CONSOLIDATED FINANCIAL STATEMENTS

Primus Guaranty, Ltd.
Years Ended December 31, 2013 and 2012
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, 2013 and 2012, and the related consolidated statements of operations, comprehensive income, shareholders' equity 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, 2013 and 2012, 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
April 17, 2014

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

	December 31, 2013	December 31, 2012
Assets		
Cash and cash equivalents	$ 27,512	$ 51,860
Investments, at fair value	66,230	213,107
Restricted cash and investments	106,580	144,077
Accrued interest and premiums	1,270	3,210
Unrealized gain on credit swaps, at fair value	1,981	721
Debt issuance costs, net	-	510
Other assets (includes $822 and $2,701 at fair value as of December 31, 2013 and 2012, respectively)	1,366	4,019
Total assets	$ 204,939	$ 417,504
Liabilities and Equity		
Liabilities		
Accounts payable and accrued expenses	$ 4,447	$ 5,202
Unrealized loss on credit swaps, at fair value	5,453	43,682
Payable for credit events	-	1,280
Long-term debt	-	57,700
Other liabilities (includes $979 and $2,204 at fair value as of December 31, 2013 and 2012, respectively)	1,281	2,721
Total liabilities	11,181	110,585
Equity		
Common shares, $0.08 par value, 62,500,000 shares authorized, 21,786,406 and 26,125,564 shares issued and outstanding at December 31, 2013 and 2012, respectively	1,743	2,090
Additional paid-in capital	116,629	203,232
Accumulated other comprehensive income	538	2,723
Retained earnings	74,848	22,619
Total shareholders' equity of Primus Guaranty, Ltd	193,758	230,664
Preferred securities of subsidiary	-	76,255
Total equity	193,758	306,919
Total liabilities and equity	$ 204,939	$ 417,504

See accompanying Notes to Consolidated Financial Statements.

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

	Year Ended December 31, 2013	2012
Revenues		
Net credit swap revenue	$ 54,572	$ 438,961
Interest income	4,617	9,497
Gain on retirement of long-term debt	-	2,638
Other income	1,854	1,429
Total revenues	61,043	452,525
Expenses		
Compensation and employee benefits	3,863	7,117
Professional and legal fees	1,290	1,501
Interest expense	692	9,587
Other	1,923	3,497
Total expenses	7,768	21,702
Income from continuing operations before provision for income taxes	53,275	430,823
Provision for income taxes	1	97
Income from continuing operations, net of tax	53,274	430,726
Income from discontinued operations, net of tax	305	4,388
Net income	53,579	435,114
Less:		
Distributions on preferred securities of subsidiary	1,350	2,726
Net income available to common shares	$ 52,229	$ 432,388
Income per common share:		
Basic:		
Income from continuing operations	$ 2.16	$ 14.30
Income from discontinued operations	$ 0.01	$ 0.15
Net income available to common shares	$ 2.17	$ 14.45
Diluted:		
Income from continuing operations	$ 2.14	$ 14.26
Income from discontinued operations	$ 0.01	$ 0.15
Net income available to common shares	$ 2.15	$ 14.41
Weighted average common shares outstanding:		
Basic	24,053	30,189
Diluted	24,256	30,277

See accompanying Notes to Consolidated Financial Statements.

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

	Year Ended December 31,	
	2013	2012
Net income	$ 53,579	$ 435,114
Other comprehensive income, net of tax:		
Change in net unrealized gains (losses) on available-for-sale investments	(2,185)	1,637
Comprehensive income	51,394	436,751
Less: Distributions on preferred securities of subsidiary	1,350	2,726
Comprehensive income available to common shares	$ 50,044	$ 434,025

See accompanying Notes to Consolidated Financial Statements.

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

	Year Ended December 31, 2013	Year Ended December 31, 2012
Common shares		
Balance at beginning of period	$ 2,090	$ 2,787
Common shares purchased and retired	(347)	(704)
Shares issued under employee compensation plans	-	7
Balance at end of period	1,743	2,090
Additional paid-in capital		
Balance at beginning of period	203,232	260,258
Common shares purchased and retired	(41,459)	(63,485)
Shares vested under employee compensation plans	(424)	2,628
Distributions on common shares	(43,573)	-
Preferred shares purchased by subsidiary	-	3,831
Preferred shares redeemed and retired by subsidiary	(1,147)	-
Balance at end of period	116,629	203,232
Accumulated other comprehensive income		
Balance at beginning of period	2,723	1,086
Change in unrealized holding gains on available-for-sale securities	(2,185)	1,637
Balance at end of period	538	2,723
Retained earnings (deficit)		
Balance at beginning of period	22,619	(409,769)
Net income	53,579	435,114
Distributions on preferred securities of subsidiary	(1,350)	(2,726)
Balance at end of period	74,848	22,619
Total shareholders' equity of Primus Guaranty, Ltd	193,758	230,664
Preferred securities of subsidiary		
Balance at beginning of period	76,255	90,146
Net purchase of preferred shares	-	(13,891)
Net redemption and retirement of preferred shares	(76,255)	-
Balance at end of period	-	76,255
Total equity at end of period	$ 193,758	$ 306,919

See accompanying Notes to Consolidated Financial Statements.

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

	Year Ended December 31, 2013	2012
Cash flows from operating activities		
Net income available to common shares	$ 52,229	$ 432,388
Distributions on preferred securities of subsidiary	1,350	2,726
Net income	53,579	435,114
Adjustments to reconcile net income to net cash provided by operating activities:		
Non-cash items included in net income:		
Depreciation and amortization	18	40
Share-based compensation	789	3,393
Net unrealized gains on credit swaps	(39,489)	(414,978)
Net amortization of premium and discount on securities	3,260	6,545
Gain on retirement of long-term debt	-	(2,638)
Adjustment to payable for credit events	(840)	-
Other	(507)	1,254
Increase (decrease) in cash resulting from changes in:		
Restricted cash	(2,911)	(4,974)
Accrued interest and premiums	1,940	2,515
Other assets	2,635	5,933
Sales of trading account assets	211	-
Accounts payable and accrued expenses	546	(1,410)
Payable for credit events	(440)	(704)
Restructuring liabilities	-	(36)
Other liabilities	(1,440)	(454)
Net cash provided by operating activities	17,351	29,600
Cash flows from investing activities		
Payments received from CLO investments	275	287
Payments received from ABS investments	74	104
Purchases of available-for-sale investments	-	(60,476)
Maturities and sales of available-for-sale investments	141,592	183,407
Maturities and sales of held-to-maturity investments, including restricted investments	40,705	171
Net cash provided by investing activities	182,646	123,493
Cash flows from financing activities		
Retirement of long-term debt	(57,700)	(111,512)
Distribution to common shareholders	(43,573)	-
Purchase and retirement of common shares	(44,320)	(64,182)
Purchases and redemptions of preferred securities of subsidiary	(77,402)	(10,060)
Net preferred distributions of subsidiary	(1,350)	(2,726)
Net cash used in financing activities	(224,345)	(188,480)
Net decrease in cash	(24,348)	(35,387)
Cash and cash equivalents at beginning of period	51,860	87,247
Cash and cash equivalents at end of period	$ 27,512	$ 51,860
Supplemental disclosures of cash flow information:		
Cash paid for interest	$ 308	$ 7,178
Net cash paid (received) for taxes	$ (2)	$ 87

See accompanying Notes to Consolidated Financial Statements.

Primus Guaranty, Ltd.
Notes to Consolidated Financial Statements

1. Organization and Business

Primus Guaranty, Ltd. (''Primus Guaranty'', together with its consolidated subsidiaries, ''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.'' All of Primus Financial's single name credit swaps have matured as of December 31, 2013. 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 represent a single reportable segment and 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 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 as a separate component of shareholders’ equity of Primus Guaranty in the consolidated statements of financial condition. Available-for-sale investments have maturities at time of purchase greater than 90 days. Trading account investments are carried at fair value, with unrealized gains or losses included in the “Other income” or “Income from discontinued operations, net of tax” captions in the consolidated statements of operations.

Restricted Cash and Investments

Restricted cash held at December 31, 2013 and 2012 represents amounts held by a counterparty as security for credit swap contracts. Restricted investments held at December 31, 2012 comprised of a held-to-maturity corporate note issued by a counterparty as security for credit swap contracts, which matured in March 2013. 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, investments and restricted cash 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

As of December 31, 2013, credit swaps include tranches and CDS on ABS. Credit swaps 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, at fair value'' or ''Unrealized loss on credit swaps, at fair value.'' See note 6 of these notes to consolidated financial statements for further discussion on fair value and valuation techniques.

''Net credit swap revenue'' 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 had incurred costs in connection with its debt issuances. These costs were capitalized as debt issuance costs in the consolidated statements of financial condition and were being amortized over the life of the related debt arrangement which ranged from fifteen to thirty years from the date of issuance. The Company accelerated the amortization of debt issuance costs for any debt repurchased or redeemed prior to its scheduled maturity date. As of December 31, 2013, all the Company's debt had been repurchased or redeemed and all debt issuance costs fully amortized. Amortization of debt issuance costs is included in the ''Interest expense'' caption in the consolidated statements of operations. See note 9 of these notes to consolidated financial statements for further discussion.

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 2013, the Company made payments of $2.5 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. The Monte Carlo model is used to determine the fair value of performance share awards at grant date and at interim periods until the market condition is met; for any periods following the market condition being met but prior to settlement, the fair value of the performance share awards is re-measured using the market price of the common shares. 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'')''. 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''. 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''. 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.

In December 2011, the FASB issued ASU No. 2011-11, *Balance Sheet* (Topic 210), ''Disclosures about Offsetting Assets and Liabilities.'' ASU No. 2011-11, as amended by ASU 2013-01, *Balance Sheet* (Topic 210), ''Clarifying the Scope of Disclosures about Offsetting Assets and Liabilities,'' requires disclosure for recognized financial instruments and derivative instruments that either (i) offset on the balance sheet in accordance with existing offsetting guidance or (ii) are subject to a master netting arrangement or similar agreement, regardless of whether they are offset in accordance with the offsetting guidance. The adoption of this new standard did not impact the Company's consolidated financial statements since it only required additional disclosure. See note 5 of these notes to consolidated financial statements for further information.

3. Investments

The following table presents the estimated fair value of investments at December 31, 2013 and 2012 (in thousands):

	December 31,	
	2013	2012
Available-for-sale	$ 65,639	$ 212,015
Trading	591	1,092
Total investments	$ 66,230	$ 213,107

The following tables summarize the composition of the Company's available-for-sale investments at December 31, 2013 and 2012 (in thousands):

	December 31, 2013			
	Amortized Cost	Unrealized Gains	Unrealized Losses	Estimated Fair Value
Available-for-sale:				
Corporate debt securities	$ 65,101	$ 538	$ -	$ 65,639
Total available-for-sale	$ 65,101	$ 538	$ -	$ 65,639

	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

As of December 31, 2013 and 2012, all of the Company's investments in corporate debt securities are scheduled to mature before December 31, 2014.

As of December 31, 2013, the Company held a trading investment in a security issued by a CLO with an estimated fair value of $482 thousand, compared with an estimated fair value of $620 thousand as of December 31, 2012. As of December 31, 2013, the CLO investment was estimated to mature in 2016.

As of December 31, 2013, the Company held a trading investment in ABS with an estimated fair value of $109 thousand and an estimated maturity in 2015. During 2013, the Company sold one of the ABS investments realizing a gain of approximately $211 thousand. As of December 31, 2012, the fair value of the ABS investments was $472 thousand.

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, 2013 and 2012 (in thousands):

	December 31, 2013 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	$ -	$ -	$ -	$ -	$ -	$ -
Total	$ -	$ -	$ -	$ -	$ -	$ -

	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)

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, 2013 and 2012, it was determined that there were no credit related impairment losses on investments.

During the years ended December 31, 2013 and 2012, the Company recognized net realized gains of $957 thousand and $987 thousand, respectively, from the sale of corporate debt securities held as available-for-sale investments.

4. Restricted Cash and Investments

As of December 31, 2013 and 2012, the Company's consolidated financial statements included $106.6 million of restricted cash and $144.1 million of restricted cash and investments, respectively. Restricted cash represents amounts held by a counterparty as security for credit swap contracts. Restricted investments were 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 at December 31, 2012. The amortized cost of the held-to-maturity corporate note approximated fair value.

5. Net Credit Swap Revenue and Credit Swap Portfolio

Overview

''Net credit swap revenue'' 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. 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) 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'' 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.

Offsetting the Fair Value of Credit Swaps

The tables below present gross fair values of the credit swap portfolio at December 31, 2013 and 2012 (in thousands). Gross fair values exclude the effects of counterparty netting and collateral. Since Primus Financial does not post collateral to its counterparties, there is no adjustment for collateral in presenting the effects of offsetting fair values.

	December 31, 2013					
				Amounts Not Offset in the Consolidated Statements of Financial Condition		
	Gross Amount	Amounts Offset in the Consolidated Statements of Financial Condition	Net Amounts Presented in the Consolidated Statements of Financial Condition	Financial Instruments Collateral	Other Cash Collateral	Net Exposure
Credit Swap Fair Value Asset	$ 1,981	$ -	$ 1,981	$ -	$ -	$ 1,981
Credit Swap Fair Value Liability	$ 5,453	$ -	$ 5,453	$ -	$ -	$ 5,453

	December 31, 2012					
				Amounts Not Offset in the Consolidated Statements of Financial Condition		
	Gross Amount	Amounts Offset in the Consolidated Statements of Financial Condition	Net Amounts Presented in the Consolidated Statements of Financial Condition	Financial Instruments Collateral	Other Cash Collateral	Net Exposure
Credit Swap Fair Value Asset	$ 952	$ (231)	$ 721	$ -	$ -	$ 721
Credit Swap Fair Value Liability	$ 43,913	$ (231)	$ 43,682	$ -	$ -	$ 43,682

Concentration Risk by Counterparties

Five counterparties each generated greater than 10% of the Company's premium revenue for the year ended December 31, 2013, compared to one counterparty that generated greater than 10% of the Company's premium revenue for the year ended December 31, 2012.

The Company's single largest counterparty and five largest counterparties as measured by total notional represented approximately 41% and 97%, respectively, of the Company's credit swap portfolio at December 31, 2013. 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.

Net Credit Swap Revenue

The following table presents the components of net credit swap revenue for the years ended December 31, 2013 and 2012 (in thousands):

	Year Ended December 31, 2013	Year Ended December 31, 2012
Premiums earned	$ 14,321	$ 31,614
Net realized gains (losses) on credit swaps	762	(7,631)
Net unrealized gains on credit swaps	39,489	414,978
Net credit swap revenue	$ 54,572	$ 438,961

Credit Events and Terminations of Credit Swaps

The following table presents the components of net realized gains and losses recorded by Primus Financial related to risk mitigation transactions, terminations of credit swaps and credit events for the years ended December 31, 2013 and 2012 (in thousands):

	Year Ended December 31, 2013	Year Ended December 31, 2012
Net realized losses on single name credit swaps	$ -	$ -
Realized losses on tranches	-	-
Net realized gains (losses) on CDS on ABS	762	(7,631)
Total net realized gains (losses)	$ 762	$ (7,631)

Net realized gains of $762 thousand for the year ended December 31, 2013 include a gain of $840 thousand attributable to the adjustment of an outstanding credit event payable and a realized loss of $78 thousand attributable to a payment to settle a credit event on a CDS on ABS position. Net realized losses of $7.6 million for the year ended December 31, 2012 primarily comprised payments to settle credit events on CDS on ABS.

Credit Swap Portfolio Information

The tables below present summarized information relating the Notional Amounts and Fair Values of the transactions in Primus Financial's credit swaps portfolio broken out by mid-market credit swap premium levels, expressed in basis points (bps) per annum as of December 31, 2013 and 2012. The Notional Amounts and Fair Values are expressed in thousands of dollars. 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, 2013		December 31, 2012	
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
50-99	-	-	13,193	(4)
100-149	-	-	13,193	(46)
150-199	-	-	6,596	(10)
Total	$ -	$ -	$ 681,457	$ 721
Credit Swaps Sold-Tranche:				
1-49	$ 3,325,000	$ 1,575	$ 800,000	$ (1,653)
50-99	-	-	1,725,000	(19,279)
100-149	-	-	850,000	(12,650)
>2,000	-	-	43,317	(5,981)
Total	$ 3,325,000	$ 1,575	$ 3,418,317	$ (39,563)
CDS on ABS:				
>2,000	$ 5,352	$ (5,047)	$ 5,430	$ (4,119)
Total	$ 5,352	$ (5,047)	$ 5,430	$ (4,119)

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, 2013 and 2012 (in thousands).

	December 31, 2013		December 31, 2012	
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
150-199	-	-	343,018	307
200-299	-	-	158,316	316
Total	$ -	$ -	$ 681,457	$ 721
Credit Swaps Sold-Tranche:				
50-99	$ 300,000	$ 733	$ 300,000	$ (4,907)
100-149	2,475,000	533	93,317	(5,815)
150-199	-	-	2,475,000	(21,098)
No CDS Data Available	550,000	309	550,000	(7,743)
Total	$ 3,325,000	$ 1,575	$ 3,418,317	$ (39,563)
CDS on ABS:				
50-99	$ 5,352	$ (5,047)	$ -	$ -
100-149	-	-	5,352	(4,042)
150-199	-	-	78	(77)
Total	$ 5,352	$ (5,047)	$ 5,430	$ (4,119)

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, 2013 and 2012 (in thousands).

	December 31, 2013		December 31, 2012	
Domicile	Notional Amount	Fair Value	Notional Amount	Fair Value
Credit Swaps Sold-Single Name				
By Reference Entity:				
North America	$ -	$ -	$ 10,000	$ 8
Europe	-	-	646,457	706
Asia-Pacific	-	-	25,000	7
Total	$ -	$ -	$ 681,457	$ 721
By Counterparty:				
Europe	$ -	$ -	$ 681,457	$ 721
Total	$ -	$ -	$ 681,457	$ 721
Credit Swaps Sold-Tranche				
By Counterparty:				
North America	$ 600,000	$ 263	$ 600,000	$ (1,183)
Europe	2,725,000	1,312	2,818,317	(38,380)
Total	$ 3,325,000	$ 1,575	$ 3,418,317	$ (39,563)
CDS on ABS				
By Reference Entity:				
North America	$ 5,352	$ (5,047)	$ 5,430	$ (4,119)
Total	$ 5,352	$ (5,047)	$ 5,430	$ (4,119)
By Counterparty:				
North America	$ 352	$ (116)	$ 352	$ (107)
Europe	5,000	(4,931)	5,078	(4,012)
Total	$ 5,352	$ (5,047)	$ 5,430	$ (4,119)

The table below shows the distribution of the credit swap portfolio by year of maturity as of December 31, 2013 and 2012 (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, 2013		December 31, 2012	
	Notional Amount	Fair Value	Notional Amount	Fair Value
Credit Swaps Sold-Single Name				
Year of Maturity				
2013	$ -	$ -	$ 681,457	$ 721
Total	$ -	$ -	$ 681,457	$ 721
Credit Swaps Sold-Tranche				
Year of Maturity				
2013	$ -	$ -	$ 93,317	$ (5,815)
2014	3,325,000	1,575	3,325,000	(33,748)
Total	$ 3,325,000	$ 1,575	$ 3,418,317	$ (39,563)
CDS on ABS				
Estimated Year of Maturity				
2013	$ -	$ -	$ 78	$ (77)
2014	5,000	(4,931)	-	-
2015	-	-	5,000	(3,935)
2024	352	(116)	-	-
2026	-		352	(107)
Total	$ 5,352	$ (5,047)	$ 5,430	$ (4,119)

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 exit price or offer premium. The valuations are reviewed by management for reasonableness. The valuation process the Company uses to obtain fair value is described below:

- Primus Financial's remaining single name credit swap portfolio matured during 2013. For fair values as of December 31, 2012, the valuation model used mid-market credit swap premium data obtained from a recognized independent third-party provider. The independent third-party provider obtained 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 computed composite credit swap premium quotes on specific Reference Entities, where available. When quotes were not available, management used observable market data on comparable Reference Entities. The inputs to the valuation model included: 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 adjusted the independent mid-market credit swap premium quotes to derive exit price valuations that incorporate a 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 a 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 a 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 market prices obtained from an independent third-party 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 tables below provide 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, 2013)**
Tranche Credit Swaps	Tranche attachment points	3.0% to 9.7%
	Tranche detachment points	6.2% to 12.9%
	Mid-market to exit spreads (bps)	7.5 to 15.0
	Recovery rates	20% to 40%
	Nonperformance risk adjustments	1.1% to 3.4%
CDS on ABS	Underlying ABS price quotations	1% to 53% of face value

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, 2013 and 2012 (in thousands):

	December 31, 2013	December 31, 2012
Unrealized loss on credit swaps, at fair value, without nonperformance risk adjustments	$ 5,523	$ 48,708
Nonperformance risk adjustments	(70)	(5,026)
Unrealized loss on credit swaps, at fair value, after nonperformance risk adjustments	$ 5,453	$ 43,682

The following table represents the effect of the changes in nonperformance risk adjustment on the Company's "Net credit swap revenue" caption in the consolidated statements of operations for the years ended December 31, 2013 and 2012 (in thousands):

	Year Ended December 31,	
	2013	2012
Net credit swap revenue without nonperformance risk adjustments	$ 59,528	$ 518,195
Change in nonperformance risk adjustments	(4,956)	(79,234)
Net credit swap revenue after nonperformance risk adjustments	$ 54,572	$ 438,961

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, 2013 (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	$ -	$ 65,639	$ 591	$ 66,230
Unrealized gain on credit swaps	-	-	1,981	1,981
Other assets	-	-	822	822
Total Assets	$ -	$ 65,639	$ 3,394	$ 69,033
Liabilities				
Unrealized loss on credit swaps	$ -	$ -	$ 5,453	$ 5,453
Other liabilities	-	-	979	979
Total Liabilities	$ -	$ -	$ 6,432	$ 6,432

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

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, 2013 and 2012 (in thousands):

	Year Ended December 31, 2013			
	Trading Investments - CLO	Trading Investments - ABS	Unrealized Gain on Credit Swaps	Other Assets
Balance, beginning of period	$ 620	$ 472	$ 721	$ 2,701
Reclassification	-	-	-	-
Realized (gains) losses	-	(211)	-	-
Unrealized gains (losses)	137	(78)	1,260	(184)
Purchases	-	-	-	-
Sales	-	-	-	-
Issuances	-	-	-	-
Settlements	(275)	(74)	-	(1,695)
Transfers into Level 3	-	-	-	-
Balance, end of period	$ 482	$ 109	$ 1,981	$ 822

	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

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

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.

Realized and 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, 2013 and 2012 (in thousands):

	Year Ended December 31, 2013		Year Ended December 31, 2012	
	Unrealized Losses on Credit Swaps	Other Liabilities	Unrealized Losses on Credit Swaps	Other Liabilities
Balance, beginning of period	$ 43,682	$ 2,204	$ 457,939	$ 2,398
Reclassification	-	-	-	-
Realized losses	(78)	-	(7,631)	-
Unrealized (gains) losses	(38,151)	(319)	(406,626)	250
Purchases	-	-	-	-
Sales	-	-	-	-
Issuances	-	-	-	-
Settlements	-	(906)	-	(444)
Transfers into Level 3	-	-	-	-
Balance, end of period	$ 5,453	$ 979	$ 43,682	$ 2,204

Realized and unrealized gains and losses on Level 3 liabilities (Unrealized Losses on Credit Swaps) are included in the "Net credit swap revenue" 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

During the first quarter of 2013, Primus Financial redeemed the remaining $57.7 million (face value) of its subordinated deferrable interest notes at par. At December 31, 2012, the carrying value of Primus Financial's subordinated deferrable interest notes was $57.7 million. At December 31, 2012, it was 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 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 3.63% as of December 31, 2012. See note 9 of these notes to consolidated financial statements for further discussion.

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 of December 31, 2013, the fair value of the contingent liability to the former owners of CypressTree was $979 thousand, compared with $2.2 million at December 31, 2012.

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, 2013, the fair value of the contingent receivable from the buyer was $822 thousand, compared with $2.7 million at December 31, 2012. 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, 2013 and 2012 (in thousands):

	Year Ended December 31, 2013	Year Ended December 31, 2012
Revenues		
Asset management and advisory fees	$ 45	$ 1,622
Interest income	275	287
Other income	(320)	2,822
Total revenues	-	4,731
Expenses		
Compensation and employee benefits	9	-
Restructuring costs	-	53
Other	(314)	290
Total expenses	(305)	343
Income before provision for income taxes	305	4,388
Provision for income taxes	-	-
Income from discontinued operations, net of tax	$ 305	$ 4,388

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, 2013, the Company incurred no restructuring costs. 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 employee severance and accelerated share-based compensation expenses.

9. Long-Term Debt

The Company recorded interest expense related to the debt of Primus Financial of approximately $692 thousand for the year ended December 31, 2013. The $692 thousand of interest expense for 2013 included the accelerated amortization of $508 thousand of debt issuance costs due to the redemption of Primus Financial debt securities. The weighted average interest rate on Primus Financial's aggregate long-term debt, excluding accelerated debt issuance costs, was 3.62% for the year ended December 31, 2013.

The Company recorded interest expense related to the debt of Primus Guaranty and Primus Financial of approximately $9.6 million for the year ended December 31, 2012. The $9.6 million of interest expense for 2012 included the accelerated amortization of $2.3 million of debt issuance costs due to the redemption of Primus Guaranty debt securities. The weighted average interest rate on the Company's aggregate long-term debt, excluding accelerated debt issuance costs, was 5.38% for the year ended December 31, 2012.

$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 had incurred approximately $4.5 million in capitalized debt issuance costs, which were being amortized over the life of the debt. The redemption caused the accelerated amortization of $2.3 million of debt issuance costs for the year ended December 31, 2012.

$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 (collectively, the "2005 notes"), which were scheduled to mature in June 2021. The 2005 notes were redeemable at the option of Primus Financial, in whole or in part, on any interest payment date, at a redemption price equal to 100% of the principal amount of the 2005 notes to be redeemed, plus any accrued and unpaid interest thereon to the redemption date. In connection with the issuance of the 2005 notes, the Company incurred approximately $2.0 million in debt issuance costs, which were being amortized over the life of the debt. During the period from 2009 to 2012, Primus Financial purchased 2005 notes from third parties in privately negotiated transactions. On January 31, 2013, Primus Financial redeemed the remaining $30.1 million (face value) Series A notes at par and on February 4, 2013 Primus Financial redeemed the remaining $22.6 million (face value) Series B notes at par. In the year ended December 31, 2013, the Company recorded interest expense related to the 2005 notes of $627 thousand, which included accelerated amortization of debt issuance costs of $452 thousand as a result of the redemption. In the year ended December 31, 2012, the Company recorded interest expense related to the 2005 notes of $2.2 million. The average interest rate on these securities, excluding accelerated debt issuance costs, was 3.71% and 3.90% for the years ended December 31, 2013 and 2012, respectively.

$75 million Subordinated Deferrable Interest Notes

On July 23, 2004, Primus Financial issued $75 million of subordinated deferrable interest notes (the "2004 notes"), which were scheduled to mature in July 2034. The 2004 notes were redeemable at the option of Primus Financial, in whole or in part, on any interest payment date, at a redemption price equal to 100% of the principal amount of the 2004 notes to be redeemed, plus any accrued and unpaid interest thereon to the redemption date. In connection with the issuance of the 2004 notes, the Company incurred approximately $1.1 million in debt issuance costs, which were amortized over the life of the debt. During the period from 2009 to 2012, Primus Financial purchased 2004 notes from third parties in privately negotiated transactions. On January 25, 2013, Primus Financial redeemed the remaining $5 million (face value) of the 2004 notes at par. In the year ended December 31, 2013, the Company recorded interest expense related to the 2004 notes of $65 thousand, which included accelerated amortization of debt issuance costs of $56 thousand as a result of the redemption. In the year ended December 31, 2012, the Company recorded interest expense related to the 2004 notes of $626 thousand. The average interest rate on these securities, excluding accelerated debt issuance costs, was 2.71% and 2.78% for the years ended December 31, 2013 and 2012, respectively.

The following table represents the components of the Company's long-term debt at December 31, 2013 and 2012 (in thousands):

	December 31, 2013	December 31, 2012
Primus Financial issuer:		
$125 million Subordinated Deferrable Interest Notes, due 2021	$ -	$ 52,700
$75 million Subordinated Deferrable Interest Notes, due 2034	-	5,000
Total long-term debt	$ -	$ 57,700

The following table represents the components of the Company's net gain on the repurchase and retirement of long-term debt for the years ended December 31, 2013 and 2012 (in thousands):

	Year Ended December 31, 2013	Year Ended December 31, 2012
$125 million 7% Senior Notes, due 2036:		
Principal purchased and retired	$ -	$ 6,422
Cost of purchase and retirement of debt	-	(5,706)
Write-off of unamortized issuance costs	-	(185)
Net gain on retirement of long-term debt	-	531
$125 million Subordinated Deferrable Interest Notes, due 2021:		
Principal purchased and retired	$ -	$ 4,200
Cost of purchase and retirement of debt	-	(3,720)
Write-off of unamortized issuance costs	-	(38)
Net gain on retirement of long-term debt	-	442
$75 million Subordinated Deferrable Interest Notes, due 2034:		
Principal purchased and retired	$ -	$ 22,100
Cost of purchase and retirement of debt	-	(20,185)
Write-off of unamortized issuance costs	-	(250)
Net gain on retirement of long-term debt	-	1,665
Total net gain on retirement of long-term debt	$ -	$ 2,638

10. Income Taxes

Primus Guaranty 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 does not have any full time employees, nor does it or any of its subsidiaries lease or own any real property in Bermuda. Under current Bermuda law, there are no taxes computed on profits or income, or computed on any capital assets, gain or appreciation. The Bermuda Minister of Finance has given Primus Guaranty 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.

Primus Guaranty 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 U.S. federal or state and local income taxes on a standalone basis. However, on a consolidated basis, the Company has provided for U.S. income taxes for one of its subsidiaries, which provision is described below.

Primus Group Holdings, LLC is 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, LLC are held by Primus Guaranty.

Primus Financial is a limited liability company organized under Delaware law. Previously, Primus Financial was treated as a partnership for U.S. tax purposes, with the controlling interest being held by Primus Group Holdings, LLC. However, on June 19, 2013, Primus Financial redeemed all of its remaining outstanding preferred securities at par. This action resulted in a deemed liquidation of the partnership for tax purposes, as only Primus Group Holdings, LLC remained as an interest holder. As a result, Primus Financial is now treated as a disregarded entity for U.S. tax purposes. 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 such interest holders.

Primus Financial's activities in the United States are confined to holding investments in debt instruments and credit swaps for its own account, and therefore 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, 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 (on a standalone basis), did not provide for any income taxes.

Primus Asset Management is a corporation organized under Delaware law. It has a services agreement with its affiliates, whereby it 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, and accordingly the Company has made a provision for U.S. income taxes for this subsidiary.

During 2013, Primus Guaranty's board of directors adopted, and Primus Guaranty filed, a Plan of Liquidation for U.S. Federal Income Tax Purposes (the ''Plan''). By adopting the Plan, Primus Guaranty has taken no action to commence its winding up and/or liquidation under its Bye-Laws, the Bermuda Companies Act 1981, or any other Bermuda law. The Plan is intended to be in accordance with Sections 331 and 336 of the Code.

During 2012, Primus Guaranty and Primus (Bermuda) Ltd. were amalgamated, with an effective date of January 1, 2012 for U.S. tax purposes, with Primus Guaranty as the resultant amalgamated company. Prior to the amalgamation, Primus (Bermuda) Ltd. was a wholly owned subsidiary of Primus Guaranty. In addition, prior to the amalgamation of Primus (Bermuda) Ltd. and Primus Guaranty, all of the interests in Primus Group Holdings, LLC were held by Primus (Bermuda) Ltd.

The components of the consolidated provision for income taxes for the years ended December 31, 2013 and 2012 were as follows (in thousands):

	Year Ended December 31,	
	2013	2012
Current:		
Federal	$ (23)	$ 75
State/City	24	14
Foreign	-	8
Total current	1	97
Deferred:		
Federal	-	-
State/City	-	-
Foreign	-	-
Total deferred	-	-
Total provision for income taxes	$ 1	$ 97

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.

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, 2013 and 2012 is provided below (in thousands):

	Year Ended December 31,	
	2013	2012
U.S. federal income tax provision on Primus Asset Management's taxable income	$ (23)	$ 75
U.S. state and local tax provision	24	14
Foreign	-	8
Total provision for income taxes	$ 1	$ 97

The Company has a net U.S. deferred tax asset of $13.7 million and $14.9 million as of December 31, 2013 and 2012, respectively. The net deferred tax asset is primarily comprised of Primus Asset Management's net operating losses incurred during 2005 through 2013 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 2025 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, 2013 and 2012 are as follows (in thousands):

	December 31,	
	2013	2012
Deferred tax assets		
Share-based compensation	$ 1,239	$ 2,975
Net operating losses	11,578	10,967
Depreciation	804	848
Other	847	1,483
Gross deferred tax asset	14,468	16,273
Deferred tax liability		
Other	787	1,333
Gross deferred tax liability	787	1,333
Net deferred tax asset	13,681	14,940
Valuation allowance	(13,681)	(14,940)
Net deferred tax asset after valuation allowance	$ -	$ -

The changes in the valuation allowance for the deferred tax asset for the years ended December 31, 2013 and 2012 are as follows (in thousands):

	December 31, 2013	December 31, 2012
Balance at beginning of period	$ 14,940	$ 15,569
Share-based compensation	(1,736)	665
Tax depreciation / other	(134)	(90)
Net operating (income) loss	611	(1,204)
Balance at end of period	$ 13,681	$ 14,940

As of December 31, 2013 and 2012, 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, 2013 and 2012. 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 2010.

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 were charged against these gross proceeds received upon issuance. Beginning in 2009, Primus Financial had purchased Preferred Securities from third parties in privately negotiated transactions. On June 19, 2013, Primus Financial redeemed the remaining $77.4 million (face value) of its Preferred Securities at par. During 2012, Primus Financial purchased $14.1 million in face value of its Preferred Securities at a cost of $10.1 million. Primus Financial's Preferred Securities were issued in the auction rate market. Primus Financial's Preferred Securities were set at the contractually specified rates over LIBOR. The average distribution rate on these securities was 3.20% for the period from January 1 to June 19, 2013 and 3.24% for the year ended December 31, 2012.

12. Shareholders' Equity

During the year ended December 31, 2013, Primus Guaranty purchased and retired approximately 4.3 million of its common shares at an approximate cost of $41.8 million. During the year ended December 31, 2012, Primus Guaranty purchased and retired approximately 8.8 million of its common shares at an approximate cost of $62.4 million.

On December 11, 2013, Primus Guaranty paid to its shareholders a distribution of approximately $43.6 million. Although the Company has retained earnings on a consolidated basis, the distribution was made from additional paid-in capital due to restrictions on the availability of retained earnings at a subsidiary related to credit swaps which are scheduled to mature in 2014.

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 for the years ended December 31, 2013 and 2012:

	Year Ended December 31,	
(in thousands, except per share data)	2013	2012
Income from continuing operations, net of tax	$ 53,274	$ 430,726
Income from discontinued operations, net of tax	305	4,388
Net income	53,579	435,114
Less:		
Distributions on preferred securities of subsidiary	1,350	2,726
Net income available to common shares	$ 52,229	$ 432,388
Income per common share:		
Basic:		
Income from continuing operations	$ 2.16	$ 14.30
Income from discontinued operations	$ 0.01	$ 0.15
Net income available to common shares	$ 2.17	$ 14.45
Diluted:		
Income from continuing operations	$ 2.14	$ 14.26
Income from discontinued operations	$ 0.01	$ 0.15
Net income available to common shares	$ 2.15	$ 14.41
Weighted average common shares outstanding:		
Basic	24,053	30,189
Effect of dilutive instruments:		
Restricted share units	4	88
Options	1	-
Performance Shares	198	-
Diluted	24,256	30,277

For the years ended December 31, 2013 and 2012, approximately 0.1 million and 0.2 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 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

Primus Financial leases 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, 2013, the total amount of future rental income to be received under the noncancelable sublease was $2.0 million.

The lease is categorized as an operating lease and future gross payments as of December 31, 2013 under the lease are as follows (in thousands):

2014	$ 1,156
2015	1,156
2016	867
Total	$ 3,179

Rent expense was approximately $1.2 million in each of the years ended December 31, 2013 and 2012, 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, 2013 and 2012 (in thousands):

	Year Ended December 31,	
	2013	2012
Share units	$ 61	$ 683
Performance shares	728	2,710
Share options	-	-
Total	$ 789	$ 3,393

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, 2013, there was no share-based compensation expense associated with restructuring costs or discontinued operations. 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 of Primus Guaranty delegated to its Nominating and Corporate Governance Committee decisions regarding the terms and conditions 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 of Primus Guaranty 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

Performance shares 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 of the board of directors of Primus Guaranty. Performance shares are subject to such performance and vesting conditions as the Nominating and Corporate Governance Committee establishes, and the grant, exercise and/or settlement of performance shares is contingent upon the achievement of pre-established performance goals and other terms. The performance goals consist of one or more business criteria and a target level or levels of performance with respect to each criterion, and are objective. During 2012 and 2013, the Company did not grant any new performance shares.

Unvested performance shares as of and for the year ended December 31, 2013 were as follows:

Performance shares	Number of Shares		Weighted Average Fair Value
Unvested at December 31, 2012	350,000	$	8.06[(a)]
Granted	-		n/a
Vested	(350,000)	$	8.66[(b)]
Forfeited	-		n/a
Unvested at December 31, 2013	-		n/a

(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.

(b) The weighted average fair value of performance shares vested during 2013 includes 210,000 shares that vested after the $2.00 per share cash distribution paid to shareholders on December 11, 2013. The vesting price of those performance shares reflects the reduced market price of the common shares to account for the distribution.

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 2013, the Company granted no share units to employees or directors. During 2012, the Company granted no share units to employees and 6,608 share units to directors.

Unvested share units as of and for the year ended December 31, 2013 were as follows.

Restricted Shares	Number of Shares		Weighted Average Fair Value
Unvested at December 31, 2012	80,393	$	8.81
Granted	-		n/a
Vested	(80,393)	$	9.33
Forfeited	-		n/a
Unvested at December 31, 2013	-		n/a

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 of the board of directors of Primus Guaranty. 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 2013 and 2012, 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, 2013 and 2012:

	Year Ended December 31,			
	2013		2012	
	Number of Shares	Weighted Average Exercise Price	Number of Shares	Weighted Average Exercise Price
Outstanding at beginning of year	184,730	$11.32	188,480	$11.24
Granted	-	-	-	-
Exercised	(21,875)	$ 9.84	(3,750)	$ 6.94
Forfeited	(44,105)	$12.40	-	-
Outstanding at end of year	118,750	$ 9.44[a]	184,730	$11.32
Exercisable at end of year	118,750	$ 9.44[a]	184,730	$11.32

[a] The weighted average exercise price of options outstanding and exercisable at the end of the year reflects the $2.00 per share exercise price reduction to account for the cash distribution paid to shareholders on December 11, 2013.

The following table summarizes the status of the Company's share options as of December 31, 2013:

	Options Outstanding			Options Exercisable	
Exercise Prices[a]	Number of Shares	Average Remaining Contractual Life (Years)	Aggregate Intrinsic Value	Number of Shares	Aggregate Intrinsic Value
$7.76	18,750	0.1	$5,428	18,750	$5,428
$9.75	100,000	0.1	-	100,000	-
Total	118,750		$5,428	118,750	$5,428

[a] The exercise price of options outstanding and exercisable at the end of the year reflects the $2.00 per share exercise price reduction to account for the cash distribution paid to shareholders on December 11, 2013.

Unrecognized Share-Based Compensation Expense

At December 31, 2013, the Company does not expect to recognize additional share-based compensation expense as all share awards have vested.

16. Dividend Restrictions

Primus Guaranty 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 it is, or would after the payment be, unable to pay its liabilities as they become due; or if the realizable value of its assets would thereby be less than the aggregate of its liabilities and issued share capital.

17. Subsequent Events

The Company has evaluated subsequent events through April 17, 2014, the date that these consolidated financial statements were available to be issued, and determined there were no significant or material events to disclose.