obligate one party to the transaction (the "Seller") to pay an amount to the other party to the transaction (the "Buyer") should an unrelated third party (the Reference Entity), specified in the contract be subject to a defined credit event. The amount to be paid by the Seller following adoption of an industry-wide auction protocol generally will be the difference between the current market value of a defined obligation of the Reference Entity and the notional amount of the transaction (called cash settlement). In certain cases, the Seller may elect to purchase the defined obligation of the Reference Entity in the auction or otherwise and hold such obligation seeking to achieve a greater recovery than implied by such auction. In exchange for taking the risk of the contract, the Seller will receive a fixed premium for the term of the contract (or until the occurrence of a defined credit event). The fixed premium generally is paid quarterly in arrears over the term of the transaction. Premium income is recognized ratably over the life of the transaction as a component of net credit swap revenue (loss). All credit swap transactions entered into between the Buyer and the Seller are subject to an International Swaps and Derivatives Association, Inc. Master Agreement ("ISDA Master Agreement") executed by both parties. The ISDA Master Agreement allows for the aggregation of the market exposures and termination of all transactions between the Buyer and Seller in the event a default (as defined in the ISDA Master Agreement) occurs in respect of either party.

The primary risks inherent in the Company's credit swap activities are (a) where the Company is a Seller, that Reference Entities specified in its credit swap transactions will experience credit events that will require the Company to make payments to the Buyers of the transactions. Defined credit events may include any or all of the following: bankruptcy, failure to pay, repudiation or moratorium, and modified or original restructuring, and (b) that Buyers of the transactions from the Company will default on their required premium payments. Credit events related to the Company's CDS on ABS may include any or all of the following: failure to pay principal, write-downs in the reference obligations ("principal write-downs") and distressed ratings downgrades on the reference obligation as defined in the related credit swap agreement. Upon the occurrence of a defined credit event, a counterparty has the right to present the underlying ABS, in whole or part, to Primus Financial, in exchange for a cash payment by Primus Financial, up to the notional amount of the credit swap ("Physical Settlement"). If there is a principal write-down of the ABS, a counterparty may claim cash compensation for the amount of the principal write-down, up to the notional value of the credit swap without presentation of the ABS.

The Company may elect to terminate a credit swap before its stated maturity in one of two ways. The Company may negotiate an agreed termination with the original counterparty (an unwind). Alternatively, the Company may negotiate an assignment and novation of its rights and obligations under the credit swap to a third party (an assignment). In the event of an unwind or assignment, the Company pays or receives a cash settlement negotiated with the counterparty or assignee, based on the fair value of the credit swap contract and the accrued premium on the swap contract at the time of negotiation. The amounts the Company pays or receives are recorded as a realization of fair value and as a realization of accrued premiums in the period in which the termination occurs. See below for further discussion of Primus Financial's credit events and terminations of credit swap transactions.

The Company carries its credit swaps on its consolidated statements of financial condition at their fair value. Changes in the fair value of the Company's credit swap portfolio are recorded as unrealized gains or losses as a component of "Net credit swap revenue (loss)" in the Company's consolidated statements of operations. If a credit swap has an increase or decline in fair value during a period, the increase will add to the Company's net credit swap revenue and the decline will subtract from the Company's net credit swap revenue for that period, respectively. Changes in the fair value of the Company's credit swap portfolio are predominantly a function of the notional amount and composition of the portfolio and prevailing market credit swap premiums for comparable credit swaps and nonperformance risk adjustment. See note 6 of these notes to consolidated financial statements for further discussion. The Company has generally held the credit swaps it has sold to maturity, at which point, assuming no defined credit event has occurred, the cumulative unrealized gains and losses on each credit swap would equal zero.

Primus Financial has entered into ISDA Master Agreements with counterparties, which are generally financial institutions. The Company aggregates fair values of individual credit swaps by counterparty for presentation on the Company's consolidated statements of financial condition. If the aggregate total of fair values with a counterparty is a net gain, the total is recorded as a component of unrealized gains on credit swaps, at fair value in the consolidated statements of financial condition. If the aggregate total of fair values with a counterparty is a net loss, the total is recorded as a component of unrealized losses on credit swaps, at fair value in the consolidated statements of financial condition.

Concentration Risk by Counterparties

One counterparty generated greater than 10% of the Company's consolidated net premium revenue in each of the years ended December 31, 2012 and 2011.

The Company's single largest counterparty and five largest counterparties as measured by total notional represented approximately 33% and 79%, respectively, of the Company's credit swap portfolio at December 31, 2012. The Company's single largest counterparty and five largest counterparties as measured by total notional represented approximately 22% and 49%, respectively, of the Company's credit swap portfolio at December 31, 2011.

Net Credit Swap Revenue (Loss)

The following table presents the components of net credit swap revenue (loss) for the years ended December 31, 2012 and 2011 (in thousands):

	Year Ended December 31,	
	2012	2011
Net premiums earned	$ 31,614	$ 40,522
Net realized losses on credit swaps	(7,631)	(14,770)
Net unrealized gains (losses) on credit swaps	414,978	(64,781)
Net credit swap revenue (loss)	$ 438,961	$ (39,029)

Credit Events and Terminations of Credit Swaps

The following table presents the components of net realized losses recorded by Primus Financial related to risk mitigation transactions, terminations of credit swaps and credit events for the years ended December 31, 2012 and 2011 (in thousands):

	Year Ended December 31,	
	2012	**2011**
Net realized losses on single name credit swaps	$ -	$ (605)
Realized losses on tranches	-	(4,032)
Realized losses on CDS on ABS	(7,631)	(10,133)
Total net realized losses	$ (7,631)	$ (14,770)

Realized losses of $7.6 million for the year ended December 31, 2012 comprised payments to settle credit events on CDS on ABS. Net realized losses of $14.8 million for the year ended December 31, 2011 primarily comprised payments to settle credit events on CDS on ABS and payments to terminate or amend swap transactions to reduce exposure to one mortgage insurer.

Credit Swap Portfolio Information

The tables below present summarized information relating to the mid-market credit swap premium levels, expressed in basis points (bps) per annum, for each transaction in Primus Financial's credit swap portfolio as of December 31, 2012 and 2011 (in thousands). For single name credit swaps, the mid-market premium levels for the Reference Entity in the transaction were obtained from a recognized independent third-party provider of mid-market premium data and adjusted for the remaining tenor of each transaction. If no external mid-market premium data for a Reference Entity was available, mid-market premium levels for the entity have been estimated using quoted mid-market credit premiums for similar Reference Entities. Mid-market premiums and valuations for tranche transactions were obtained from a recognized independent third-party provider of tranche valuations.

	December 31, 2012		December 31, 2011	
Mid-Market Premium Level (bps)	**Notional Amount**	**Fair Value**	**Notional Amount**	**Fair Value**
By Single Name Reference Entity/Tranche				
Credit Swaps Sold-Single Name:				
1-49	$ 648,475	$ 781	$ 1,392,120	$ (670)
50-99	13,193	(4)	1,316,489	(4,054)
100-149	13,193	(46)	509,372	(3,848)
150-199	6,596	(10)	289,040	(3,264)
200-299	-	-	427,656	(6,595)
300-499	-	-	214,158	(5,009)
>500	-	-	104,760	(5,227)
Total	$ 681,457	$ 721	$ 4,253,595	$ (28,667)
Credit Swaps Sold-Tranche:				
1-299	$ 3,375,000	$ (33,582)	$ 775,000	$ (23,803)
300-399	-	-	200,000	(15,412)
400-499	-	-	-	-
500-999	-	-	2,725,000	(341,953)
1,000-1,999	-	-	50,000	(10,378)
>2,000	43,317	(5,981)	43,317	(26,544)
Total	$ 3,418,317	$ (39,563)	$ 3,793,317	$ (418,090)
CDS on ABS:				
>2,000	$ 5,430	$ (4,119)	$ 13,061	$ (11,182)
Total	$ 5,430	$ (4,119)	$ 13,061	$ (11,182)

Primus Guaranty, Ltd.
Notes to Consolidated Financial Statements

The market credit swap premium levels quoted for each counterparty reference the quoted 5 year credit swap premiums for each of Primus Financial's counterparties, or the ultimate parent of the counterparty in instances where the counterparty is a subsidiary entity not quoted in the credit swap market, as of December 31, 2012 and 2011 (in thousands).

	December 31, 2012		December 31, 2011	
5 Year Mid-Market Premium Level (bps)	**Notional Amount**	**Fair Value**	**Notional Amount**	**Fair Value**
By Counterparty				
Credit Swaps Sold-Single Name:				
50-99	$ 138,737	$ 86	$ -	$ -
100-149	41,386	12	645,457	(4,068)
150-199	343,018	307	726,752	(5,345)
200-299	158,316	316	1,149,112	(9,688)
300-499	-	-	1,617,274	(8,836)
No CDS Data Available	-	-	115,000	(730)
Total	$ 681,457	$ 721	$ 4,253,595	$ (28,667)
Credit Swaps Sold-Tranche:				
50-99	$ 300,000	$ (4,907)	$ -	$ -
100-149	93,317	(5,815)	-	-
150-199	2,475,000	(21,098)	300,000	(44,176)
200-299	-	-	2,943,317	(288,556)
No CDS Data Available	550,000	(7,743)	550,000	(85,358)
Total	$ 3,418,317	$ (39,563)	$ 3,793,317	$ (418,090)
CDS on ABS:				
100-149	$ 5,352	$ (4,042)	$ -	$ -
150-199	78	(77)	-	-
200-299	-	-	3,061	(2,705)
300-499	-	-	10,000	(8,477)
Total	$ 5,430	$ (4,119)	$ 13,061	$ (11,182)

Primus Guaranty, Ltd.
Notes to Consolidated Financial Statements

The table below shows the geographical distribution of the credit swap portfolio by domicile of the Reference Entity and domicile of the counterparty as of December 31, 2012 and 2011 (in thousands).

Domicile	December 31, 2012 Notional Amount	December 31, 2012 Fair Value	December 31, 2011 Notional Amount	December 31, 2011 Fair Value
Credit Swaps Sold-Single Name				
By Reference Entity:				
North America	$ 10,000	$ 8	$ 1,273,238	$ (5,315)
Europe	646,457	706	2,785,357	(21,766)
Asia-Pacific	25,000	7	185,000	(1,544)
Others	-	-	10,000	(42)
Total	$ 681,457	$ 721	$ 4,253,595	$ (28,667)
By Counterparty:				
North America	$ -	$ -	$ 1,532,271	$ (9,462)
Europe	681,457	721	2,721,324	(19,205)
Total	$ 681,457	$ 721	$ 4,253,595	$ (28,667)
Credit Swaps Sold-Tranche				
By Counterparty:				
North America	$ 600,000	$ (1,183)	$ 600,000	$ (38,759)
Europe	2,818,317	(38,380)	3,193,317	(379,331)
Total	$ 3,418,317	$ (39,563)	$ 3,793,317	$ (418,090)
CDS on ABS				
By Reference Entity:				
North America	$ 5,430	$ (4,119)	$ 13,061	$ (11,182)
Total	$ 5,430	$ (4,119)	$ 13,061	$ (11,182)
By Counterparty:				
North America	$ 352	$ (107)	$ 3,061	$ (2,705)
Europe	5,078	(4,012)	10,000	(8,477)
Total	$ 5,430	$ (4,119)	$ 13,061	$ (11,182)

The table below shows the distribution of the credit swap portfolio by year of maturity as of December 31, 2012 and 2011 (in thousands). With respect to the CDS on ABS caption below, the maturity dates presented are estimated maturities; the actual maturity date for any contract will vary depending on the level of voluntary prepayments, defaults and interest rates with respect to the underlying mortgage loans. As a result, the actual maturity date for any such contract may be earlier or later than the estimated maturity indicated.

	December 31, 2012		December 31, 2011	
	Notional Amount	Fair Value	Notional Amount	Fair Value
Credit Swaps Sold-Single Name				
Year of Maturity				
2012	$ -	$ -	$ 3,583,947	$ (25,822)
2013	681,457	721	669,648	(2,845)
Total	$ 681,457	$ 721	$ 4,253,595	$ (28,667)
Credit Swaps Sold-Tranche				
Year of Maturity				
2012	$ -	$ -	$ 375,000	$ (3,862)
2013	93,317	(5,815)	93,317	(36,922)
2014	3,325,000	(33,748)	3,325,000	(377,306)
Total	$ 3,418,317	$ (39,563)	$ 3,793,317	$ (418,090)
CDS on ABS				
Estimated Year of Maturity				
2012	$ -	$ -	$ 2,709	$ (2,484)
2013	78	(77)	5,000	(4,229)
2015	5,000	(3,935)	-	-
2016	-	-	5,000	(4,248)
2025	-	-	352	(221)
2026	352	(107)	-	-
Total	$ 5,430	$ (4,119)	$ 13,061	$ (11,182)

6. Financial Instruments and Fair Value Disclosures

Valuation Techniques – Credit Swaps

The fair value of the credit swap portfolio of single name credit swaps, tranches and CDS on ABS depends upon a number of factors, including:

- The contractual terms of the swap contract, which include the Reference Entity, the notional value, the maturity, the credit swap premium and the currency of the credit swap.
- Current market data obtained from a recognized independent third-party valuation service provider, including credit swap premium levels pertinent to each Reference Entity, estimated recovery rates on Reference Entities, market interest rates, foreign exchange rates, an estimate of mid-market prices to exit prices, and additionally for tranche transactions, estimates of the correlation of the underlying Reference Entities within each tranche transaction and levels of subordination (attachment and detachment points), and for CDS on ABS, price quotations for the underlying ABS.
- Consideration of the Company's own nonperformance risk, as well as the credit risk of credit swap counterparties. ASC Topic 820, *Fair Value Measurements and Disclosures,* requires that nonperformance risk be considered when determining the fair value of credit swaps.

In general, the most significant component of the credit swap valuation is the difference between the contractual credit swap premium on the credit swaps transacted and the comparable current market premium. The valuations are reviewed by management for reasonableness. The valuation process the Company uses to obtain fair value is described below:

- For single name credit swaps, the valuation model uses mid-market credit swap premium data obtained from a recognized independent third-party provider. The independent third-party provider obtains mid-market credit swap premium quotes from a number of dealers in the credit swap market across a range of standard maturities and restructuring terms, and computes composite credit swap premium quotes on specific Reference Entities, where available. When quotes are not available, management uses observable market data on comparable Reference Entities. The inputs to the valuation model include: current credit swap premium quotes on the Reference Entities, estimated recovery rates on each Reference Entity, current interest rates and foreign exchange rates. The Company adjusts the independent mid-market credit swap premium quotes to derive exit price valuations that incorporate the nonperformance risk adjustment.
- For tranche credit swaps, mid-market premiums and tranche valuations are obtained from a recognized independent third-party provider of tranche valuations. The Company adjusts the independent third-party mid-market valuation to derive exit price valuations that incorporate the nonperformance risk adjustment.
- CDS on ABS valuations are derived from price quotations for the underlying ABS obtained from a recognized independent third-party provider. The Company derives an exit price valuation that incorporates the nonperformance risk adjustment.

Valuation Techniques - Other Financial Instruments

The Company uses the following valuation techniques to determine the fair value of its other financial instruments:

- For cash and cash equivalents, which include deposits in banks, money market accounts and money market funds, the fair value of these instruments is based upon quoted market prices. The Company does not adjust the quoted price for such instruments.
- For corporate debt securities, the fair value is based upon quoted market prices obtained from an independent third-party valuation services provider.
- For the ABS, the fair value is based upon a valuation from an independent valuation service, which estimates the value of the bond by utilizing a valuation model. This model incorporates projected cash flows, utilizing default, prepayment, recovery and interest rate assumptions.
- For the investments in securities issued by CLOs, the fair value is based upon a cash flow model provided by an independent valuation service. The model calculates the present value of expected cash flows using estimates of key portfolio assumptions, including forecasted credit losses, default rates, prepayment rates, forward yield curves and discount rates commensurate with the risk involved.
- For the contingent consideration from the buyer of CypressTree and the contingent consideration to the sellers of CypressTree the fair value is based on a valuation model from a third party which discounts the projected future cash fees and distributions for each CLO. Significant inputs to the valuation model include the fee structure of the CLO, forecasted credit losses, default rates, prepayment rates, forward yield curves, discount rates and an estimate of the risk of forfeiture of collateral management.

Quantitative Information about Level 3 Fair Value Measurements

ASU No. 2011-04, *Fair Value Measurement (Topic 820): Amendments to Achieve Common fair Value Measurement and Disclosure Requirements in U.S. GAAP and IFRS,* requires disclosure of quantitative information about the significant unobservable inputs used for recurring fair value measurements of certain Level 3 instruments within the fair value hierarchy and includes only those instruments for which information about the inputs is reasonably available to the Company. Disclosure of this information is not required when a valuation (unadjusted) is obtained from a third-party pricing service and the information regarding the unobservable inputs is not reasonably available to the Company for disclosure.

The table below provides information about the significant unobservable inputs used in the valuation of certain Level 3 instruments for which the information is reasonably available to the Company for disclosure.

Level 3 Instrument	**Significant Unobservable Inputs**	**Range of Significant Unobservable Inputs (as of December 31, 2012)**
Tranche Credit Swaps	Tranche attachment points	0.0% to 9.7%
	Tranche detachment points	1.8% to 12.9%
	Mid-market to exit spreads (bps)	15.0 to 36.5
	Recovery rates	20% to 40%
	Nonperformance risk adjustments	6.4% to 7.0%
CDS on ABS	Underlying ABS price quotations	0% to 25% of face value

Nonperformance Risk Adjustment

The Company considers the effect of its nonperformance risk in determining the fair value of its liabilities. An industry standard for calculating this adjustment is to incorporate changes in an entity's own credit spread into the computation of the mark-to-market of liabilities. The Company derives an estimate of a credit spread because it does not have an observable market credit spread. This estimated credit spread was obtained by reference to similar entities with observable credit spreads, primarily in the insurance and financial insurance businesses.

The following table represents the effect of the nonperformance risk adjustments to the Company's "Unrealized loss on credit swaps, at fair value" caption in the consolidated statements of financial condition as of December 31, 2012 and 2011 (in thousands):

	December 31, 2012	December 31, 2011
Unrealized loss on credit swaps, at fair value, without nonperformance risk adjustments	$ 48,708	$ 542,199
Nonperformance risk adjustments	(5,026)	(84,260)
Unrealized loss on credit swaps, at fair value, after nonperformance risk adjustments	$ 43,682	$ 457,939

The following table represents the effect of the changes in nonperformance risk adjustment on the Company's "Net credit swap revenue (loss)" caption in the consolidated statements of operations for the years ended December 31, 2012 and 2011 (in thousands):

	Year Ended December 31,	
	2012	2011
Net credit swap revenue (loss) without nonperformance risk adjustments	$ 518,195	$ (61,955)
Change in nonperformance risk adjustments	(79,234)	22,926
Net credit swap revenue (loss) after nonperformance risk adjustments	$ 438,961	$ (39,029)

The following fair value hierarchy table presents information about the Company's assets and liabilities measured at fair value on a recurring basis as of December 31, 2012 (in thousands):

	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)	Total Assets / Liabilities at Fair Value
Assets				
Investments	$ -	$ 212,015	$ 1,092	$ 213,107
Unrealized gain on credit swaps	-	-	721	721
Other assets	-	-	2,701	2,701
Total Assets	$ -	$ 212,015	$ 4,514	$ 216,529
Liabilities				
Unrealized loss on credit swaps	$ -	$ -	$ 43,682	$ 43,682
Other liabilities	-	-	2,204	2,204
Total Liabilities	$ -	$ -	$ 45,886	$ 45,886

The following fair value hierarchy table presents information about the Company's assets and liabilities measured at fair value on a recurring basis as of December 31, 2011 (in thousands):

	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)	Total Assets / Liabilities at Fair Value
Assets				
Investments	$ -	$ 340,212	$ 1,273	$ 341,485
Other assets	-	-	7,424	7,424
Total Assets	$ -	$ 340,212	$ 8,697	$ 348,909
Liabilities				
Unrealized loss on credit swaps	$ -	$ -	$ 457,939	$ 457,939
Other liabilities	-	-	2,398	2,398
Total Liabilities	$ -	$ -	$ 460,337	$ 460,337

Level 3 Assets and Liabilities Reconciliation Tables

Level 3 Assets

The following tables provide a reconciliation for the Company's assets measured at fair value on a recurring basis using significant unobservable inputs (Level 3) for the years ended December 31, 2012 and 2011 (in thousands):

	Year Ended December 31, 2012			
	Trading Investments - CLO	Trading Investments - ABS	Unrealized Gain on Credit Swaps	Other Assets
Balance, beginning of period	$ 635	$ 638	$ -	$ 7,424
Reclassification	-	-	-	-
Realized gains (losses)	-	-	-	-
Unrealized gains (losses)	272	(63)	721	163
Purchases	-	-	-	-
Sales	-	-	-	-
Issuances	-	-	-	-
Settlements	(287)	(103)	-	(4,886)
Transfers into Level 3	-	-	-	-
Balance, end of period	$ 620	$ 472	$ 721	$ 2,701

	Year Ended December 31, 2011				
	Trading Investments - CLO	Trading Investments - ABS	Restricted Investments	Unrealized Gain on Credit Swaps	Other Assets
Balance, beginning of period	$ -	$ 1,658	$ 6,114	$ 2,006	$ 8,957
Reclassification	6,114	-	(6,114)	-	-
Realized gains (losses)	(329)	-	-	-	-
Unrealized gains (losses)	103	493	-	(2,006)	2,109
Purchases	-	159	-	-	-
Sales	(5,253)	-	-	-	-
Issuances	-	-	-	-	-
Settlements	-	(1,672)	-	-	(3,642)
Transfers into Level 3	-	-	-	-	-
Balance, end of period	$ 635	$ 638	$ -	$ -	$ 7,424

Realized and unrealized gains and losses on Level 3 assets (Unrealized Gain on Credit Swaps) are included in the "Net credit swap revenue (loss)" caption in the consolidated statements of operations. The reconciliation above does not include credit swap premiums collected during the period.

Realized and unrealized gains (losses) on Level 3 assets (Trading Investments-CLO) are included in the "Income from discontinued operations, net of tax" caption in the consolidated statements of operations.

Unrealized gains (losses) on Level 3 assets (Trading Investments-ABS) are recorded in the "Other income" caption in the consolidated statements of operations.

Unrealized gains on Level 3 assets (Other Assets) are included in the "Income from discontinued operations, net of tax" caption in the consolidated statements of operations.

Level 3 Liabilities

The following table provides a reconciliation for the Company's liabilities measured at fair value on a recurring basis using significant unobservable inputs (Level 3) for the years ended December 31, 2012 and 2011 (in thousands):

	Year Ended December 31, 2012		Year Ended December 31, 2011	
	Unrealized Losses on Credit Swaps	Other Liabilities	Unrealized Losses on Credit Swaps	Other Liabilities
Balance, beginning of period	$ (457,939)	$ (2,398)	$ (395,164)	$ (5,148)
Net realized losses	7,631	-	14,770	-
Unrealized gains (losses)	406,626	(250)	(77,545)	(1,333)
Purchases	-	-	-	-
Sales	-	-	-	-
Issuances	-	-	-	-
Settlements	-	444	-	4,083
Transfers into Level 3	-	-	-	-
Balance, end of period	$ (43,682)	$ (2,204)	$ (457,939)	$ (2,398)

Realized and unrealized gains and losses on Level 3 liabilities (Unrealized Losses on Credit Swaps) are included in the "Net credit swap revenue (loss)" caption in the consolidated statements of operations. The reconciliation above does not include credit swap premiums collected during the period.

Unrealized losses on Level 3 liabilities (Other Liabilities) are included in the "Income from discontinued operations, net of tax" caption in the consolidated statements of operations.

Financial Instruments Not Carried at Fair Value

The Company's long-term debt is recorded at historical amounts. On September 27, 2012, the Company redeemed the remaining $81.9 million (face value) of its $125 million 7% Senior Notes due 2036 ("7% Senior Notes") outstanding at par. At December 31, 2011, the outstanding balance of the 7% Senior Notes was $88.3 million.

At December 31, 2012 and 2011, the carrying value of Primus Financial's subordinated deferrable interest notes was $57.7 million and $84.0 million, respectively. It is not practicable to estimate the fair value of Primus Financial's subordinated deferrable interest notes, as such notes were not listed on any exchange or publicly traded in any market as of those dates and there was no significant current market activity of which the Company was aware for such notes. The average interest rate on these subordinated deferrable interest notes was 3.58% and 3.58% for the years ended December 31, 2012 and 2011, respectively, with the first maturity date on such notes scheduled in June 2021.

During the first quarter of 2013, Primus Financial redeemed the remaining $57.7 million (face value) of its subordinated deferrable interest notes at par.

7. CypressTree Acquisition and Subsequent Divestiture

Acquisition

On July 9, 2009, Primus Asset Management acquired 100% of the limited liability partnership interests of CypressTree. CypressTree managed leveraged loans and high yield bonds in a variety of investment products, including CLOs, collateralized swap obligations and separately managed accounts. Primus Asset Management acquired CypressTree with the intent of expanding its asset management business. CypressTree operated as a wholly owned subsidiary of Primus Asset Management. The consideration for the acquisition of CypressTree included a liability for future payments to the former owners of CypressTree through 2015, the amounts of which were contingent upon the collection of certain future CLO management fees. As at December 31, 2012, the fair value of the contingent liability to the former owners of CypressTree was $2.2 million, compared with $2.0 million at December 31, 2011.

Divestiture

On December 1, 2010, the Company divested its CLO asset management business, which included the sale of CypressTree. The Company recorded a contingent asset from the buyer, which is primarily based on estimated future cash flows on certain management fees, subject to the terms of the agreement. As of December 31, 2012, the fair value of the contingent receivable from the buyer was $2.7 million, compared with $7.4 million at December 31, 2011. The change was primarily attributable to the actual payments made to Primus Asset Management from the buyer of the CLO business.

As a consequence of the divestiture, the results of the CLO asset management business have been classified as discontinued operations for all periods presented. The following table represents summarized financial information related to discontinued operations as included in the accompanying consolidated statements of operations for the years ended December 31, 2012 and 2011 (in thousands):

	Year Ended December 31,	
	2012	**2011**
Revenues		
Asset management and advisory fees	$ 1,622	$ 2,247
Interest income	287	2,163
Other income	2,822	2,862
Total revenues	4,731	7,272
Expenses		
Compensation and employee benefits	-	72
Professional and legal fees	-	95
Restructuring costs	53	342
Other	290	2,630
Total expenses	343	3,139
Income before provision for income taxes and loss attributable to non-parent interests in CLOs	4,388	4,133
Provision for income taxes	-	-
Income from discontinued operations, net of tax	$ 4,388	$ 4,133

8. Restructuring

The Company made significant reductions in its workforce and operating infrastructure beginning in the fourth quarter of 2010 as a consequence of its decision to divest the CLO asset management business and focus management's efforts on the amortization of Primus Financial's credit swap portfolio.

For the year ended December 31, 2012, the Company incurred restructuring costs of $337 thousand, of which $284 thousand was included in income from continuing operations. The restructuring costs comprised mainly share-based compensation expenses.

For the year ended December 31, 2011, the Company incurred restructuring costs of $1.0 million, of which $0.6 million was included in income from continuing operations. The restructuring costs comprised mainly employee severance and accelerated share-based compensation expenses.

9. Long-Term Debt

$125 million 7% Senior Notes

On December 27, 2006, Primus Guaranty issued $125 million 7% Senior Notes, which were scheduled to mature in December 2036. On September 27, 2012, Primus Guaranty redeemed the remaining $81.9 million (face value) of its 7% Senior Notes at 100% of the principal amount plus accrued and unpaid interest to the redemption date. In connection with the issuance of the 7% Senior Notes, the Company incurred approximately $4.5 million in capitalized debt issuance costs, which were amortized over the life of the debt. The redemption caused the accelerated amortization of $2.3 million of debt issuance costs. At December 31, 2011, the outstanding balance of the 7% Senior Notes was approximately $88.3 million.

$125 million Subordinated Deferrable Interest Notes

On December 19, 2005, Primus Financial issued in aggregate $125 million of subordinated deferrable interest notes, consisting of $75 million of Series A notes and $50 million of Series B notes, which were scheduled to mature in June 2021. During the first quarter of 2013, Primus Financial redeemed the remaining $52.7 million (face value) of these subordinated deferrable interest notes at par.

The notes were subordinated in right of payment to the prior payment in full of all existing and future senior indebtedness of Primus Financial, including counterparty claims and the notes issued in July 2004 described below. The notes were redeemable at the option of Primus Financial, in whole or in part, on any auction date, at a redemption price equal to 100% of the principal amount of the notes to be redeemed, plus any accrued and unpaid interest thereon to the redemption date. The interest rate on these securities reset every 28 days. The average interest rate on these securities was 3.90% and 3.96% for the years ended December 31, 2012 and 2011, respectively. In connection with the issuance of these subordinated deferrable interest notes, the Company incurred approximately $2.0 million in debt issuance costs, which were amortized over the life of the debt. At December 31, 2012, Primus Financial's $125 million subordinated deferrable interest notes were accruing interest at an all-in rate of 3.71%.

$75 million Subordinated Deferrable Interest Notes

On July 23, 2004, Primus Financial issued $75 million of subordinated deferrable interest notes which were scheduled to mature in July 2034. During the first quarter of 2013, Primus Financial redeemed the remaining $5 million (face value) of these subordinated deferrable interest notes at par.

The notes were subordinated in right of payment to the prior payment in full of all existing and future senior indebtedness of Primus Financial, including counterparty claims. The notes were redeemable at the option of Primus Financial, in whole or in part, on any auction date, at a redemption price equal to 100% of the principal amount of the notes to be redeemed, plus any accrued and unpaid interest thereon to the redemption date. The interest rate on the notes reset every 28 days. The average interest rate on these securities was 2.78% and 2.83% for the years ended December 31, 2012 and 2011, respectively. In connection with the issuance of these subordinated deferrable interest notes, the Company incurred approximately $1.1 million in debt issuance costs, which were amortized over the life of the debt. At December 31, 2012, Primus Financial's $75 million subordinated deferrable interest notes were accruing interest at an all-in rate of 2.71%.

Primus Financial's subordinated deferrable interest notes were issued in the auction rate market. This market continues to be dislocated and, as a result, the interest rates on the notes were set at the contractually specified rates over London Interbank Offered Rate ("LIBOR") during 2012 and 2011. At December 31, 2012, Primus Financial's subordinated deferrable interest notes were accruing interest at an all-in rate of 3.63%.

The Company recorded net interest expense related to the debt of Primus Guaranty and Primus Financial of approximately $9.6 million and $6.0 million for the years ended December 31, 2012 and 2011, respectively. The $9.6 million of net interest expense for 2012 included $2.3 million of accrued debt issuance costs as of the redemption date. The weighted average interest rate on our aggregate long-term debt was 4.69% and 3.11% for the years ended December 31, 2012 and 2011, respectively.

The following table represents the components of the Company's long-term debt at December 31, 2012 and 2011 (in thousands):

	December 31,	
	2012	2011
Primus Guaranty issuer:		
$125 million 7% Senior Notes, due 2036	$ -	$ 88,334
Primus Financial issuer:		
$125 million Subordinated Deferrable Interest Notes, due 2021	52,700	56,900
$75 million Subordinated Deferrable Interest Notes, due 2034	5,000	27,100
Total long-term debt	$ 57,700	$ 172,334

The following table represents the components of the Company's net gain on the retirement of long-term debt through the debt repurchase program for the years ended December 31, 2012 and 2011 (in thousands):

	Year Ended December 31,	
	2012	2011
$125 million 7% Senior Notes, due 2036:		
Principal purchased and retired	$ 6,422	$ 2,092
Cost of purchase and retirement of debt	(5,706)	(1,646)
Write-off of unamortized issuance costs	(185)	(62)
Net gain on retirement of long-term debt	531	384
$125 million Subordinated Deferrable Interest Notes, due 2021:		
Principal purchased and retired	$ 4,200	$ 19,700
Cost of purchase and retirement of debt	(3,720)	(15,166)
Write-off of unamortized issuance costs	(38)	(187)
Net gain on retirement of long-term debt	442	4,347
$75 million Subordinated Deferrable Interest Notes, due 2034:		
Principal purchased and retired	$ 22,100	$ 19,100
Cost of purchase and retirement of debt	(20,185)	(14,442)
Write-off of unamortized issuance costs	(250)	(244)
Net gain on retirement of long-term debt	1,665	4,414
Total net gain on retirement of long-term debt	$ 2,638	$ 9,145

10. Income Taxes

Primus Guaranty is a Bermuda company and believes that it is not involved in the active conduct of a trade or business in the United States. For U.S. tax purposes, it will be treated either as a controlled foreign corporation or as a passive foreign investment company by its U.S. shareholders. As such, Primus Guaranty has not provided for any federal or state and local income taxes on a standalone basis. However, on a consolidated basis, it has provided for income taxes for certain of its subsidiaries, which are described below. Primus Guaranty, Ltd. was incorporated in Bermuda to domicile itself in a jurisdiction that is internationally recognized as a base for financial companies and in a jurisdiction that has an efficient and predictable corporate tax regime. Primus Guaranty, Ltd. does not have any full time employees, nor does the Company lease or own any real property in Bermuda. During 2012, Primus Guaranty, Ltd. and Primus (Bermuda) Ltd. were amalgamated, with an effective date of January 1, 2012 for U.S. tax purposes, with Primus Guaranty, Ltd. as the resultant amalgamated company. Prior to the amalgamation, Primus (Bermuda) Ltd. was a wholly owned subsidiary of Primus Guaranty, Ltd.

Primus Financial is a limited liability company organized under Delaware law, with the controlling interest being held by Primus Group Holdings, LLC, a limited liability company organized under Delaware law and a disregarded entity for U.S. tax purposes. All of the interests in Primus Group Holdings are held by Primus Guaranty. Prior to the amalgamation of Primus (Bermuda) Ltd. and Primus Guaranty, Ltd., all of the interests in Primus Group Holdings were held by Primus (Bermuda) Ltd. Primus Financial is treated as a partnership for U.S. tax purposes. As a result, all of Primus Financial's items of taxable income and expense flow through to its interest-holders for U.S. federal income tax purposes and any taxes that may be attributable to such items are the responsibility of the interest-holders. In addition, because Primus Financial's activities in the United States are confined to holding investments in debt instruments and credit swaps for its own account, Primus Financial believes that its activities fall within the provisions of Section 864(b) of the U.S. Internal Revenue Code of 1986 (the "Code"). Based on the application of the provisions of Section 864(b) of the Code and the investment nature of its operations, Primus Financial believes that Primus Guaranty, Ltd., a non-U.S. corporation, will not be subject to U.S. net income taxes with respect to its indirect interest in Primus Financial. Accordingly, Primus Financial, and thus Primus Guaranty, did not provide for any income taxes.

Primus Asset Management has a services agreement with its affiliates, whereby Primus Asset Management provides services to its affiliates including, among other things, management, consulting and information technology. Since Primus Asset Management is a U.S. domiciled corporation, it is subject to U.S. federal, state and local income taxes on fees received from its affiliates.

The significant components of the consolidated provision for income taxes for the years ended December 31, 2012 and 2011 were as follows (in thousands):

	Year Ended December 31,	
	2012	2011
Current:		
Federal	$ 75	$ -
State/City	14	11
Foreign	8	5
Total current	97	16
Deferred:		
Federal	-	-
State/City	-	-
Foreign	-	-
Total deferred	-	-
Total provision for income taxes	$ 97	$ 16

The Company's effective tax rate differs from Bermuda's applicable tax rate of zero percent mainly as a result of the taxation of its U.S. subsidiary, Primus Asset Management, which is subject to U.S. federal income tax, at a rate of up to 35%, as well as U.S. state and local taxes. The Bermuda Minister of Finance has given Primus Guaranty, Ltd. a tax exemption certificate effective through 2016 that prevents it from being subject to tax in the event that any legislation is enacted that would impose tax computed on profits or income, or computed on any capital asset, gain or appreciation, or any tax in the nature of estate, duty or inheritance tax.

A reconciliation of the difference between the provision for income taxes and the expected tax provision at the applicable zero percent domestic rate for the years ended December 31, 2012 and 2011 is provided below (in thousands):

	Year Ended December 31,	
	2012	2011
U.S. federal income tax provision on Primus Asset Management's taxable income	$ 75	$ -
U.S. state and local tax provision	14	11
Foreign	8	5
Total provision for income taxes	$ 97	$ 16

The Company has a net U.S. deferred tax asset of $14.9 million and $15.6 million as of December 31, 2012 and 2011, respectively. The net deferred tax asset is primarily comprised of Primus Asset Management's net operating losses incurred during 2003 through 2011 and the timing of recognition of book and tax adjustments related to share-based compensation expense. Net operating losses will begin to expire in the year 2023 if not utilized.

The Company has recorded a 100% valuation allowance against its deferred tax asset because management has determined that it is more likely than not that the deferred tax asset will not be realized as a result of Primus Asset Management's history of net operating losses and inability to generate future taxable income sufficient to utilize such deferred tax asset. A rollforward of the valuation allowance against Primus Asset Management's deferred tax asset is provided below.

The components of the net deferred tax asset at December 31, 2012 and 2011 are as follows (in thousands):

	December 31,	
	2012	2011
Deferred tax assets		
Share-based compensation	$ 2,975	$ 2,310
Net operating losses	10,967	12,171
Depreciation	848	894
Other	1,483	1,459
Gross deferred tax asset	16,273	16,834
Deferred tax liability		
Other	1,333	1,265
Gross deferred tax liability	1,333	1,265
Net deferred tax asset	14,940	15,569
Valuation allowance	(14,940)	(15,569)
Net deferred tax asset after valuation allowance	$ -	$ -

The changes in the valuation allowance for the deferred tax asset for the years ended December 31, 2012 and 2011 are as follows (in thousands):

	December 31, 2012	December 31, 2011
Balance at beginning of period	$ 15,569	$ 16,519
Share-based compensation	665	(943)
Tax depreciation / other	(90)	(1,904)
Net operating (income) loss	(1,204)	1,897
Balance at end of period	$ 14,940	$ 15,569

As of December 31, 2012 and 2011, the Company did not have any unrecognized tax benefits. The Company's accounting policy with respect to interest and penalties, if any, would be to recognize them in the provision for income taxes in the consolidated statements of operations. The Company did not incur any income tax related interest income, interest expense or penalties for the years ended December 31, 2012 and 2011. The Company does not believe that it is reasonably possible that the total amounts of unrecognized tax benefits will significantly increase within the next 12 months.

Primus Guaranty and certain subsidiaries file income tax returns in the U.S. federal jurisdiction and various state, local and foreign jurisdictions, which are no longer subject to U.S. federal, state, local and foreign income tax examinations by tax authorities for years before 2009.

11. Preferred Securities of Subsidiary

On December 19, 2002, Primus Financial issued net $100 million of perpetual Floating Rate Cumulative preferred securities ("Preferred Securities") in two series. Pursuant to accounting guidance, specific incremental costs directly attributable to the offering of the Preferred Securities have been charged against these gross proceeds received upon issuance. Beginning in 2009, Primus Financial has purchased Preferred Securities from third parties in privately negotiated transactions. The balance of issuance costs for the Preferred Securities has been adjusted to reflect Primus Financial's purchase of its Preferred Securities.

The table below provides summary of the outstanding balance of Primus Financial's Preferred Securities at December 31, 2012 (at face value, in thousands):

	December 31, 2012
Face value of Preferred Securities held by third parties	$ 77,400
Adjusted issuance expenses	(1,145)
Preferred Securities of subsidiary	$ 76,255

During 2012, Primus Financial purchased $14.1 million in face value of its Preferred Securities at a cost of $10.1 million. During 2011, Primus Financial purchased $3.0 million in face value of its Preferred Securities at a cost of $1.9 million.

Primus Financial may redeem the Preferred Securities after December 19, 2012, in whole or in part, on any distribution date at $1,000 per share plus accumulated and unpaid dividends.

Primus Financial's Preferred Securities were issued in the auction rate market. Primus Financial's Preferred Securities are set at the contractually specified rates over LIBOR. The average distribution rate on these securities was 3.24% and 3.23% for the years ended December 31, 2012 and 2011, respectively.

12. Shareholders' Equity

During the year ended December 31, 2012, the Company purchased and retired approximately 8.8 million of its common shares at an approximate cost of $62.4 million. During the year ended December 31, 2011, the Company purchased and retired approximately 3.7 million of its common shares at an approximate cost of $18.6 million.

13. Earnings per Share

Basic earnings per share ("EPS") is calculated by dividing income available to common shareholders by the weighted-average number of common shares outstanding. Diluted EPS is similar to basic EPS, but adjusts for the effect of the potential issuance of common shares. The following table presents the computations of basic and diluted EPS:

(in thousands, except per share data)	Year Ended December 31, 2012	Year Ended December 31, 2011
Income (loss) from continuing operations, net of tax	$ 430,726	$ (37,898)
Income from discontinued operations, net of tax	4,388	4,133
Net income (loss)	435,114	(33,765)
Less:		
Distributions on preferred securities of subsidiary	2,726	3,035
Net income (loss) available to common shares	$ 432,388	$ (36,800)
Income (loss) per common share:		
Basic:		
Income (loss) from continuing operations	$ 14.30	$ (1.11)
Income from discontinued operations	$ 0.15	$ 0.11
Net income (loss) available to common shares	$ 14.45	$ (1.00)
Diluted:		
Income (loss) from continuing operations	$ 14.26	$ (1.11)
Income from discontinued operations	$ 0.15	$ 0.11
Net income (loss) available to common shares	$ 14.41	$ (1.00)
Weighted average common shares outstanding:		
Basic	30,189	36,849
Effect of dilutive instruments:		
Restricted share units	88	-
Diluted	30,277	36,849

For the years ended December 31, 2012 and 2011, approximately 0.2 million and 1.0 million shares, respectively, were not included in the computation of diluted EPS because to do so would have been anti-dilutive for the periods presented. Basic and diluted net income (loss) available to common shares for the year ended December 31, 2012 includes the impact of a $3.8 million gain that resulted from the purchase of $14.1 million (face value) Primus Financial preferred securities.

14. Commitments and Contingencies

Lease

At December 31, 2012, Primus Financial leased approximately 17,500 square feet of office space at 360 Madison Avenue, New York, New York, at a fixed yearly rental (subject to certain escalations specified in the lease). In December 2010, Primus Financial entered into an agreement to sublease approximately 12,000 square feet of this office space. At December 31, 2012, the total amount of future rental income to be received under the noncancelable sublease was $2.7 million.

The lease is categorized as an operating lease and future gross payments as of December 31, 2012 under the lease are as follows (in thousands):

2013	$ 1,156
2014	1,156
2015	1,156
2016	867
Total	$ 4,335

Rent expense was approximately $1.2 million in each of the years ended December 31, 2012 and 2011, respectively.

15. Employee Share-Based Compensation Plans

Primus Guaranty has established incentive compensation plans for the benefit of employees. Share-based compensation expense is included in the “Compensation and employee benefits” caption in the consolidated statements of operations.

The following table represents the components of the Company’s share-based compensation expense for the years ended December 31, 2012 and 2011 (in thousands):

	Year Ended December 31, 2012	Year Ended December 31, 2011
Share units	$ 683	$ 1,129
Performance shares	2,710	840
Share options	-	18
Total	$ 3,393	$ 1,987

The table above excludes share-based compensation expense recorded in restructuring costs and discontinued operations, which was approximately $266 thousand and $8 thousand, respectively, for the year ended December 31, 2012. For the year ended December 31, 2011, the table above excludes share-based compensation expense recorded in restructuring costs and discontinued operations, which was approximately $146 thousand and $(36) thousand, respectively. See note 7 of these notes to consolidated financial statements for additional discussion on discontinued operations.

Incentive Compensation Plan

The Company’s Incentive Compensation Plan (the “Incentive Plan”) was adopted in 2008 and since then has been amended and restated, most recently as of May 1, 2012, and supersedes previous share incentive plans. The Incentive Plan provides for the award of cash-based incentives, as well as share options, performance shares and share units on common shares of Primus Guaranty not to exceed 11,149,213 (which includes awards outside of the Incentive Plan, as well as under the Incentive Plan that are subsequently forfeited, cancelled, terminated or reacquired by the Company). The board of directors delegated to its Nominating and Corporate Governance

Committee decisions regarding the terms and condition of such awards, including the apportionment between types of awards, the employees to whom such awards are to be granted and any performance factors required to earn such awards.

Effective July 29, 2010, the board of directors amended and restated the Primus Guaranty Restricted Share Unit Deferral Plan (the "Deferral Plan") which was originally established effective December 31, 2007. The Deferral Plan permits selected participants in the Incentive Plan to defer distributions associated with their vested share units until the participant separates from service with the Company.

Performance Shares

Prior to 2011, the Company had granted 114,655 performance shares to employees. During 2011, the Company granted 420,000 performance shares to employees. The 2011 performance share awards specified that vesting will occur upon the share price reaching and maintaining specific prices, ranging from $8.25 to $9.00, for 30 trading days within a trailing 45 trading day period. The fair value of the performance shares is expensed ratably over the expected time for the market share price measurement to be achieved. During 2012, the Company did not grant any new performance shares.

The fair value of the 2011 performance shares are estimated on the date of grant using a Monte Carlo simulation pricing model using the following weighted average assumptions for the periods indicated:

	Year Ended December 31,	
	2012	2011
Risk free interest rate	-	1.78%
Volatility	-	47%
Contractual share term	-	4 years
Weighted average fair value	-	$3.42

Unvested performance shares as of and for the year ended December 31, 2012 were as follows:

	Number of Shares	Weighted Average Fair Value [a]
Unvested at December 31, 2011	534,655	$3.40
Granted	-	n/a
Vested	(184,655)	$7.43
Forfeited	-	n/a
Unvested at December 31, 2012	350,000	$8.06

[a] As of December 31, 2012, the Company used a Monte Carlo simulation model to estimate the weighted average fair value of the unvested performance shares at $8.06 per share. The following assumptions for the unvested performance shares at December 31, 2012 were used: risk free interest rate of 0.47%, volatility of 60.5% and contractual remaining performance share term of 2.0 years. As of December 31, 2011, the Company used a Monte Carlo simulation model to estimate the weighted average fair value of the unvested performance shares at $3.40 per share. The following assumptions for the unvested performance shares at December 31, 2011 were used: risk free interest rate of 0.8%, volatility of 59.4% and contractual remaining performance share term of 2.6 years.

Share Units

Share units are awarded to employees based upon the value of the common shares on the date the award is authorized and vest ratably over a three-year period on the anniversary dates of each award, with vesting subject to certain terms including the continued employment of the award recipient. Share units awarded to employees are expensed ratably over the life of the award. Share units awarded to directors are fully expensed on the grant date. During 2012, the Company granted no share units to employees and 6,608 share units to directors, which vested on the grant date, pursuant to the Incentive Plan (and its predecessors), with a weighted average grant date fair value per share of $6.05.

Unvested share units as of and for the year ended December 31, 2012 were as follows:

	Number of Shares	Weighted Average Fair Value [(a)]
Unvested at December 31, 2011	305,955	$4.90
Granted	6,608	$6.05
Vested	(232,170)	$5.48
Forfeited	-	n/a
Unvested at December 31, 2012	80,393	$8.81

(a) The unvested share units had a weighted average fair value of $8.81 per share as of December 31, 2012.

Share Options

Share options can be awarded to selected employees with individual awards determined by the Chief Executive Officer of the Company, subject to the approval of the Nominating and Corporate Governance Committee. The Nominating and Corporate Governance Committee also determines any share option awards to the executive officers. The share options become exercisable ratably over a four-year period on the anniversary date of each award, subject to certain terms including the continued employment of each recipient. The share options are expensed ratably over the vesting period. The share options expire in seven or ten years from the date of grant. During 2012 and 2011, the Company did not grant any share options.

The following table is a summary of the information concerning outstanding and exercisable share options for the years ended December 31, 2012 and 2011:

	Year Ended December 31,			
	2012		2011	
	Number of Shares	Weighted Average Exercise Price	Number of Shares	Weighted Average Exercise Price
Outstanding at beginning of year	188,480	$11.24	852,689	$11.45
Granted	-	-	-	-
Exercised	(3,750)	$ 6.94	-	-
Forfeited	-	-	(664,209)	$11.51
Outstanding at end of year	184,730	$11.32	188,480	$11.24
Exercisable at end of year	184,730	$11.32	188,480	$11.24

The following table summarizes the status of the Company's share options as of December 31, 2012:

	Options Outstanding				Options Exercisable		
Range of Exercise Prices	**Number of Shares**	**Average Remaining Contractual Life (Years)**	**Weighted Average Exercise Price**	**Aggregate Intrinsic Value**	**Number of Shares**	**Weighted Average Exercise Price**	**Aggregate Intrinsic Value**
$6.94	9,375	0.1	$ 6.94	$ 17,599	9,375	$ 6.94	$ 17,599
$9.76	36,250	1.1	$ 9.76	-	36,250	$ 9.76	-
$11.75 - $12.74	139,105	0.8	$12.03	-	139,105	$12.03	-
Total	184,730			$ 17,599	184,730		$ 17,599

Unrecognized Share-Based Compensation Expense

At December 31, 2012, based on a weighted average fair value of $8.81 per share, total unrecognized share-based compensation expense related to unvested share awards was approximately $0.1 million. This share-based compensation expense is expected to be recognized over a weighted average period of 0.1 years.

16. Dividend Restrictions

The Company is subject to Bermuda law and regulatory constraints that affect its ability to pay dividends on its common shares and make other payments. Under the Bermuda Companies Act, Primus Guaranty may not declare or pay a dividend out of distributable reserves if there are reasonable grounds for believing that they are, or would after the payment be, unable to pay the respective liabilities as they become due; or if the realizable value of their respective assets would thereby be less than the aggregate of their respective liabilities and issued share capital and share premium accounts.

Under the terms of its Preferred Securities, Primus Financial is restricted from paying dividends unless all of the cumulative distributions on the Preferred Securities have been previously made or set aside.

17. Subsequent Events

The Company has evaluated subsequent events through May 6, 2013, the date that these consolidated financial statements were available to be issued. During the first quarter of 2013, Primus Financial redeemed the remaining $57.7 million (face value) of its subordinated deferrable interest notes at par.