



**PARIS RE Holdings Limited**  
(the “Company” or “PARIS RE”)

**HALF YEAR FINANCIAL REPORT**  
**June 30, 2009**

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# Half Year Management Report

## 1 Group's activity in first half of 2009

### 1.1 Highlights

Net operating income<sup>1</sup> of the Group for the first half of 2009 was US \$120.4 million, or US \$1.47 per share, a decrease of 20.1% from US \$150.6 million for the first half of 2008.

Highlights from the first half of 2009 include:

- The Company generated an annualized return of 12.0% on average tangible equity (ROATE) for the first half of 2009, compared with 13.0% for the same period of 2008.
- Gross written premium<sup>2</sup> was US \$953.6 million for the first half of 2009 compared to US \$1,100.0 million for the comparable prior year period.
- The combined ratio was 91.5% for the first half of 2009 compared to 90.7% for the comparable prior year period.
- Shareholders' equity was US \$2,158.6 million as of June 30, 2009, or US \$25.19 per share on an "if converted" basis. On a comparative basis, adding back to shareholders' equity the CHF2.02 per share distribution made on May 5, 2009 (equivalent to US \$1.79), shareholders' equity per share increased by 5.30% during the first half of 2009.
- Tangible shareholders' equity<sup>3</sup> was US \$2,017.3 million as of June 30, 2009, or US \$23.66 per share on an "if converted" basis. On a comparative basis, adding back to tangible shareholders' equity the CHF2.02 per share distribution made on May 5, 2009 (equivalent to US \$1.79), tangible shareholders' equity per share increased by 6.66% during the first half of 2009.
- The Company's investment portfolio generated an annualized pre-tax investment income yield (including capital gains and impairments) of 3.64% on average invested assets and cash for the first half of 2009. Excluding US \$3.8 million in realized capital gains net of impairments generated during the period in the Funds Withheld Account (FWA) and realized losses and impairments generated in the directly held portfolio in the amount of US \$2.1 million, the annualized pre-tax investment yield was 3.57%.
- The Company's investment portfolio (including the FWA) had a pre-tax unrealized gain of US \$80.9 million as of June 30, 2009<sup>4</sup> compared to a pre-tax unrealized gain of US \$69.8 million as of December 31, 2008.

### 1.2 Operating Results

For the first half of 2009, gross written premium was US \$953.6 million, compared to US \$1,100.0 million for the half of 2008. The 13.3% reduction in premium is primarily due to the reduction in the credit and surety line of business, which faces challenging market conditions, and to our decision to cease writing wind covers in the Gulf of Mexico to reduce our exposure in some peak zones and to cancel some non profitable treaties. At constant exchange rates, gross written premium decreased by 7.3%.

<sup>1</sup> Net operating income or result is defined as IFRS net income adjusted to eliminate (i) the after-tax impact of amortization of intangibles resulting principally from the acquisition of the COLISEE RE business, (ii) the after-tax impact of foreign exchange gains and losses principally in connection with the revaluation of US dollar denominated capital in subsidiaries with non-US dollar functional currencies, (iii) after-tax realized capital gains and losses during the period, (iv) after-tax impairments on invested assets, and (v) after tax impact on exceptional fees linked to the combination agreement with PartnerRe.

<sup>2</sup> Gross written premiums are adjusted for retrocession accounted by COLISEE RE in the name of PARIS RE and claims are adjusted for the impact of the Reserve Agreement with COLISEE RE which has been split between premiums, commissions and claims instead of claims only in the previous disclosures.

<sup>3</sup> Tangible shareholders' equity is defined as IFRS shareholders' equity of US \$2,017.3 million reduced by intangible assets (primarily related to the acquisition of COLISEE RE's business) net of deferred tax liabilities of US \$141.2 million.

<sup>4</sup> The unrealized gain was comprised of US \$56.8 million in unrealized gains in the directly held assets and US \$24.1 million in the Funds Withheld Account. The unrealized gains in the FWA are not reflected in the Company's shareholders' equity account.

For the first half of 2009, net written premium was US \$816.4 million, down 11.1% from the first half of 2008. The decrease in net written premium resulted primarily from the factors discussed above partially offset by higher retentions in 2009. At constant exchange rates, net written premium decreased by 4.2%.

Net earned premium was almost stable on the first half of 2009, down 2.3% compared to the same prior year period.

The loss ratio for the first half of 2009 was 66.0% compared to 59.5% for the first half of 2008. This increase is due to Windstorm Klaus which generated a pre-tax loss, net of retrocession and reinstatement premium, of US \$18.6 million, representing 3.7 points of loss ratio for the first half of 2009. During the second quarter of 2009, the Company entered into a commutation agreement with COLISEE RE in order to terminate a legacy reinsurance treaty covering certain financial guaranty business, and paid an amount of US \$7.8 million, representing 1.3 points of loss ratio. In addition, the credit and surety line of business, which remains exposed to the financial crisis, had a loss ratio of 134.4% compared to 53.9% in the first half of 2008. The Company had favorable prior year reserve developments of US \$1.0 million during the first half of 2009 compared to favorable prior year reserve developments of US \$14.5 million during the first half of 2008.

For the six-month period ended June 30, 2009, the Company's combined ratio was 91.5% compared to 90.7% for the comparable prior year period.

The following table summarizes the Company's underwriting results for the six months ended June 30, 2009:

US \$ million					
Underwriting results	Six months ended June 30			Variation / pro forma	
	2009	2008 Pro forma	2008	US \$ million	%
Gross written premium <sup>1</sup>	953.6	1,100.0	1,083.7	(146.4)	(13.3%)
Net written premium <sup>1</sup>	816.4	918.7	901.1	(102.3)	(11.1%)
Net earned premium <sup>1</sup>	578.1	591.8	573.8	(13.8)	(2.3%)
Net underwriting income	99.1	135.9	135.9	(36.7)	(27.0%)
Loss ratio	66.0%	59.5%	56.3%	-	-
Combined ratio	91.5%	90.7%	90.4%	-	-
Combined ratio (excluding management equity plan expense)	90.3%	88.3%	87.9%	-	-

<sup>1</sup> Unaudited -Pro forma

Gross written premiums are adjusted for retrocession accounted by AXA RE in the name of PARIS RE and claims are adjusted for the impact of the Reserve Agreement with AXA RE which has been split between premiums, commissions and claims instead of claims only in the previous

### 1.3 Investment Results

Net investment income was down 32.6% to US\$87.3 million for the first half of 2009 compared to US \$129.5 million for the first half of 2008 due to a lower amount of capital gains net of impairments generated within the Funds Withheld Account (FWA), declining yields coming from lower interest rates and a reduced amount of invested assets.

The net investment income for the first half of 2009 includes pre-tax realized capital gains, net of impairments generated within the Funds Withheld Account (FWA) in the amount of US \$3.8 million<sup>5</sup> compared to US \$22.2 million which was realized in the first half of 2008 in connection with the sale of the Company's equity portfolio. The realized capital gains generated in the FWA and discussed above are included in "net investment income" for reporting purposes in accordance with accounting conventions.

As of June 30, 2009, the Company had cash and invested assets, including assets held by COLISEE RE on a funds-withheld basis for the benefit of PARIS RE, of US \$5,183.7 million, a decrease of US \$524.5 million or 9.19% from June 30, 2008. The decrease in financial invested assets came from distributions by way of

<sup>5</sup> For the six months ended June 30, 2009, the pre-tax capital gain, net of impairment, in the amount of US \$3.8 million in the Funds Withheld Account was comprised of the following: (i) US \$14.8 million of realized capital gains and (ii) US \$11.0 million of impairment charges.

nominal value reduction made in July 2008 and May 2009 in the amount of US \$264 million and US \$151 million respectively, the share buyback program, and a payment made to COLISEE RE in accordance with the reserve agreement.

The asset allocation as of June 30, 2009 was 89.9% fixed income (of which 33.7% was in government bonds, 15.1% in agencies, 2.1% in ABS, 39.0% in corporate bonds), 8.1% cash, cash equivalents and money market funds, and 2% other.

The fixed income portfolio had an average Standard & Poor's credit rating of "AA-" with an average effective duration of 3.2 years as of June 30, 2009.

The Company has no exposure to collateralized loan obligations or collateralized debt obligations and only limited exposure to asset backed securities (ABS) collateralized by US sub-prime and "Alt-A" or low documentation mortgages. As of June 30, 2009, the Company's total ABS exposure was US \$106.9 million, of which US \$74.1 million was CMO/MBS securities guaranteed by U.S. Government sponsored enterprises and US \$13.1 million was U.S. student loans insured under the U.S. Federal Family Education Loan Program and almost entirely reinsured by the U.S. Department of Education. As of June 30, 2009, the ABS collateralized by sub-prime and "Alt-A" residential mortgages represented an amount of US \$7.7 million or 0.15% of total financial invested assets.

During the first half of 2009, the Company recognized impairments of US \$11.0 million (using average rate of exchange and including FWA impairments) through the income statement.

During the first half of 2009, the Company realized US \$2.1 million in net losses before impairments in its directly held investment portfolio, compared to a realized gain of US \$0.6 million for the prior year period.

The Company's investment portfolio had pre-tax unrealized gains of US \$80.9 million (including US \$24.1 million of unrealized gains in the FWA, which is not reflected in the Company's balance sheet) as of June 30, 2009.

## **1.4 General Expenses**

General expenses were US \$50.2 million for the first half of 2009 compared to US \$80.7 million for the comparable prior year period. Before the impact of exchange rates, general expenses decreased by US \$24.4 million for the first half of 2009 compared to 2008, representing a decrease of 30.3%. The decrease is principally attributable to a reduction in the amortization cost for the equity incentive plan, to savings realized from cost cutting initiatives undertaken at the end of 2008, and to other income derived from the sale of CGRM's office during the second quarter which was booked as a reduction in expenses.

At constant exchange rates, expenses relating to restricted stock and options were US \$7.8 million for the first half of 2009, compared to US \$14.2 million for the comparable period of 2008. This decrease is due the full vesting during 2008 of the initial stock grants.

Transaction expenses related to the transaction agreement with PartnerRe are not included in the above numbers as these costs have been considered as one-off expenses and, consequently, not included in our net operating income.

## **1.5 Currency Policy and Foreign Exchange Impact**

PARIS RE's currency policy remained unchanged. The Company reports its results in US dollars and, accordingly, it is the Company's policy to invest the shareholders' equity of its major operating subsidiaries (*i.e.*, the Swiss and French subsidiaries) primarily in US dollars in order to minimize currency-related volatility in the Company's shareholders' equity account. As these subsidiaries report their results in their local functional currencies, this policy may create volatility in the Company's IFRS income statement resulting from exchange rate movements. The income statement impact is, however, partially offset by a corresponding debit to the Company's shareholders' equity.

As a result of this policy, the Company's IFRS accounts include after-tax foreign exchange gain for the first half of 2009 in the amount of US \$37.6 million, compared to foreign exchange charges of US \$139.9 million for the first half of 2008.

These non-cash gains were partially offset by a decrease in the Currency Translation Reserve within the consolidated shareholders' equity at the holding company level in the amount of US \$(10.2) million for the

first half of 2009. The net effect on the shareholders' equity was a positive US \$27.4 million for the first half of 2009.

## 1.6 IFRS Results

The Company's IFRS net income, which includes amortization expense related to the purchase of COLISEE RE's business, currency fluctuations, realized capital gains and losses, impairments and one-off expenses related to the combination agreement with PartnerRe was US \$121.0 million, or US \$1.47 per share, for the first half of 2009. These gains were mainly attributable to the fact discussed above in the net operating income as other elements to reconcile with the net income were almost offset. The IFRS net income is impacted by fees engaged to prepare the combination agreement with PartnerRe.

The following table provides a reconciliation of net operating income to IFRS net income and related diluted per share results.

US \$ million, except per share data in US \$

From net operating income to net income	Six months ended June 30	
	2009	2008
<b>Net operating income</b>	<b>120.4</b>	<b>150.6</b>
Net realized capital gains / (losses)	(2.1)	0.6
Taxes on net realized capital (gains) / losses	0.4	(0.3)
Impairment	0.0	-
Tax on impairment	0.0	-
Amortization of intangibles	(29.0)	(49.3)
Taxes associated with intangibles	6.7	12.7
Costs linked to combination agreement with PartnerRe	(12.9)	-
Net FX gains / (losses) & changes in fair value in FX	49.7	(145.3)
Taxes on FX (gains) / losses & changes in fair value in FX	(12.1)	5.4
<b>IFRS net income</b>	<b>121.0</b>	<b>(25.6)</b>
<b>Diluted per common share results</b>		
Net operating income (US \$ per share)	1.47	1.72
IFRS net income (US \$ per share)	1.47	(0.29)
Weighted average common shares outstanding - diluted (million of shares)	82.07	87.70

Diluted weighted average common shares and common share equivalents outstanding used in the calculation of net operating income and IFRS net income per common share was 82.07 million in the first half of 2009.

## 1.7 Shareholders' Equity; Book Value Per Share

Shareholders' equity at June 30, 2009 was US \$2,158.6 million and tangible shareholders' equity was US \$2,017.3 million. Book value per share and book value per share on an "if converted" basis was US \$26.35 and US \$25.19, respectively, as of June 30, 2009. Tangible book value per share and tangible book value per share on an "if converted" basis was US \$24.63 and US \$23.66, respectively, as of June 30, 2009.

## 1.8 Events post June 30, 2009

As previously publicly announced by the Company (see press release n°11-09 of July 6, 2009), PartnerRe Ltd., which we refer to as "PartnerRe," a global multi-line reinsurance company domiciled in Bermuda whose shares are listed on the New York Stock Exchange, entered into agreements on July 4, 2009 with significant shareholders of the Company and the Company to effect a multi-step acquisition of all of the outstanding common shares and warrants of PARIS RE.

As a first step in the acquisition, PartnerRe will cause a wholly-owned, Swiss-domiciled subsidiary of PartnerRe formed for the purpose of the acquisition, which we refer to as the “acquisition subsidiary,” to purchase all of the PARIS RE common shares and PARIS RE warrants held by six private equity firms and their related investment vehicles (which we refer to as the “block sellers” or each a “block seller”) pursuant to the terms of a purchase agreement. We refer to this purchase as the “block purchase” and to the agreement governing the purchase (as amended) as the “block purchase agreement”. Under the block purchase agreement, PartnerRe will acquire approximately 57.5%<sup>6</sup> of the outstanding PARIS RE common shares. These shares, when added together with the approximately 6.1%<sup>6</sup> of the outstanding PARIS RE common shares that PartnerRe purchased from certain other PARIS RE shareholders prior to the announcement of the PARIS RE acquisition and the additional 19.5%<sup>6</sup> of the outstanding PARIS RE common shares that PartnerRe has subsequently committed to acquire simultaneously with the closing of the block purchase from certain other PARIS RE shareholders (each a “post-announcement seller”), will give PartnerRe an aggregate ownership of approximately 83.1%<sup>6</sup> of the outstanding PARIS RE common shares following the closing of the block purchase which is expected to close in the fourth quarter of 2009.

Following the closing of the block purchase and subject to certain conditions, PartnerRe will cause the acquisition subsidiary to commence a voluntary public exchange offer, which we refer to as the “exchange offer,” for all remaining outstanding PARIS RE common shares and PARIS RE warrants. The exchange offer will be commenced pursuant to the terms of a transaction agreement dated July 4, 2009 between PARIS RE and PartnerRe, which we refer to as the “transaction agreement.” The exchange offer is expected to close in the first quarter of 2010. If, after completion of the exchange offer, PartnerRe and its affiliates own at least 90% of the outstanding PARIS RE common shares, PartnerRe will effect a compulsory merger, which we refer to as the “merger,” in accordance with Swiss law to acquire all remaining outstanding PARIS RE common shares. In the merger, PARIS RE will be merged into the acquisition subsidiary, with the acquisition subsidiary surviving the merger.

In each step of the acquisition, PartnerRe has exchanged or will exchange 0.300 PartnerRe common shares for each PARIS RE common share and 0.167 PartnerRe common shares for each PARIS RE warrant. As a result of the multi-step acquisition, current PARIS RE shareholders will own approximately 31.1% of PartnerRe and current PartnerRe shareholders will own approximately 68.9% of PartnerRe upon completion of the transaction assuming, among other things, no adjustment to the per share consideration or the per warrant consideration. The per share consideration and per warrant consideration are each subject to adjustment in certain circumstances, including if the parties’ tangible book values per share diverge significantly relative to each other prior to the closing of the block purchase. The transaction agreement provides that if the percentage decline in a party’s tangible book value during the period from March 31, 2009 to the closing of the block purchase is more than 15% greater than the percentage decline in the other party’s tangible book value during the same period, the per share consideration and per warrant consideration will be adjusted upwards (if the percentage decline in PartnerRe’s tangible book value is greater than that of PARIS RE’s) or downwards (if the percentage decline in PARIS RE’s tangible book value is greater than that of PartnerRe’s) based on a formulaic adjustment. The formulaic adjustment provides that for each percentage point difference in excess of 15% in the parties’ relative declines in their tangible book values, the per share consideration and per warrant consideration will adjust upwards or downwards, as applicable, by 0.004. The tangible book value adjustment is capped such that the per share consideration and per warrant consideration will not increase or decrease by more than 0.10. If either PartnerRe or PARIS RE experiences a 40% or more relative decline in its tangible book value during the period from March 31, 2009 to the closing of the block purchase, the other party will have the right to terminate the transaction agreement and the block purchase agreement. There will be no adjustments for declines in tangible book value occurring after the closing of the block purchase.

The transaction agreement further provides that the per share consideration in the exchange offer and the merger will be adjusted upwards to reflect any dividend declared on the PartnerRe common shares having a record date on or after the closing of the block purchase and prior to the settlement of the exchange offer.

During the extraordinary general meeting held on August 11, 2009, the shareholders of the Company adopted all the resolutions required to consummate the block purchase, which were supported by the Board of Directors (see press release n° 15-09 of August 12, 2009), and decided in particular to effect an extraordinary cash distribution by way of a capital reduction to all PARIS RE shareholders in an amount of up to CHF 4.17 per PARIS RE common share (the Swiss franc equivalent of \$3.85 as of July 7, 2009, the date

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<sup>6</sup> Based on the number of outstanding shares as of June 30, 2009 (80,628,629, net of treasury shares).

on which PARIS RE fixed the U.S. dollar/Swiss franc currency exchange rate to be used for the extraordinary cash distribution, see press release n°12-09 of July 9, 2009) immediately prior to the closing of the block purchase subject to obtaining the requisite regulatory approvals. We refer to this cash distribution as the “share capital repayment.” If the share capital repayment is not paid in full immediately prior to the closing of the block purchase due to, among other things, the failure of PARIS RE to obtain all necessary regulatory approvals, then the remaining per share portion of the share capital repayment will be paid as follows:

- each block seller and each post-announcement seller will receive the remaining per share portion of the share capital repayment in the form of a promissory note issued by PartnerRe at the closing of the block purchase; and
- each other holder of PARIS RE common shares that holds PARIS RE common shares on the relevant record date occurring shortly prior to the settlement of the exchange offer (including PartnerRe with respect to the PARIS RE common shares owned by PartnerRe and its subsidiaries at that time) will receive the remaining per share portion in the form of cash by way of a capital distribution from PARIS RE immediately prior to the settlement of the exchange offer. The cash payment, however, will only be paid if the exchange offer is settled.

## **2 Risks factors and uncertainties for the second half of 2009**

### **2.1 Risks factors**

#### **2.1.1 Risks factors relating to PARIS RE**

The risks described in the part 4 of the Registration Document of the Company filed with the *Autorité des Marchés Financiers* (the “AMF ») on April 29, 2009 under the number R.09-036 remain accurate for appreciating the risks that may affect the Group during the second half of 2009.

However the Company provides the following additional information:

- With respect to the risk called “*A downgrade of our financial strength ratings may adversely affect our relationships with clients and brokers and negatively impact sales of our products*”, the Company specifies that A.M. Best placed PARIS RE’s “A–” (positive outlook) rating “Under Review with positive implications” on July 6, 2009 following the announced agreement to sell a majority stake to PartnerRe Standard & Poor’s placed PARIS RE’s “A–” (stable outlook) rating on “CreditWatch with positive implications” on July 6, 2009 following the announcement of the all-share offer from PartnerRe for 100% of PARIS RE’s shares.
- With respect to the risk called “*Regulatory or legal changes could adversely affect our business*” the Company believes that in light of the current financial crisis, it is likely that there will be increased regulation of, and other forms of government participation in, PARIS RE’s industry in the future, which could adversely affect its business.

#### **2.1.2 Risks factors relating to the transactions with PartnerRe**

***The total number of PartnerRe common shares to be issued in connection with the transactions is variable.***

The actual number of PartnerRe common shares issued in the transactions and the relative ownership of the current PARIS RE and PartnerRe shareholders after the completion of the transactions could be more or less if the actual facts differ from the base case assumptions, including if (i) the per share consideration and per warrant consideration are adjusted upwards or downwards pursuant to the tangible book value per share adjustment, or (ii) for purposes of the post-block purchase closing dividend adjustment, PartnerRe declares one or more dividends on the PartnerRe common shares with a record date between the closing of the block purchase and the exchange offer, in which case the increase in the number of PartnerRe common shares issued will be determined based on a formula and would be dependent on both the aggregate amount of dividends so declared as well as the average price per PartnerRe common share during the applicable measurement period.



***The integration of PARIS RE and PartnerRe following the transactions may present significant challenges.***

The integration of PARIS RE and PartnerRe following the transactions may present significant challenges, including technical, accounting and other challenges, in combining PARIS RE's operations into PartnerRe's operations in a timely and efficient manner and in retaining key personnel of PARIS RE and PartnerRe. Furthermore, management resources may be diverted for an extended period of time to accomplish this combination. The failure to successfully integrate PARIS RE and PartnerRe and to successfully manage the challenges presented by the integration process may result in PartnerRe not achieving the anticipated benefits of the transactions.

***PARIS RE and PartnerRe will incur transaction, integration and restructuring costs in connection with the transactions.***

PARIS RE expects to incur approximately \$15 million for transaction costs related to the transactions (including approximately \$0.7 million of expenses incurred by the block sellers that will be reimbursed by PARIS RE), of which costs, approximately \$12.9 million have been expensed through June 30, 2009, and the remainder of which costs will be expensed as incurred.

***PARIS RE and PartnerRe must obtain various governmental, regulatory and other consents to complete the transactions, which, if delayed, not granted, or granted with unacceptable conditions, may jeopardize or delay the completion of the transactions, result in additional expenditures or resources and/or reduce the anticipated benefits of the transactions.***

The parties must obtain certain approvals and consents in a timely manner from governmental agencies, including in the United States, Bermuda, Canada, Singapore, France, Switzerland and the European Union prior to the completion of the transactions. If the parties do not receive these approvals, or do not receive them on terms that satisfy the conditions set forth in the transaction documents, then the parties may not be obligated to complete the transactions. The governmental agencies from which the parties will seek these approvals have broad discretion in administering the governing regulations. As a condition to the approval of the transactions, these agencies may impose terms, conditions, obligations or restrictions that could negatively affect the way the combined entity conducts business following the transactions. The terms, conditions, obligations or restrictions of such approvals could jeopardize or delay the completion of the transactions.

Pursuant to the transaction agreement, PartnerRe has agreed to use its reasonable best efforts to take, or cause to be taken, all actions and to do, or cause to be done, all things necessary, proper or advisable under applicable law to consummate the transactions contemplated by the transaction agreement and the block purchase agreement as promptly as reasonably practicable, including using reasonable best efforts to effect all necessary filings with and obtain and maintain necessary approvals and confirmations from governmental authorities. However, nothing in the transaction agreement will require PartnerRe to accept a "burdensome condition" (as defined in the transaction agreement) or permit PARIS RE, without PartnerRe's consent, to take certain actions that would reasonably be expected to materially reduce or materially and negatively interfere with the benefits to be recognized by PartnerRe and its subsidiaries in the transactions. If any governmental agency were to seek to impose any material term, condition, obligation or restriction in order to obtain any approval required to complete the transactions that does not rise to the level of a burdensome condition or PartnerRe were otherwise to agree to such a term, condition, obligation or restriction, these terms, conditions, obligations or restrictions could adversely affect the ability to integrate PARIS RE's operations into PartnerRe's operations or could reduce the anticipated benefits of the transactions.

This could result in a significant and negative effect on the parties' respective businesses, financial condition and operating results following the transactions, as well as on the market value of the combined entity's common shares after the transactions.

***The exchange offer will be subject to certain conditions under French law including the approval of the French market authority and favorable opinion of an independent expert on the fairness of the exchange offer to holders of PARIS RE common shares and PARIS RE warrants. A delay or failure in obtaining such approval or opinion would adversely affect the successful completion of the exchange offer and the merger.***

The exchange offer requires the approval of the AMF. As a condition to such approval, the AMF will require, among other things, the listing of the PartnerRe common shares on Euronext Paris and the existence of a certain level of liquidity with respect to the PartnerRe common shares. It is possible that PartnerRe may not be able to obtain a listing on Euronext Paris in a timely matter, or at all. It is also possible that PartnerRe may be unable to satisfy the AMF's liquidity requirement with respect to PartnerRe's common shares. If PartnerRe were unable to satisfy this liquidity requirement or obtain the listing of the PartnerRe common shares on Euronext Paris, the AMF may require PartnerRe, as a condition to conducting the exchange offer, to offer to the holders of PARIS RE common shares participating in the exchange offer the option to receive cash instead of PartnerRe common shares. Should the AMF impose this cash alternative requirement, or should PartnerRe's common shares not be approved for listing on Euronext Paris or another European Union stock exchange, one of the conditions to PartnerRe's obligations to commence the exchange offer would not be satisfied.

In the event that PartnerRe were to assert either of these unsatisfied conditions and not commence the exchange offer, PartnerRe or PARIS RE would have the right to terminate the transaction agreement five months after the closing of the block purchase. If the transaction agreement were to be terminated, PartnerRe would continue to hold the PARIS RE common shares that it already acquired in the pre-announcement purchases, the block purchase and the post-announcement purchases.

Furthermore, an "independent expert" must favorably opine on the fairness of the exchange offer to the holders of PARIS RE common shares and PARIS RE warrants (other than PartnerRe). If the independent expert were not willing to grant such an opinion on the terms of the exchange offer proposed, this could similarly jeopardize or delay the completion of the transactions as it may likewise result in one of the conditions to PartnerRe's obligations to commence the exchange offer not being satisfied.

***The market price of PartnerRe's common shares may decline as a result of the transactions.***

Upon the receipt of PartnerRe common shares in the transactions, former holders of PARIS RE securities, including the block sellers, the pre-announcement sellers and post-announcement sellers, may seek to sell or liquidate their PartnerRe common shares shortly thereafter to, among other reasons, take advantage of the significantly more liquid trading market for PartnerRe common shares as compared with the existing trading market for PARIS RE common shares. These sales (or the perception that these sales may occur), coupled with the increase in the outstanding number of PartnerRe common shares, may affect the market for, and the market price of, PartnerRe's common shares in an adverse manner. In addition, the market price of PartnerRe's common shares may decline following the closing of one or more of the transactions for a number of reasons, including if the integration of PARIS RE's business is delayed or unsuccessful, if the completion of the exchange offer or merger is significantly delayed or appears unlikely to occur or the combined entity does not achieve the anticipated financial and strategic benefits of the combination as rapidly or to the extent anticipated by stock market analysts or investors.

***Whether or not the transactions are completed, the fact that the transactions are pending could cause disruptions in the businesses of PARIS RE and PartnerRe, which could have an adverse effect on their businesses and financial results.***

These disruptions could include the following:

- current and prospective employees may experience uncertainty about their future roles with the combined entity, which might adversely affect PartnerRe's and PARIS RE's ability to retain or attract key managers and other employees;
- subject to the terms of their contracts, current and prospective customers of PartnerRe or PARIS RE may choose to discontinue purchasing from either company or choose another supplier; and
- the attention of management of each of PARIS RE and PartnerRe may be diverted from the operation of the businesses toward the completion of the transactions.

***Failure to complete any or all of the transactions may have an adverse effect on PARIS RE.***

The transaction documents contain a number of conditions which must be satisfied or waived prior to the closing of the block purchase and the commencement of the exchange offer. PARIS RE cannot assure that these conditions will be satisfied or waived, and consequently whether all of the transactions will be completed.

It is possible for the block purchase to be completed, but for the exchange offer and merger to fail to be completed. Since the conditions of the respective transaction documents are not identical, this could occur, for example, if every condition of the block purchase agreement were satisfied, but one or more conditions to the commencement of the exchange offer were not satisfied or waived. Similarly, it is possible for the block purchase and exchange offer to be completed, but for the merger to not occur because, for example, PartnerRe does not own, directly, or indirectly, at least 90% of the outstanding PARIS RE common shares following the settlement of the exchange offer.

Failure to complete any or all of the transactions may have an adverse effect on PARIS RE's results of operations, financial condition and business. If any or all of the transactions are not completed, the price of PARIS RE common shares may decline.

***The transaction agreement limits PARIS RE's ability to pursue alternatives to the transactions.***

The transaction agreement contains detailed provisions that restrict the ability of PARIS RE, its subsidiaries and advisors to initiate or take any action to facilitate or encourage the submission of any third party proposals that could reasonably be expected to impede, interfere with, prevent or materially delay the transactions contemplated by the block purchase agreement and the transaction agreement or otherwise engage in any discussions or negotiations relating to such an alternative transaction.

## **2.2 Uncertainties**

The main uncertainty relates to the success of the transactions contemplated by the Company and PartnerRe as described under section 1.8 above which remains subject to several conditions with respect to the consummation of (i) the block purchase, (ii) the exchange offer and (iii) the merger.

(i) The main conditions to the consummation of the block purchase are (a) the approval of PartnerRe's shareholders of the issuance of new shares to be given as consideration to PARIS RE shareholders, (b) the obtaining of certain regulatory approvals, the expiration or termination of the applicable Hart-Scott-Rodino waiting period and the obtaining of certain foreign antitrust approvals, (c) the approval for listing of the PartnerRe common shares to be issued in the block purchase on the New York Stock Exchange and on Euronext Paris, (d) subject to certain exceptions, the accuracy of representations and warranties and (e) certain other customary closing conditions.

(ii) PartnerRe's obligation to commence the exchange offer following the closing of the block purchase is subject to a number of conditions, including (a) approval for listing of the PartnerRe common shares to be issued in the exchange offer and the merger on the New York Stock Exchange and on Euronext Paris or another European stock exchange, (b) the exchange offer on the terms proposed having been declared compliant by the AMF without any requirement that PartnerRe provide for a cash alternative under the French tender offer rules, (c) the absence of PartnerRe having a reasonable basis to believe that the opinion of the independent expert to be rendered under French law in connection with the exchange offer on the terms proposed would not satisfy the requirements of French law and (d) certain other customary conditions.

(iii) The merger requires that after completion of the exchange offer, 90% or more of the outstanding PARIS RE common shares vote in favor of the merger.

## **3 Related-party transactions**

In the first half of 2009, there were no material changes in the nature, scale or scope of related party transactions compared with the disclosures made in the Registration Document of the Company filed with the AMF on April 29, 2009 under the number R.09-036.

## Consolidated Financial Statements as of June 30, 2009

The consolidated financial statements for the 6-month period ending June 30, 2009 presented hereunder were reviewed by the Statutory Auditors.

### Consolidated balance sheet – Assets

US \$ thousand

<b>ASSETS</b>	<b>Note</b>	<b>June 30, 2009</b>	<b>December 31, 2008</b>
<b>Intangible assets</b>			
Value of Business in Force (VBI)		179 651	199 178
Other intangible assets		18 540	25 764
<b>TOTAL INTANGIBLE ASSETS</b>	<b>4</b>	<b>198 192</b>	<b>224 942</b>
<b>Invested Assets</b>			
<b>Financial invested assets</b>			
Funds Withheld Asset (FWA)	5.1	2 315 896	2 472 837
Directly held assets	5.2	2 624 903	2 202 580
Loans	5.2	5 001	4 359
<b>TOTAL FINANCIAL INVESTED ASSETS</b>		<b>4 945 800</b>	<b>4 679 776</b>
<b>CEDED TECHNICAL RESERVES</b>	<b>9</b>	<b>285 301</b>	<b>230 367</b>
<b>DEFERRED TAX ASSETS</b>	<b>6</b>	<b>3 534</b>	<b>18 825</b>
<b>Other assets</b>			
Fixed assets		2 763	3 601
Receivables arising from reinsurance operations	7.1	198 282	151 484
Reserve agreement	12	27 445	39 621
Other operating receivables	7.2	19 690	58 460
Technical accruals – assets	7.3	891 669	603 916
<b>TOTAL OTHER ASSETS</b>		<b>1 139 849</b>	<b>857 082</b>
<b>CASH AND CASH EQUIVALENTS</b>		<b>237 870</b>	<b>380 690</b>
<b>TOTAL ASSETS</b>		<b>6 810 547</b>	<b>6 391 681</b>

## Consolidated balance sheet - Liabilities

US \$ thousand

<b>LIABILITIES</b>	<b>Note</b>	<b>June 30, 2009</b>	<b>December 31, 2008</b>
<b>SHAREHOLDERS' EQUITY</b>			
Capital and capital in excess of nominal value	8.1	1 181 114	1 317 236
Retained earnings and other reserves		636 436	658 483
Currency translation reserves		220 038	230 245
Consolidated result		120 984	(34 205)
<b>TOTAL SHAREHOLDERS' EQUITY</b>	<b>8.3</b>	<b>2 158 572</b>	<b>2 171 759</b>
<b>Liabilities relating to reinsurance and investment contracts</b>			
Gross technical reserves	9	4 125 794	3 781 353
Foreign Exchange natural hedging	10	0	6 439
<b>TOTAL LIABILITIES RELATING TO REINSURANCE AND INVESTMENT CONTRACTS</b>		<b>4 125 794</b>	<b>3 787 792</b>
<b>PROVISIONS FOR RISKS AND CHARGES</b>		<b>11 430</b>	<b>11 947</b>
<b>DEFERRED TAX LIABILITIES</b>	<b>6</b>	<b>87 410</b>	<b>92 498</b>
<b>Other liabilities</b>			
Payables relating to reinsurance operations	11.1	169 699	130 106
Reserve agreement	12	103 708	109 552
Payables - current tax position		14 755	8 761
Other operating payables	11.2	56 018	50 637
Technical accruals – liabilities	11.3	83 162	28 630
<b>TOTAL OTHER PAYABLES</b>		<b>427 342</b>	<b>327 686</b>
<b>TOTAL LIABILITIES</b>		<b>6 810 547</b>	<b>6 391 681</b>

## Consolidated income statement

US \$ thousand

6 months

	Note	June 30, 2009	June 30, 2008
<b>Gross written premiums</b>		<b>956 684</b>	<b>1 096 148</b>
<b>Total Premium Revenues</b>		<b>956 684</b>	<b>1 096 148</b>
Premiums ceded		(140 312)	(176 977)
<b>Net written premiums</b>		<b>816 372</b>	<b>919 171</b>
Net variation in unearned premium reserves		(238 306)	(327 352)
<b>Net earned premiums</b>		<b>578 066</b>	<b>591 820</b>
Claims net of retrocession		(381 271)	(352 087)
<i>Of which claims paid net of retrocession</i>		<i>(385 243)</i>	<i>(532 467)</i>
<i>Of which claims reserves variation net of retrocession</i>		<i>3 972</i>	<i>180 380</i>
Commissions and brokerage net of retrocession		(97 672)	(103 882)
<b>Net underwriting income</b>	<b>13</b>	<b>99 123</b>	<b>135 851</b>
Net investment income		87 272	129 452
Net capital gains and losses		(2 127)	576
Valuation of derivative instruments		6 120	4 316
Variations in investment impairment	<b>5.2</b>	(38)	-
Exchange rate impact		43 546	(149 581)
Financial results – other		(343)	(900)
<b>Net financial income excluding debt expense</b>		<b>134 430</b>	<b>(16 138)</b>
<b>Net financial income including debt expense</b>	<b>14</b>	<b>134 430</b>	<b>(16 138)</b>
<b>General expenses</b>		<b>(63 069)</b>	<b>(80 726)</b>
<b>Net income before amortization of intangibles</b>		<b>170 484</b>	<b>38 988</b>
Amortization of intangibles		(29 049)	(49 336)
<b>Net income (loss) before tax</b>		<b>141 435</b>	<b>(10 348)</b>
Income tax	<b>15</b>	(20 452)	(15 247)
<b>TOTAL NET INCOME (LOSS)</b>		<b>120 984</b>	<b>(25 596)</b>
Earnings (loss) per share (US \$)	<b>16</b>	1,50	(0,30)
Diluted earnings (loss) per share (US \$)	<b>16</b>	1,47	(0,29)

## Consolidated Statement of Comprehensive Income

US \$ thousand		6 months	
		June 30, 2009	June 30, 2008
<b>Net income of the period</b>		<b>120 984</b>	<b>(25 596)</b>
Reserves relating to changes in fair value through shareholders' equity <sup>(1)</sup>		12 063	(14 132)
Translation reserves		(10 207)	178 017
<b>Net gains and losses recognized directly through shareholders' equity</b>		<b>1 856</b>	<b>163 885</b>
<b>Total recognized income and expense for the period</b>		<b>122 840</b>	<b>138 289</b>

(1) Related revaluation of available for sale assets (AFS).

Statement of comprehensive income Pension impact amounts to USD 0,4 million as at June 30, 2009 and is classified in consolidated reserves.

The two charts "Change in shareholders' equity" and "Change in Other Comprehensive Income" are presented in Note 8.

## Consolidated cash flow statement

US \$ thousand

6 months

	June 30, 2009	June 30, 2008
<b>Net profit (loss)</b>	<b>120 984</b>	<b>(25 596)</b>
<b>Adjustments:</b>		
Depreciation and provisions	29 113	48 605
Change in reinsurance technical reserves	238 936	151 580
Fair value gains - losses	(36 895)	3 295
Profit / loss on disposal	158 899	3 473
Revenues & expenses with no effect on cash flow <sup>(1)</sup>	(48 929)	156 938
Income tax	20 452	15 247
Effect of changes in working capital	(110 323)	(38 404)
Effect of changes of current account - Quota share COLISEE RE (formerly named AXA RE)	103 217	234 863
Tax paid	24 563	21 378
<b>Cash flows from operating activities</b>	<b>500 017</b>	<b>571 380</b>
Effect of changes in group structure	-	13 448
Purchase and sale of intangible and tangible assets	(618)	(589)
Purchase of financial invested assets	(861 300)	(972 914)
Sale of financial invested assets	351 126	836 778
<b>Cash flows used in investing activities</b>	<b>(510 793)</b>	<b>(123 277)</b>
Repayment of capital <sup>(2)</sup>	(151 452)	-
Treasury shares	8 302	(49 983)
RSU and stocks options	7 028	14 125
<b>Cash flows used in financing activities</b>	<b>(136 122)</b>	<b>(35 858)</b>
Effects of exchange rate changes	4 076	2 649
<b>(Decrease) increase in cash and cash equivalents</b>	<b>(142 820)</b>	<b>414 895</b>
<b>Cash position at opening</b>	<b>380 690</b>	<b>451 594</b>
<b>Cash position at closing</b>	<b>237 870</b>	<b>866 489</b>
<b>Variation of cash</b>	<b>(142 820)</b>	<b>414 895</b>

(1) Mainly exchange rate impact in local accounts.

(2) For June 30, 2009, this amount corresponds to the repayment of capital of CHF172,87 million approved on February 24, 2009 and paid on May 5, 2009.



# Notes to the consolidated financial statements

PARIS RE subsequently refers to PARIS RE Holdings Limited.

## Note 1 Key events of the year

### 1.1 2008 and 2009 losses

In 2009, PARIS RE experienced:

- Klaus, a Windstorm, that occurred in January 2009, a major loss in Europe: the company's exposure related to Klaus is estimated at US \$18,6 million net impact<sup>(1)</sup>.
- One large loss: Victorian bushfires, (Australia, on February 7, 2009) for a US \$6,8 million net impact.

The valuation of major losses includes a significant degree of estimation. It was considered by PARIS RE that this assessment was based on reasonable scenarios and is within the acceptable range of estimates.

Update of the 2008 major loss:

- Hurricane Ike, a major loss in USA which occurred in September 2008: the net impact of this event, estimated at US \$130 million as at December 31, 2008, has decreased to US \$116 million as at June 30, 2009. The variance between those two periods is due to cedants' information received.

<sup>(1)</sup> Net impact = pre tax net of reinsurance and reinstatement premiums.

### 1.2 Financial crisis

PARIS RE maintains a conservative investment portfolio including financial assets directly held for US \$2 868 million (fair value) and financial assets of Funds Withheld Asset for US \$2 316 million (historical cost), see Note 2.6.

The portfolio includes 87% bonds, 7% cash and 6% other investment types. The group has no exposure to structured financial products such as CDO and CLO, and has limited exposure to ABS assets (total Market value US \$107 million as at June 30, 2009, see Note 5.3).

On a US \$5,2 billion book value portfolio, the group has recorded over the first half year an impairment of US \$11,5 million (including a US \$0,5 million impact on currency translation), of which US \$5,4 million related to ABS.

The net unrealized gains as of June 30, 2009 amounts to US \$80,9 million, of which US \$24,1 million was on FWA (see Note 5.1) and US \$56,8 million on directly held assets (see Note 5.2).

The 2009 first half year investment income was US \$87,3 million. The investment portfolio annualized return rate is 3,64% (including capital gains and impairment) and 3,57% (excluding capital gain).

### 1.3 PARIS RE Holdings Ltd capital repayment

On February 24, 2009, an Extraordinary General Meeting of PARIS RE Holdings Ltd shareholders held in Zug approved all the proposals of the Board of Directors, including a distribution of capital to shareholders of CHF172,87 million or CHF2,02 per share (representing approximately US\$150 million or US\$1,76 per share) by the way of par value reduction. This capital repayment has been paid on May 5, 2009.

## Note 2 Accounting principles and methods applied

### 2.1 Applicable standards

The PARIS RE consolidated financial statements have been prepared in accordance with International Financial Reporting Standards (IFRS) of IASB and the interpretations of IFRIC effective at June 30, 2009.

The Group's interim consolidated financial statements at June 30, 2009 were prepared in compliance with IFRS standards according to IAS 34 - Interim Financial Reporting. Regarding the content of its interim financial statements, the Group uses the option to disclose a selection of explanatory notes alongside the mandatory summary statements.

The following accounting standards, amendments and interpretations have been effective at January,1 2009:

- IFRS 8, Operating segments.
- Revised IAS 1, Presentation of financial statements.
- Amendment to IAS 23, Borrowing costs.
- Amendment to IFRS 2, Share-Based payment, makes vesting contingent on service conditions and performance conditions only.
- Amendment to IAS 32, Financial instruments presentation and to IAS 1 Presentation of financial statements – Puttable shares and obligations arising only on liquidation.
- Improvements to IFRS published on May 22, 2008 comprise non-urgent, minor amendments to standards.
- IFRIC 13, Customer loyalty programmes.
- IFRIC 15, Agreement for the construction of real estate
- IFRIC 16, Hedges of a net investment in a Foreign operation.

Revised IAS 23, amendments to IFRS 2, IAS 32 and IFRIC 13, IFRIC 15 and IFRIC 16 Interpretations do not apply to PARIS RE operations.

IFRS 8, Operating segments, led PARIS RE to disclose additional information in its notes to financial statements. IFRS 8 requires that the amount of each segment item reported shall be the measure reported to management for the purposes of making decisions about allocating resources to the segment and assessing its performance.

Under the previous applicable standard IAS 14, PARIS RE analyzed that 2 segments were to be reported in its segment analysis namely “life” and “non life” segments. Because Life segment was not material the company did not provide before 2009 any specific segment reporting.

In accordance with the management approach required by IFRS 8 PARIS RE enhanced its reporting to segments as follows:

- Property: reinsurance coverage for physical damages caused by fire and related perils such as explosion, lightning, storm, flood, earthquake and terrorism, as well as coverage for business interruption and loss of rent as a result of those perils.
- Casualty: reinsurance coverage for motor risks, medical malpractice, general liability and professional liability as well as workers compensation.
- Marine/Aviation/Space: Our marine, aviation and space, or MAS, line of business provides reinsurance coverage for insurance companies writing in the marine, aviation and space lines.
- Credit/Surety: reinsurance of Credit and Surety Insurance contracts. Credit insurance protects the seller against the risk of non-payment and customer insolvency and surety insurance relates primarily to completion bonds, performance bonds and other forms of security written but specialized surety insurers.
- Facultative: Our facultative line of business provides property facultative reinsurance, energy onshore and offshore coverage as well as credit and surety, weather-related products and sports, leisure and entertainment coverage and is managed separately from the other lines of business.
- Life/accident and health: coverage of exposures on an individual basis as well as group coverage written by primary insurers.

PARIS RE also early adopted the amendment to IFRS 8 according to which an entity reports balance sheet element for reportable segments only if that information is regularly provided to the chief operating decision maker which is not the case for PARIS RE. This amendment has been issued by the IASB in April 2009 as part of the improvements to IFRS.

IFRS 8 does not have any material impact on the PARIS RE financial result and position but leads to additional disclosure shown in Note 13 including a breakdown of the net underwriting income and reconciliation to the net income.

PARIS RE already elected to adopt the SORIE method to disclose changes in equity. PARIS RE elected to display its statement of comprehensive income in two separate statements: an income statement and a second statement beginning with profit or loss and displaying components of other comprehensive income (SORIE). This disclosure is consistent with IAS 1 revised.

The interim consolidated financial statements do not include any impacts from standards and interpretations which were adopted during the period, for which the application is not mandatory as at June 30, 2009 except the amendment to IFRS 8 as described above. Their potential impacts are currently under review by management.

The principal standards used by PARIS RE include IFRS 2, IFRS 3, IFRS 4, IFRS 7, IFRS 8, IAS 21, IAS 32, IAS 34 and IAS 39.

The preparation of consolidated financial statements in conformity with IFRS requires that certain figures included in the statements and appended notes be calculated on the basis of estimates. Thus, an element of judgment is required when applying the accounting principles described below.

## **2.2 Scope of consolidation**

### **2.2.1 Consolidation methods applied**

Subsidiaries are companies controlled by PARIS RE. They are fully consolidated from the date on which control was transferred to PARIS RE. Control is presumed to exist when PARIS RE directly or indirectly holds at least 50% of the voting rights. The existence and effect of potential voting rights that are currently exercisable or convertible have also been considered when assessing whether PARIS RE controls another entity.

Companies in which PARIS RE exercises significant long-term influence (i.e. affiliated companies) are consolidated using the equity method. Significant influence is presumed when PARIS RE directly or indirectly holds 20% or more of the voting rights or when significant influence is exercised through an agreement with other shareholders. As of June 30, 2009, PARIS RE did not own any affiliates consolidated under the equity method.

Although PARIS RE Risc Limited and PARIS RE Finance GIE are wholly-owned subsidiaries, these companies are not consolidated as their consolidation would not materially change the company's premium income, its net financial position or the net income of the Group. These subsidiaries are classified as investments.

Under IFRS, PARIS RE consolidates mutual funds when its share of ownership exceeds 20%. As of June 30, 2009 PARIS RE did not own 20% or more of any mutual fund.

### **2.2.2 Intercompany reconciliation and elimination**

Intercompany operations and balances are eliminated at the consolidated level.

## **2.3 Business combinations**

### **2.3.1 Date of business combinations**

A business combination is recorded on the date on which PARIS RE effectively obtains control of the business acquired. This date can differ from the date on which the related purchase agreement is signed.

### **2.3.2 Valuation of assets acquired, liabilities assumed and contingent liabilities**

Upon the first consolidation of an acquired company, the identifiable assets, liabilities and contingent liabilities of the acquired company are recorded at their estimated fair value, pursuant to IFRS 3.

Other intangible assets, such as trademarks, licenses and customer relationships are recognized if they can be valued reliably and if it is probable that future economic benefits attributable to the assets will flow to the entity.

The cost of an acquisition is evaluated at the fair value of the assets received, equity instruments issued and liabilities incurred or assumed at the date of exchange.

### **2.3.3 Goodwill**

Goodwill is recognized by the acquirer as an asset at the acquisition date. Goodwill is calculated initially as the excess of the cost of acquisition over the acquirer's share of the net fair value of the identifiable assets, liabilities and contingent liabilities.

Goodwill is subject to at least one annual impairment test. In order to perform the related impairment test, all goodwill amounts must, from the acquisition date, be allocated to a cash generating unit.

In order to determine if an impairment exists, the carrying amount is compared to the recoverable amount which is defined as the higher of the fair value less selling costs and the value in use (calculated based on future cash flow). If one of these two amounts exceeds the carrying amount, then the goodwill is not impaired.

If the cost of acquisition is less than the net fair value of the assets, liabilities and contingent liabilities acquired, the difference is recognized directly in the income statement as negative goodwill.

No goodwill is recognized at the end of June 30, 2009.

## 2.4 Conversion of financial statements

PARIS RE has elected to use the US dollar as the reporting currency for its consolidated financial statements, in accordance with IAS 21.

The consolidated accounts are presented in thousand of US dollars (except opposite mention expressly indicated). These amounts were rounded off. Differences related to the roundness can also exist for the percentages.

The functional currency is determined at the entity level, depending on the primary economic environment in which the entity operates.

### 2.4.1 Foreign Currency translations in local accounts

Transactions conducted in foreign currencies (currencies other than the functional currency) are converted into the functional currency at the exchange rate at the date of the transaction. For practical reasons, the period average exchange rate is used.

At each closing date, the entity converts the foreign currency elements of its balance sheet into the functional currency, using the following methods:

	Classification	Foreign Exchange rate	Impacts	Examples
Monetary items	Any	Closing rate	P&L	Bonds, receivables, technical reserves
Non-monetary items at fair value	Available for Sale (OCI) <sup>(1)</sup>	Rate on the date of fair value assessment	Equity	Listed shares
	Available for Sale (P&L) <sup>(2)</sup>	Rate on the date of fair value assessment	P&L	Fair value option
Non-monetary items at cost	Any	Not revaluated	-	Value business in force, operating real estate

(1) Available for sale with variation of fair value through other comprehensive income.

(2) Available for sale with variation of fair value through profit and loss income.

The following table sets forth the US dollar average and closing exchange rates as of June 30, 2009 for the principal currencies affecting the Group's operations:

	6 months		12 months	
	June 30, 2009		December 31, 2008	
	Average rate	Closing rate	Average rate	Closing rate
Swiss Franc	0,876	0,926	0,927	0,937
Canadian dollar	0,817	0,868	0,959	0,819
Singaporean dollar	0,668	0,691	0,710	0,694
Euro	1,323	1,413	1,480	1,392

### 2.4.2 Conversion of financial statements of a foreign affiliate

Where the functional currency of a PARIS RE affiliate is not the same as the reporting currency, the consolidated balance sheet of such entity is converted using the closing date exchange rate while the income statement is converted using the average exchange rate for the period. Exchange rate differences are recorded as variations in shareholders' equity on the line item "Currency translation reserve".

### **2.4.3 Foreign Branches**

The branches within the Group follow the same currency translation guidelines as those for affiliates. The impact of foreign exchange gains or losses on shareholders' equity is recorded in the consolidated conversion reserves. This also applies to the regulatory portion of the current accounts of the branch office.

The exchange difference on the portion of the current account in excess of the regulatory portion is recorded in net income.

## **2.5 Valuation of fixed and intangible assets**

### **2.5.1 Intangible assets and Value Business In Force**

For PARIS RE, intangible assets mainly include assets (e.g., renewal rights and customer relationships) called "Value Business In Force" recognized as a result of business combinations.

A part of these assets relates to the revaluation of technical reserves transferred to the company in connection with the Acquisition. These reserves have been reassessed to reflect the fact that they are held on an undiscounted basis under IFRS, whereas the accounting for the Acquisition (purchase GAAP) requires that such reserves be accounted for at their fair value. Because these reserves are guaranteed by AXA and COLISEE RE, their fair value was assessed at their discounted value. The resulting write-up of intangibles represents the difference between the undiscounted reserves and the discounted reserves based on:

- (i) a discount rate between 3.5% - 5%, according to the currency
- (ii) the anticipated payout pattern of such reserves

The investment portfolio also includes unrealized capital gains held in the Funds Withheld Asset account at December 31, 2005 and acquired in connection with the Acquisition. These assets have a finite useful life and are amortized over their estimated life using an actuarial or straight-line method. This part of intangible asset is fully amortized as at June 30, 2009.

"Value Business In force" undergo an annual impairment test based on the Liability Adequacy Test (LAT). (see Note 2.8.3)

The company also has an intangible asset arising from the revaluation at market value of the 49 US insurance licenses held by PARIS RE America.

### **2.5.2 Other fixed and intangible assets**

The other intangible assets mainly include software systems amortized over a period of one to five years. The tangible fixed assets are amortized over a duration established in accordance with international tax and accounting guidelines.

## **2.6 Financial assets**

Depending on the intention and ability to hold the invested assets, PARIS RE classifies its financial assets into the following categories:

- assets held to maturity (HTM) accounted for at amortized cost;
- loans & receivables (including unquoted debt instruments) accounted for at amortized cost
- trading assets by nature and equivalent assets (designated on option) accounted for at fair value, with changes in fair value through profit or loss;
- assets available for sale (AFS) accounted for at fair value with changes in fair value reflected in shareholders' equity

Sales and purchases of assets are recognized in the accounts at the trade date. Depending on the initial classification, assets are assessed on the basis of the asset category to which they belong in accordance with the characteristics described in the table below.

	Accounting
Available for sale through OCI	Variation of fair value through equity (OCI) and adjusted for impairment
Fair value through P&L	Variation of fair value through P&L
Held to maturity	Amortized cost adjusted for impairment
Loans and receivables	

On June 30, 2009, PARIS RE's invested assets are reflected in the available for sale category (AFS).

PARIS RE elected not to use the amendment to IAS 39 enabling reclassifications from AFS OCI to Loans.

## VALUATION

The detail of financial assets classified according to the criteria and method of valuation is described below. Some specific financial assets have been reclassified in medium or low liquidity market in respect of the financial crisis:

US \$ million

Characteristics	Type of financial assets	Fair value of direct assets	Historical cost of assets in the FWA	TOTAL	%
Active market (1)	Government bonds	816,7	860,6	1 677,4	37,0%
	Agency bonds	463,9	294,9	758,8	16,8%
	<b>SUB TOTAL</b>	<b>1 280,7</b>	<b>1 155,5</b>	<b>2 436,2</b>	<b>53,8%</b>
Technical valuation using observable inputs / markets with medium liquidity (2)	Corporate bonds with medium liquidity	1 023,6	712,9	1 736,5	38,4%
	Government bonds with medium liquidity	4,3	0,0	4,3	0,1%
	<b>SUB TOTAL</b>	<b>1 027,9</b>	<b>712,9</b>	<b>1 740,8</b>	<b>38,5%</b>
Technical valuation using non observable inputs / Market with low or no liquidity (3)	Corporate bonds with low liquidity	160,8	25,3	186,0	4,1%
	Other bonds with low liquidity	0,0	18,1	18,1	0,4%
	ABS	88,6	19,0	107,5	2,4%
	Non quoted funds, equities, bonds and real estate funds	21,7	15,3	37,1	0,8%
	Non consolidated affiliates	1,6	0,0	1,6	0,0%
	<b>SUB TOTAL</b>	<b>272,7</b>	<b>77,7</b>	<b>350,4</b>	<b>7,7%</b>
<b>TOTAL</b>		<b>2 581,3</b>	<b>1 946,2</b>	<b>4 527,5</b>	<b>100%</b>
Other financial assets (4)		286,5	369,7	656,2	
<b>TOTAL FINANCIAL ASSETS</b>		<b>2 867,8</b>	<b>2 315,9</b>	<b>5 183,7</b>	

(1) An active market is a market in which there is a significant volume of trades and in which financial assets are traded over the counter, electronically traded, daily priced from external pricing vendors or priced by brokers.

(2) The medium liquidity market is a less active market.

(3) The low liquidity market is a market in which the volume of trades is limited.

(4) Other financial assets include cash, cash equivalent, other assets of FWA, loans, and deposits.

Non consolidated shares are valued on the basis of their net asset value.

Quotes available on the market are used for Government and corporate bonds while ABS are fair valued upon external valuation. Such valuations are challenged by the company which analyzes the expected cash flows on case by case basis.

## **ASSETS AVAILABLE FOR SALE**

Unrealized gains and losses resulting from fair value fluctuations in non-hedged assets are accounted for directly in shareholders' equity, with the exception of unrealized exchange rate gains and losses on monetary assets which are recognized pursuant to IAS 21:

- in net income for the exchange difference applicable to the amortized cost of the asset, and
- in shareholders' equity for the remaining foreign exchange difference.

Exchange gains and losses on non-monetary financial assets recorded at fair value are recognized in shareholders' equity.

## **CASH AND CASH EQUIVALENTS**

In accordance with IAS 7, financial instruments classified as Cash Equivalents are short-term, highly liquid investments that are readily convertible to known amounts of cash and which are subject to an insignificant risk of changes in value.

As of June 30, 2009, cash equivalents recorded on the balance sheet include mutual funds, cash deposits, and some short term deposits with term less than or equal to 3 months.

## **INVESTMENT REVENUE RECOGNITION**

Dividends on equity instruments are recognized when reported.

Interest income on bonds and other monetary instruments are recognized using the effective interest method.

## **IMPAIRMENT OF FINANCIAL ASSETS**

Where there is objective evidence that a financial asset is impaired, the amount of the cumulative loss is recognized in profit and loss.

Impairment tests are performed at each close. The indicators that could lead to an asset or class of asset depreciation are the followings:

- significant financial difficulty of the issuer;
- the risk of non-performance of a contract due to non-payment or to a delay in the payment of principal or of interest;
- the lender, for economic or legal reasons, grants a concession it would not otherwise grant;
- the risk of bankruptcy or of financial restructuring of the issuer;
- the risk of deterioration of equity markets following financial crisis;
- the existence of objective data indicating a measurable decrease in the estimated future cash flow of the financial asset, or an adverse development of the payment status of borrowers indicating the risk of asset default; or
- a significant or continuous decline in fair value below its amortized cost.

The amount of loss in value must be analyzed per asset category line by line as indicated in the following table:

Nature		General comments	Other
Available for sale (OCI)	Equity	Impairment criteria: – loss > 20 %, <u>or</u> – loss for a period more than 6 consecutive months.	Irreversible
	Fixed maturity	Fixed maturity are impaired in case of credit event. Criteria allowing to detect a credit event: – <i>BIG (Below investment grade), investment for which the rating is &lt; BBB :</i> Individual assessment of unrealized losses: • loss for a period more than 12 months, <u>or</u> • loss for a period more than 6 months and > 20 % at closing. – <i>IG (Investment grade), investment for which the rating is ≥ BBB :</i> Individual assessment of unrealized losses: • loss for a period more than 6 months and > 20 % (but less than 50 %) at closing <u>or</u> • loss > 50 % at closing. In case where credit risk can be covered: no impairment	Reversible
	Debt	Risk of recoverability on the total amount due by the issuer	Reversible
	Loans	Based on actualized future cash flow	Reversible
Fair value through P&L	AFS P&L	Not applicable	

## METHODOLOGY OF IMPAIRMENT FOR ASSETS BACKED SECURITIES (ABS) PORTFOLIO

In light of the Sub-prime crisis, PARIS RE implemented a specific reserving methodology for its ABS portfolio. This methodology is based on an analysis in accordance with the following criteria:

- If unrealized losses are superior to 50%: PARIS RE will report an impairment charge in the income statement which corresponds to 100% of the unrealized losses;
- If unrealized losses are superior to 20% and less than 50%: PARIS RE will report an impairment charge in the income statement which corresponds to 100% of the unrealized loss when two of the three below criteria are met:
  - consistent unrealized loss for a period of six consecutive months and greater than 20% at the date of the closing,
  - a rating of less than A-,
  - a solvency ratio below 100% (where the value of the underlying collateral less the delinquency rate falls below 100%).

## 2.7 Financial liabilities, derivatives and hedging instruments

### 2.7.1 Financial liabilities

In accordance with IFRS and with the exception of debt arising from reinsurance operations, debts are classified as follows: financial debt, debt instruments and other debt. Debt is accounted at its amortized cost.

There were no debt securities or other debt in the consolidated financial statements of PARIS RE as at June 30, 2009.



## **2.7.2 Derivative and hedging instruments**

Derivative instruments are recorded at cost in the balance sheet, at the fair value of the commitment given or received. If fair value is zero, no entry is booked. Transaction costs are recorded as expenses as they are deemed not significant for PARIS RE.

At each closing date, derivatives are assessed at fair value. The accounting method is determined depending on whether or not the derivative instrument is designated as a hedging instrument. The type of hedging is determined according to the terms and conditions described below.

### **PURE DERIVATIVE INSTRUMENTS**

Whenever the Group has not designated a derivative instrument as a hedging instrument, the profits and losses resulting from changes in the instrument's fair value are recorded in the income statement for the period during which they are generated. In this case, it is called a natural hedge.

### **HEDGING INSTRUMENTS**

A hedging instrument is a designated derivative instrument or, in the case of a single foreign currency hedge, a non-derivative designated asset or liability where the fair value or the resulting cash flow offsets variations in the fair value or in the resulting cash flow of the hedged item.

In the event that an instrument is classified as a cash flow hedging instrument, the variation in fair value is recorded as shareholders' equity until the underlying cash flow amount is recorded in the income statement. At this date, the value recorded in equity capital is then reclassified in the income statement.

PARIS RE did not have any hedging instruments designated as such in its financial statements ending June 30, 2009.

### **EMBEDDED DERIVATIVES**

An embedded derivative is a component of a hybrid instrument that also includes a non-derivative host contract with the effect that some of the cash flows of the combined instrument vary in a way similar to a stand-alone derivative.

In accordance with IAS 39 related to financial instruments valuation and accounting, an embedded derivative must be separated from the host contract and accounted for as a derivative (at fair value with variation recorded in profit & loss) under the following conditions:

- the economic characteristics and risks of the embedded derivative are not closely related to the economic characteristics and risks of the host contract;
- a separate instrument with the same terms as the embedded derivative would meet the definition of a derivative; and
- the hybrid (combined) instrument is not measured at fair value, any change in fair value being recognized in profit or loss.

There are currently no embedded derivatives that PARIS RE should record separately from the host contract, either in assets or in liabilities.

## **2.8 Accounting principles and methods specific to reinsurance operations**

### **2.8.1 Classification and recognition of reinsurance contracts (IFRS 4)**

The inward or outward reinsurance contracts of the Group may be subject to different IFRS accounting rules depending on whether they are classified as insurance contracts according to IFRS 4 or as financial contracts according to IAS 39.

Inward and outward reinsurance contracts which include a significant risk transfer are classified as insurance contracts according to IFRS 4 and accounted for in accordance with this rule.

In the event that inward or outward transactions do not transfer a significant amount of risk, they are accounted for in accordance with IAS 39. In accordance with IAS 39, gross premiums are no longer reported as premium revenues, and technical reserves and deferred acquisition costs included in the balance sheet are reclassified as financial assets or liabilities as a deposit under the line items "Financial contracts assets" and "Financial contracts liabilities" on the balance sheet.

PARIS RE has accounted its reinsurance treaties according to IFRS 4, based on assessment that all of its treaties included significant risk transfer.

## **2.8.2 Accounting principles applicable to reinsurance contracts**

The Company's consolidated financial statements have been prepared in accordance with IFRS principles.

Preparation of the consolidated financial statements in conformity with IFRS requires management to make estimates and assumptions that affect reported and disclosed amounts of assets and liabilities, as well as disclosure of contingent assets and liabilities at the balance sheet date and the reported amounts of revenues and expenses during the reporting period.

Management believes the items that require the most subjective and complex estimates are:

- (1) recognition of premiums; and
- (2) reserves for losses and loss adjustment expenses.

Management believes these accounting policies are critical to the Company's operations as the application of these policies requires management to make significant judgments.

### **REVENUE RECOGNITION AND REINSURANCE EXPENSES**

Accounts of ceding companies are recognized upon receipt. At closing, if all bordereaux have not been received, forecasted amounts are used to value reinsurance commitments not yet recorded.

#### **PREMIUM RECOGNITION**

Reinsurance premium is written on an excess of loss or a proportional basis. Reinsurance contracts are generally written prior to the time the underlying direct policies are written by assignors and accordingly assignors must estimate premiums when purchasing reinsurance coverage.

For excess of loss contracts, the deposit premium is defined in the contract, mainly as "minimum and deposit" premium. The initial deposit premium is based on the ceding company's estimated premiums, and this estimate is the amount recorded as written premium in the period the risk incepts. In most of cases, these contracts are adjustable at the end of the contract period. Subsequent adjustments, based on reports by the ceding companies of actual premium, are recorded for each contract in the period these adjustments are determined, which typically takes place within six months to one year after the expiration of the contract.

For proportional contracts, an estimate of written premium is recorded in the period in which the risk incepts. At the inception of the contract, the ceding company estimates how much premium it expects to write during the year. As for non proportional contracts, the estimate of reinsurance premium is based on information provided by ceding companies and management's judgment. Subsequent adjustments are recorded when the actual premium is reported by the ceding company. Ceding companies typically report this information on a three to six month lag and actual cessions may be significantly different from the original estimate.

The Group evaluates the appropriateness of these premium estimates based on the latest information available, which includes actual premium reported to date, the latest premium estimates as provided by assignors and brokers, historical experience, management's professional judgment based on information obtained during the underwriting renewal process, as well as continuing assessment of relevant economic conditions. The written premium recorded, estimated by the Actuarial department, results from the Group assumptions of the ultimate premium amount. As actual premium amounts are communicated by ceding companies, initial estimates are updated. Adjustments to premium estimates are recorded in the period in which they become known. They might be significant compared to original premium estimates and may significantly affect earnings in the period they are determined.

#### **TECHNICAL RESERVES**

In conformity with current regulations and consistent with previous financial years, technical reserves are recorded in the balance sheet as gross amounts under liabilities and as retroceded amounts under assets.

##### Unearned premium reserves

There is a distinction between:

- reserves for unearned premiums, consisting of the portion of premiums related to future risk coverage for the period beginning on the balance sheet date and ending on the following expiration date of the contract (or the time limit stipulated in the contract); and
- the unexpired risk provision covering the portion of claims and claims expenses that exceeds the

fraction of premiums booked net of deferred acquisition costs.

Unearned premiums reserves must also be presented gross of deferred acquisition costs and, consequently, the latter are recorded as assets.

Unexpired risk provisions are not included in the claims reserves. In consideration of the impact of the economic crisis on the coverage, on credit risk in particular, reserves have been recorded for US \$5,4 million.

#### Reserves for losses

There can be a significant time lag between the event, the reporting from the original claimant to the primary insurer, to the reinsurance broker in the case where the business has not been written directly, and then to the reinsurer. To take into account an event that can result in losses at closing, the company has to estimate losses prior having received all available information related to claims. Reserves for losses that cover expected underwriting losses are estimated for a part on information received from ceding companies and for a part on internal estimates. Internal estimates cover events known but not reported, or IBNR (incurred but not reported). Reserves for losses are estimated on the basis of historical data and present trends in loss experience, taking into consideration the rates of settlement for accounts from all lines of business. The level of this provision also takes into consideration factors such as inflation and applicable regulations. These estimates and judgments are based on numerous factors and may be revised as additional experience or other data becomes available.

Further uncertainties are introduced by the fact that the Company must often rely on loss information reported to brokers by primary insurers who must estimate their own losses at the policy level, often based on incomplete information.

The information received varies from a ceding to another and may include paid claims, estimated case reserves and estimated provisions for late claim (IBNR). Additionally, reserving practices and the quality of data reported varies among ceding companies which adds further uncertainty to the estimation of the ultimate losses.

Because of the degree of reliance that is necessarily placed on ceding companies for claims reporting, the associated time lag, the low frequency and high severity nature of much of the business underwritten by PARIS RE, and the varying reserving practices among ceding companies, reserve estimates are highly dependent on management's judgment and therefore remain uncertain.

#### Loss expense reserves

Loss expense reserves cover all expenses related to the administration of reinsurance claims. In particular, loss adjustment reserves cover expenses for incurred and unpaid claims. Loss expense reserves take into account the different phases of claims administration (opening of the file, technical monitoring, and payment of the claim) and are calculated on the basis of analytical aggregates for each line of business.

### **COMMISSIONS ON UNEARNED PREMIUMS**

Deferred acquisition costs for property and casualty contracts that are recorded as assets in the balance sheet correspond to the portion of expenses relating to unearned premiums. Those acquisition costs that may not be recovered are immediately recorded as expenses in net income.

Deferred acquisition costs on life and non-life contracts are recorded in the balance sheet under accrued income.

### **EMBEDDED DERIVATIVES**

Under IFRS 4 related to insurance contracts, embedded derivatives are separated from their host contract and carried at fair value if they are not closely related to the host insurance contract or do not meet the definition of an insurance contract.

Embedded derivatives corresponding to the definition of an insurance contract are not separated.

At June 30, 2009 PARIS RE did not identify any material embedded derivative that should be accounted for separately from the host contract, either in assets or in liabilities.

#### **2.8.3 Liability adequacy test**

As required by IFRS 4, a liability adequacy test is performed in each consolidated entity in order to assess the adequacy of the reinsurance liabilities net of related Deferred Acquisition Costs and Value of Business in Force at such date.

The test considers best estimates of all contractual free cash flows, and of related cash-flows such as claim handling costs, and takes into account investment yields relating to assets backing these contracts. Current exchange rates are used for contracts written in foreign exchange currencies and a margin for risks (insurance risk, asset return risk, inflation risk, etc.) associated with the contracts is also considered. If the test shows that the net liability is inadequate, the entire deficiency is recognized in profit and loss for the amount of the deficiency.

As at June 30, 2009, this test concluded that net liabilities were adequate.

## **2.9 Provisions for risks and charges**

### **2.9.1 Employees benefits**

#### **RETIREMENT BENEFITS**

PARIS RE provides retirement benefits for its employees in accordance with legislation and practices in each country in which it operates. In certain countries employees receive supplementary retirement benefits in the form of an annual annuity or in a lump sum. The main country involved is France.

Benefits are afforded to PARIS RE Group employees either in the form of a defined contribution plan or in the form of a defined benefit plan. The defined contribution plan is characterized by payments to institutions thereby freeing the employer of future financial obligations. Consequently, once payments have been made, no liabilities or commitments are reported in the consolidated financial statements with the exception of the cost of contributions due to institutions. Defined benefit plans involve the distribution, by the company to the employee, of a lump sum upon retirement. The amount of payment is calculated using several factors such as the employee's age, years of service and average salary.

Retirement commitments recorded under liabilities relating to defined benefit plans correspond to the difference between the projected benefit obligations at closing less, if applicable, the fair value of the corresponding invested plan assets after adjustment for any unrecognized losses or gains and service costs.

The projected benefit obligation (PBO) is calculated each year by actuaries using quantitative methodology. Projected benefit obligation is calculated on the basis of long-term projections (salary increase rate, inflation rate, mortality, turnover, pension indexation and remaining service lifetime).

Actuarial gains and losses resulting from adjustments linked to experience and the effects of changes in actuarial assumptions are accounted for in shareholders' equity (SORIE option).

Past service costs generated at the adoption or modification of a defined benefit plan are immediately recognized as an expense on a straight-line basis over the average period until the benefits have become vested. In the event that benefit rights are acquired at the adoption of a plan or at the time of its modification, past service costs are immediately recognized as an expense.

### **2.9.2 Other provisions for risk and charges**

Reserves are recorded in the accounts when PARIS RE has a current obligation (legal or implicit) resulting from a past event, when it is likely that economic resources will need to be deployed to meet the obligation and when the amount of the obligation may be reliably estimated.

## **2.10 Share-based compensation plans**

PARIS RE's share based compensation plans are estimated at fair value at the grant date, and the expense is accrued in the income statement over the vesting period. An industry standard option pricing model is utilized to calculate the fair value of options at the date of attribution.

Vesting conditions, other than market conditions, are taken into account at each closing date by adjusting the number of equity instruments included in the measurement of the transaction amount, and can lead to a subsequent adjustment of the expense.

## **2.11 Segment information**

According to IFRS 8, a new standard applicable from January 1st, 2009 regarding operating segments reporting, the premiums and net underwriting income are detailed by line of business in the Note 13.

The reinsurance business result is not homogeneously spread over the year but is rather subject to important seasonality:

- The Premiums are recognized when they are written. They are generally earned using straight-line and *prorata temporis* rules.

- By contrast, large and major losses usually occur during hurricane season, primarily between July to October for US exposures.

## **2.12 Other information**

### **2.12.1 Expenses**

The income statement shows net underwriting income prior to the recording of general expenses. Claims expenses, internal acquisition costs, investment management costs and administration expenses are recorded under "General expenses".

### **2.12.2 Taxes**

Current income tax are recorded in earnings on the basis of amounts estimated to be payable or recoverable as a result of taxable operations for the current year based on the relevant local tax regulation.

Deferred income tax assets and liabilities emerge from temporary differences between accounting and fiscal values of assets and liabilities and from net operating losses carried forward, if any. Deferred tax assets are recognized to the extent that it is probable that future taxable profit will be available against which the temporary differences can be used. Conversely, valuation allowances are recorded for deferred tax assets that are not expected to be recovered.

A French tax integration was implemented in 2006 between PARIS RE Holdings France and PARIS RE Acquisition France. PARIS RE SA has joined the tax group since 2007.

### **2.12.3 Reinsurance recoverable bad debt**

In 2009, PARIS RE has enhanced its credit control process, updating the credit control policy, reinforcing credit collection and implementing a new depreciation methodology. The group reviews at each period end the collection ability of its insurance business debtors. The bad debt estimate is based on an aging balance and debtor risk profile. The risk profile is rated from 1 to 7 (from a solvent company to a company in liquidation). The bad debt allocation varies depending on the ageing report. It remains fairly limited and therefore has no significant impact on the half-year 2009 result.

### **2.12.4 Treasury shares**

In the event that an entity of the group should repurchase PARIS RE stock, the related treasury stocks will offset shareholders' equity.

No profit or loss must be recognized in the income statement at the time of the purchase, the sale, the emission or the cancellation of instruments of shareholders' equity of the entity.

Such treasury shares can be acquired and held by the entity or by any other member of the consolidated group. The amount received or paid is recorded directly in shareholders' equity.

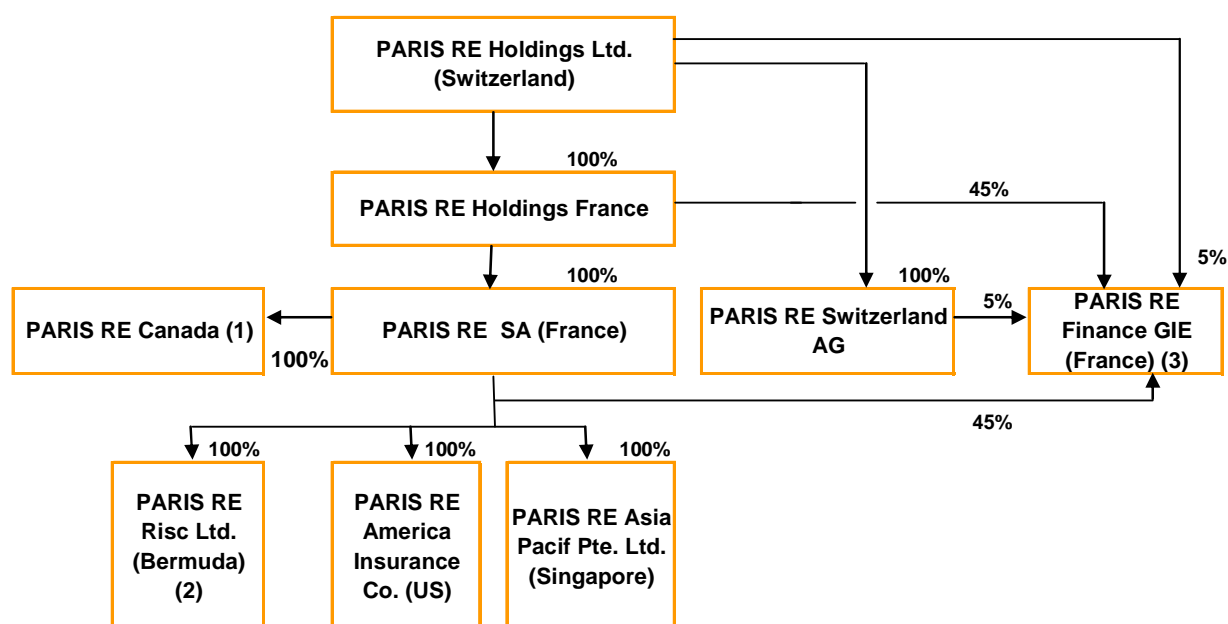
PARIS RE Group has acquired in the first half year 31 103 shares and owns as at June 30, 2009, 4 952 912 shares, and the total cost for the period is US \$8 302 thousands (see Note 8.3).

## **Note 3. Scope of consolidation**

The legal name of the parent company of the Group is "PARIS RE Holdings Limited" a Swiss stock corporation (Aktiengesellschaft), which is governed by Swiss law.

The Company is registered with the Commercial Register of the Canton of Zug, Switzerland (the "Register") with registration number CH-170.3.030.730-9. The address of the registered office is Poststrasse 30, 6300 Zug, Switzerland.

The following sets forth the consolidated entities within the Group:



- (1) Branch office of PARIS RE.  
 (2) PARIS RE Risc Ltd. is not consolidated because the impact of its consolidation would not be material.  
 (3) PARIS RE Finance GIE is not consolidated because the impact of its consolidation would not be material.

The scope of consolidation on June 30, 2009 is as follows:

Company	Footnote	Country	% of control in 2009	% of interest in 2009	Consolidation Method	% of control in 2008	% of interest in 2008	Consolidation Method
PARIS RE Holdings Ltd		Switzerland	100,0	100,0	Global	100,0	100,0	Global
PARIS RE Switzerland AG		Switzerland	100,0	100,0	Global	100,0	100,0	Global
PARIS RE Luxembourg, Sarl	(1)	Luxembourg	-	-	-	100,0	100,0	Global
PARIS RE Holdings France SA		France	100,0	100,0	Global	100,0	100,0	Global
PARIS RE Acquisition France SAS	(2)	France	-	-	-	100,0	100,0	Global
PARIS RE SA	(3)	France	100,0	100,0	Global	100,0	100,0	Global
Compagnie Générale de Réassurance de Monte Carlo (CGRM) SA	(4)	Monaco	-	-	-	100,0	100,0	Global
PARIS RE America Insurance Company		USA	100,0	100,0	Global	100,0	100,0	Global
PARIS RE Asia Pacific Pte. Ltd.		Singapore	100,0	100,0	Global	100,0	100,0	Global

- (1) The liquidation of PARIS RE Luxembourg is effective since May 26, 2009. This liquidation has limited effect on the 2009 first half year Consolidated Financial statement.  
 (2) On April 24, 2009, PARIS RE Acquisition France has been merged with PARIS RE Holdings France pursuant to Article L236.-1 of the French "Code de Commerce" as simplified merger. PARIS RE Holdings France held 100% PARIS RE Acquisition shares. PARIS RE Acquisition France's Assets and liabilities has been transferred to PARIS RE Holdings France retroactively on January 1st, 2009 at net book value. The merger has no effect on the consolidated financial statements.  
 (3) Includes a branch office in Canada.  
 (4) The dissolution of Compagnie Générale de Réassurance de Monte Carlo (CGRM) SA has no impact on consolidated financial statements (May 19, 2009).

There were no special purpose vehicles on June 30, 2009 that required to be consolidated under IFRS.

## Note 4. Intangible assets

US \$ thousand

	June 30, 2009			December 31, 2008		
	Gross	Depreciation /Impairment	Net	Gross	Depreciation /Impairment	Net
Reserve discount	416 197	(243 896)	172 301	408 474	(216 646)	191 828
Unrealized capital gains/losses purchased	48 182	(48 182)	-	47 335	(47 335)	-
US licenses	7 350	-	7 350	7 350	-	7 350
<b>Value business in force</b>	<b>471 729</b>	<b>(292 078)</b>	<b>179 651</b>	<b>463 159</b>	<b>(263 981)</b>	<b>199 178</b>
Right to renew	69 531	(51 860)	17 672	68 501	(43 772)	24 729
Software	12 233	(11 364)	869	11 812	(10 777)	1 035
Other intangibles	-	-	-	300	(300)	-
<b>Total intangible assets</b>	<b>553 493</b>	<b>(355 302)</b>	<b>198 192</b>	<b>543 772</b>	<b>(318 830)</b>	<b>224 942</b>

## Note 5. Invested assets

### 5.1 Funds Withheld Asset (FWA)

#### PRESENTATION OF FUNDS WITHHELD ASSET

##### *Quota Share Retrocession Agreements with COLISEE RE (formerly named AXA RE)*

In connection with the Acquisition, the PARIS RE group has entered into Quota Share Agreements with COLISEE RE. These agreements give 100 % of the benefits and risks of reinsurance contracts from COLISEE RE to PARIS RE as of January 1, 2006. Retrocession agreements provide for the payment of premiums by COLISEE RE to PARIS RE SA as consideration for reinsuring the covered liabilities. Moreover, these agreements also provide that the premiums will not be immediately paid but held by COLISEE RE and credited to Funds Withheld account, referred to as the "Funds Withheld Asset" that is used to pay certain claims.

##### *Reserve Agreement*

In connection with the Acquisition, a Reserve Agreement has also been put in place that provides that AXA and COLISEE RE shall guarantee reserves in respect of PARIS RE and subsidiaries acquired in the Acquisition. The Reserve Agreement covers any losses or gains that could result from reinsurance premium earned prior to January 1, 2006 which are covered by AXA and COLISEE RE. AXA and COLISEE RE will consequently benefit from any redundancy in the reserves and will cover any deficiency in the reserves.

##### *Funds Withheld Asset*

A list of assets backing the current Funds Withheld Asset account was agreed between PARIS RE and COLISEE RE. These assets are held in a segregated portfolio within COLISEE RE's investments and are managed by PARIS RE. The unrealized gains or losses on such investments, as well as the investment income on the Funds Withheld Asset, inure to the benefit of PARIS RE.

The unrealized gains existing on January 1, 2006 were accounted for as part of the value of business in force (VBI, see Note 4) in the group consolidated financial statements and amortized in connection with the sale of the underlying securities.

## BALANCE SHEET ACCOUNTING FOR FUNDS WITHHELD ASSET AS OF JUNE 30, 2009

The following table presents the investment portfolio underlying the Funds Withheld Asset account.

US \$ thousand						
	Historical Net book value as of June 30, 2009	Market value	Total unrealized gains and losses	Historical Net book value as of December 31, 2008	Market value	Total unrealized gains and losses
Cash and cash equivalents	153 072	154 301	1 228	243 837	243 837	-
Fixed maturities available for sale	1 931 339	1 957 049	25 710	1 928 199	1 957 593	29 394
Short term investment available for sale	-	-	-	13 602	13 602	-
Non consolidated investment funds available for sale	14 836	11 991	(2 845)	57 431	58 081	649
<b>TOTAL</b>	<b>2 099 248</b>	<b>2 123 341</b>	<b>24 093</b>	<b>2 243 069</b>	<b>2 273 112</b>	<b>30 043</b>
Other assets held at fair value	30 691	30 691	-	33 458	33 458	-
<b>TOTAL INVESTMENTS</b>	<b>2 129 939</b>	<b>2 154 032</b>	<b>24 093</b>	<b>2 276 526</b>	<b>2 306 570</b>	<b>30 043</b>
Others assets / liabilities	139 792			176 701		
Revenues of Funds withheld asset	46 165			19 610		
<b>Funds Withheld Asset</b>	<b>2 315 896</b>			<b>2 472 837</b>		

Net gains unrealized at the date of their acquisition were purchased by PARIS RE and accounted on the line "Value of business in force (VBI)" following allocation of the difference from the first consolidation. This intangible asset was amortized over time and as the sale of the related assets became effective. As at June 30, 2009, the total amount of gains booked was entirely depreciated and there no longer remains a corresponding portfolio value.

Consequently, the present unrealized capital gain in the Funds Withheld Asset of US \$24,1 million corresponds to unrealized gains created since 2006.

The net unrealized gain in the Funds Withheld Asset is not accounted in the shareholders' equity because invested assets in the Funds Withheld Asset account are not included in PARIS RE's balance sheet.

## IMPAIRMENT OF FUNDS WITHHELD ASSET

The following table presents the impairment of Funds Withheld Asset as of June 30, 2009 (for ABS see Note 5.3):

US \$ thousand			
	June 30, 2009	2009 variation	December 31, 2008
ABS	(32 418)	(5 424)	(26 994)
Other financial assets <sup>(1)</sup>	(23 499)	(6 071)	(17 428)
<b>Total Impairment</b>	<b>(55 917)</b>	<b>(11 495)</b>	<b>(44 422)</b>

(1) The Other financial assets impairment include impairment of Real estate funds for US \$(14,7) million at June 30, 2009 with a 2009 variation of US \$(5,1) million.



## 5.2 Directly held assets

The following table presents the directly held assets portfolio as of June 30, 2009.

US \$ thousand

	June 30, 2009					December 31, 2008				
	Historical Net book value	Market value	Unrealized gains/ Losses	Of which unrealized gains	Of which unrealized losses	Historical Net book value	Market value	Unrealized gains/ Losses	Of which unrealized gains	Of which unrealized losses
	1	2	3 = 2 - 1			1	2	3 = 2 - 1		
Fixed maturities available for sale	2 500 887	2 557 903	57 016	64 167	(7 151)	2 038 553	2 077 754	39 201	57 019	(17 818)
Short term investment available for sale	43 288	43 288	-	-	-	38 129	38 129	-	-	-
Equities available for sale	317	323	7	8	(1)	290	297	7	7	-
Non consolidated investment funds available for sale (invested in fixed maturities, equities and other assets)	21 745	21 746	1	1	-	84 254	84 835	581	581	-
Non consolidated affiliates	1 950	1 642	(308)	-	(308)	1 869	1 566	(303)	-	(303)
<b>FINANCIAL INVESTED ASSETS</b>	<b>2 568 187</b>	<b>2 624 903</b>	<b>56 715</b>	<b>64 175</b>	<b>(7 460)</b>	<b>2 163 094</b>	<b>2 202 580</b>	<b>39 486</b>	<b>57 607</b>	<b>(18 121)</b>
Loans	5 001	5 001	-	-	-	4 359	4 359	-	-	-
Cash and cash equivalents	237 767	237 870	103	103	-	380 463	380 690	227	227	-
<b>TOTAL DIRECT FINANCIAL INVESTMENTS</b>	<b>2 810 956</b>	<b>2 867 774</b>	<b>56 818</b>	<b>64 278</b>	<b>(7 460)</b>	<b>2 547 917</b>	<b>2 587 630</b>	<b>39 712</b>	<b>57 834</b>	<b>(18 121)</b>

The net unrealized gain on directly held financial investments amounts US \$56,8 million as at June 30, 2009.

### IMPAIRMENT FOR DIRECTLY HELD ASSETS

The following table presents the impairment of directly held assets as of June 30, 2009:

US \$ thousand

	June 30, 2009	2009 variation	December 31, 2008
Other bonds <sup>(1)</sup>	(864)	4	(868)
Others financial assets	(138)	(38)	(100)
<b>Total Impairment</b>	<b>(1 002)</b>	<b>(34)</b>	<b>(968)</b>

(1) The 2009 variation of Other bonds directly held impairment is the impact on currency translation.

## 5.3 Exposure to Assets Backed Securities (ABS)

PARIS RE has no exposure to Collateralized Debt Obligations (CDOs), Collateralized Loan Obligations (CLOs) or any other investments in Structured Financial Products (SFP).

The Group's exposure to "Sub-prime" and "Alt A" Residential Mortgage Backed Securities, is as shown below:

US \$ thousand

	Direct financial investment	Financial investment included in « Funds Withheld »	Total as of June 30, 2009	Direct financial investment	Financial investment included in « Funds Withheld »	Total as of December 31, 2008
ABS Residential	1 182	18 227	19 410	1 632	27 207	28 840
of which "Subprime"	230	4 740	4 971	260	7 540	7 801
of which "Alt A"		2 926	2 926	-	3 714	3 714
of which "Manufactured housing"	358	4 792	5 150	746	6 516	7 262
of which "Prime"	593	5 769	6 362	627	9 437	10 064
CMBS	662	727	1 389	1 883	818	2 701
Agency CMO/MBS	72 216	0	72 217	76 531	0	76 531
ABS Student Loan	13 378	-	13 378	16 009	-	16 009
<b>Total net book value as at June 30, 2009</b>	<b>87 439</b>	<b>18 954</b>	<b>106 394</b>	<b>96 055</b>	<b>28 025</b>	<b>124 081</b>
Unrealized losses	1 149	(626)	523	(153)	(3 074)	(3 228)
<b>Total market value as at June 30, 2009</b>	<b>88 588</b>	<b>18 328</b>	<b>106 917</b>	<b>95 902</b>	<b>24 951</b>	<b>120 853</b>
<b>Total financial investments, cash and cash equivalent</b>			<b>5 183 671</b>			<b>5 060 466</b>
<b>% of total financial investments</b>			<b>2,1%</b>			<b>2,4%</b>

The current market environment for certain ABS collateralized by Residential Mortgage Backed Securities is illiquid. Therefore, pricing of these securities may be difficult to assess for valuation purposes. PARIS RE obtained its valuations from a specialized data provider, which is independent from PARIS RE or from the issuers of these securities.

The unrealized losses have been booked according to the classification of the assets and taking into account the impairment rules applied by the Group (see Note 2.6):

- For directly held assets, the unrealized loss is booked through equity ("Other Comprehensive Income") except in the case of impairment, which is booked through the profit and loss statement.
- For the underlying assets of the Funds Withheld Asset, the unrealized losses after impairment are offset against unrealized gains. The net amount is an unrealized gain of US \$24,1 million, which is not recognized in the balance sheet but disclosed in Note 5.1 "Funds Withheld Asset". In case of realized losses and impairment, the revenue of the FWA will decrease accordingly.

The table below summarizes the impact in the financial statements of the impairment and unrealized loss of ABS as of June 30, 2009:

US \$ thousand

Detail of unrealized losses on ABS	Direct financial investment	Financial investment included in « Funds Withheld »	Total as of June 30, 2009	Direct financial investment	Financial investment included in « Funds Withheld »	Total as of December 31, 2008
Unrealized gains and losses on ABS before impairment (a)	1 149	(33 044)	(31 895)	(153)	(30 068)	(30 221)
Cumulated impairment through balance sheet (b)		(32 418)	(32 418)	-	(26 994)	(26 994)
Outstanding unrealized gains and losses on ABS (a) - (b)	1 149	(626)	523	(153)	(3 074)	(3 227)

On June 30, 2009, the amount of the unrealized losses on ABS within the Funds Withheld Asset of US \$(0,6) million was fully offset by unrealized gains in other assets in the Funds Withheld Asset. Note 5.1 shows the net unrealized gain of US \$24,1 million in the Funds Withheld Asset which is not recognized in PARIS RE's balance sheet.

## 5.4 Exposure to financial crisis

In the context of the financial crisis, financial assets have been closely monitored. PARIS RE set out a specific procedure to identify its exposure to high-risk issuers based on exposures to issuers with a book value superior to US \$1 million and unrealized losses superior to 20 % (excluding ABS, see Note 5.3).

As of June 30, 2009, the exposure to high-risk issuers includes (book value before impairment):

- Lehman Brothers: US \$0,9 million (fully impaired),
- American General Finance (AIG Subsidiary): US \$3,7 million,
- International Lease Fin. Corp. (AIG Subsidiary): US \$1,9 million,
- iStar Financial: US \$1 million.

According to the guarantees obtained by these companies we concluded no impairment was required.

## Note 6. Deferred tax

US \$ thousand

	June 30, 2009			December 31, 2008		
	France	Other	TOTAL	France	Other	TOTAL
VBI related to the Acquisition	46 403	10 546	56 949	51 738	11 024	62 762
Equalization reserve	34 205	-	34 205	33 735	-	33 735
Tax losses	-	-	-	(7 209)	-	(7 209)
Temporary differences	(2 428)	(4 851)	(7 279)	(9 942)	(5 673)	(15 615)
<b>Total net deferred tax</b>	<b>78 181</b>	<b>5 695</b>	<b>83 875</b>	<b>68 322</b>	<b>5 351</b>	<b>73 673</b>
<b>Total deferred tax liabilities</b>	<b>78 181</b>	<b>9 229</b>	<b>87 410</b>	<b>82 250</b>	<b>10 248</b>	<b>92 498</b>
<b>Total deferred tax assets</b>	<b>0</b>	<b>(3 535)</b>	<b>(3 535)</b>	<b>(13 927)</b>	<b>(4 897)</b>	<b>(18 825)</b>

## Note 7. Receivables

### 7.1 Receivables arising from reinsurance operations

US \$ thousand

	June 30, 2009	December 31, 2008
Cash deposited with reinsurers (inward reinsurance)	38 933	17 483
Reinsurance receivables (inward reinsurance)	138 678	129 801
Reinsurance receivables (outward reinsurance)	20 671	4 201
<b>TOTAL</b>	<b>198 282</b>	<b>151 484</b>

### 7.2 Other operating receivables

US \$ thousand

	June 30, 2009	December 31, 2008
Separate account on employee benefit	221	291
Current accounts	2 881	1 877
Other receivables <sup>(1)</sup>	16 177	55 904
Other long term assets	411	388
<b>TOTAL</b>	<b>19 690</b>	<b>58 460</b>

- (1) As at December 31, 2008, other receivables include US \$43 million income tax prepayment.  
As at June 30, 2009, US \$39,7 million income tax prepayment were reimbursed in April 2009.

### 7.3 Technical accruals - assets

US \$ thousand

	June 30, 2009	December 31, 2008
Premiums to be written (inward reinsurance)	928 998	643 744
Commissions to be written (inward reinsurance)	(191 862)	(157 312)
Commissions on unearned premiums (inward reinsurance)	154 533	117 484
<b>TOTAL</b>	<b>891 669</b>	<b>603 916</b>

## Note 8. Shareholders' equity

### 8.1 Impact of transactions with shareholders

The table below shows the position of capital and premiums as of June 30, 2009:

	Number of shares	Par Value	Premium				Par Value & Premiums
			Common shares	Restricted Shares Units <sup>(1)</sup>	Stock Options <sup>(1)</sup>	Total	
Capital and share premiums as at December 31, 2008	80 659 732	390 856	895 051	16 348	14 981	926 380	1 317 236
Change in number of shares and Par value <sup>(2)</sup>		(151 452)					(151 452)
RSU and SO				5 377	1 651	7 028	7 028
Share buy back	(31 103)	8 587	(285)			(285)	8 302
Capital and share premiums as at June 30, 2009	80 628 629	247 991	894 766	21 725	16 632	933 123	1 181 114

- (1) RSU and SO granted to management and employees are recorded under expenses and premiums according to their respective vesting period.  
(2) The 2009 change in number of shares and Par value is related to capital repayment.

## 8.2 Change in Other Comprehensive Income (OCI): unrealized capital gains or losses on invested assets

US \$ thousand

	Gross	Tax	Net
<b>Unrealized gains or losses of assets available for sale - Opening (1)</b>	<b>39 712</b>	<b>(6 274)</b>	<b>33 438</b>
Variations relating to sale	(2 425)	556	(1 869)
Variations relating to foreign exchange impact on historical cost	10	(1)	9
Variations relating to foreign exchange impact on gains and losses	219	(21)	198
Variations relating to revaluation of assets	15 199	(3 694)	11 506
<b>Invested assets bought in previous years (2)</b>	<b>13 004</b>	<b>(3 160)</b>	<b>9 843</b>
<b>Revaluation on acquisitions during the year (3)</b>	<b>3 204</b>	<b>(984)</b>	<b>2 220</b>
<b>Revaluation of invested assets available for sale (without exchange impact of consolidation) (4) = (2)+(3)</b>	<b>16 208</b>	<b>(4 145)</b>	<b>12 063</b>
<b>Foreign exchange impact of consolidation (5)</b>	<b>904</b>	<b>(276)</b>	<b>628</b>
<b>Unrealized gains or losses of assets available for sale - Closing (6) = (1)+(4)+(5)</b>	<b>56 824</b>	<b>(10 695)</b>	<b>46 129</b>

## 8.3 Changes in consolidated shareholders' equity

US \$ thousand

	June 30, 2009	December 31, 2008	June 30, 2008
<b>Opening Shareholders' equity</b>	<b>2 171 759</b>	<b>2 474 115</b>	<b>2 474 115</b>
Capital variation	(151 452)	(264 339)	-
RSU and stocks options <sup>(1)</sup>	7 028	(17 148)	14 125
Treasury shares	8 302	(81 642)	(49 983)
Currency translation variation	(10 207)	69 872	178 017
Net profit (loss)	120 984	(34 205)	(25 596)
Revaluation of available for sale assets (AFS)	12 063	19 961	(14 132)
Other variations	95	5 146	191
<b>Closing Shareholders' equity</b>	<b>2 158 572</b>	<b>2 171 759</b>	<b>2 576 737</b>

(1) For December 31, 2008, the RSU and stock options amount of US \$(17 148) thousand includes the delivery of shares as at December 29, 2008 for US \$(37 713) thousand.

For June 30, 2009, the RSU and stock options amount does not include any delivery.

## Note 9. Technical reserves

US \$ thousand

		June 30, 2009	December 31, 2008
<b>Gross claims reserves</b>			
Reserves for claims expenses		23 951	22 215
Claims reserves		3 287 028	3 247 313
Unexpired risk reserves		5 371	5 022
Equalization reserves		-	-
<b>Ceded claims reserves</b>			
Claims reserves		(209 088)	(207 768)
Unexpired risk reserves		-	-
<b>Total net claims reserves</b>	<b>I</b>	<b>3 107 262</b>	<b>3 066 782</b>
<b>Net premium reserves</b>			
Gross unearned premium reserves		809 444	506 803
Ceded unearned premium reserves		(76 213)	(22 599)
<b>Total net premium reserves</b>	<b>II</b>	<b>733 231</b>	<b>484 205</b>
<b>TOTAL GROSS TECHNICAL RESERVES</b>		<b>4 125 794</b>	<b>3 781 353</b>
<b>TOTAL CEDED TECHNICAL RESERVES</b>		<b>(285 301)</b>	<b>(230 367)</b>
<b>TOTAL NET TECHNICAL RESERVES</b>	<b>I + II</b>	<b>3 840 492</b>	<b>3 550 986</b>

## Note 10. Foreign exchange natural hedging

At June 30, 2009, PARIS RE did not have any foreign exchange natural hedging.

## Note 11. Payables

### 11.1 Payables arising from reinsurance operations

US \$ thousand

	June 30, 2009	December 31, 2008
Cash deposited by reinsurers (outward reinsurance)	29 374	27 008
Reinsurance payables (inward reinsurance)	76 258	53 247
Reinsurance payables (outward reinsurance)	64 067	49 851
<b>TOTAL</b>	<b>169 699</b>	<b>130 106</b>

### 11.2 Other operating payables

US \$ thousand

	June 30, 2009	December 31, 2008
Social Security and tax payables	19 160	31 428
Current accounts	485	140
Accounts payable on assets purchased	3 539	3 594
Accruals and deferred income	4 050	43
Other accounts payable	28 784	15 432
<b>TOTAL</b>	<b>56 018</b>	<b>50 637</b>

## 11.3 Technical accruals - liabilities

US \$ thousand

	June 30, 2009	December 31, 2008
Premiums to be written (outward reinsurance)	97 349	42 608
Commissions to be written (outward reinsurance)	(28 939)	(20 545)
Commissions on unearned premiums (outward reinsurance)	14 752	6 567
<b>TOTAL</b>	<b>83 162</b>	<b>28 630</b>

## Note 12. Reserve agreement impact

Since the Group's inception, the income statement impacts of gross written premiums, commissions and claims adjustment expenses arising under the Reserve Agreement (e.g., due to commutations or adjustments by ceding companies) were recorded in the consolidated financial statements on the line "Claims Expenses" regardless of the fact that such impacts also comprised premium adjustments, commissions and claims administration expenses because they are settled through the Reserve Agreement. However, the Company believes that this presentation makes it more difficult to analyze the Company's consolidated financial statements and in particular the reinsurance ratios. As a result, in order to facilitate the analysis of the consolidated financial statements for future periods, the Company decided in 2008 to classify the Reserve Agreement impacts by premiums, by commissions and by claims. For purposes of facilitating the comparison between the periods for which data is presented the Company has applied this approach to all periods presented herein. The following tables show the effect of the application of this approach:

## Net underwriting income

US \$ thousand

6 months

	June 30, 2008 as published	Reserve Agreement reclassification	June 30, 2008 presented
<b>Gross written premiums</b>	<b>1 078 111</b>	18 036	<b>1 096 148</b>
<b>Total Premium Revenues</b>	<b>1 078 111</b>	<b>18 036</b>	<b>1 096 148</b>
Premiums ceded	(176 977)	-	(176 977)
<b>Net written premiums</b>	<b>901 135</b>	<b>18 036</b>	<b>919 171</b>
Net variation in unearned premium reserves	(327 352)	-	(327 352)
<b>Net earned premiums</b>	<b>573 783</b>	<b>18 036</b>	<b>591 820</b>
Claims net of retrocession	(323 250)	(28 837)	(352 087)
<i>Of which claims paid net of retrocession</i>	<i>(503 631)</i>	<i>(28 837)</i>	<i>(532 467)</i>
<i>Of which claims reserves variation net of retrocession</i>	<i>180 380</i>	-	<i>180 380</i>
Commissions and brokerage net of retrocession	(114 682)	10 800	(103 882)
<b>Net underwriting income</b>	<b>135 851</b>	<b>0</b>	<b>135 851</b>

## Net balance sheet position

US \$ thousand

	June 30, 2009	Currency translation	2009 variation	December 31, 2008
Reserve agreement - Asset	27 445	(12 922)	746	39 621
Reserve agreement - Liabilities	(103 708)	6 905	(1 061)	(109 552)
<b>Reserve agreement - Net</b>	<b>(76 263)</b>	<b>(6 018)</b>	<b>(315)</b>	<b>(69 931)</b>

## Note 13. Net income by business line

As explained in Note 2.1 PARIS RE adopted the new standard IFRS 8 dedicated to segment reporting; PARIS RE has identified 6 reportable segments: property, casualty, marine/aviation/space, credit/surety, Facultatives, Life/accident & health. Segment information is prepared on the basis of management IT systems.

The following table provides the underwriting income statement by line of business for the 1<sup>st</sup> 2009 half year and the comparable period of 2008:

6 Months Ended June 30	Property		Casualty		Marine / Aviation / Space		Credit / Surety		Facultatives		Life / Accident & Health		TOTAL	
	2009	2008	2009	2008	2009	2008	2009	2008	2009	2008	2009	2008	2009	2008
Gross written premiums	462	492	158	181	57	76	94	138	122	135	63	75	957	1 096
Net written premiums	373	369	158	180	56	74	83	127	84	96	63	72	816	919
Net earned premiums	239	219	111	114	44	54	49	65	84	105	52	35	578	592
Claims net of retrocession	(101)	(87)	(89)	(78)	(30)	(35)	(65)	(35)	(45)	(92)	(50)	(26)	(381)	(352)
Commissions & brokerage net of retrocession	(33)	(28)	(24)	(24)	(6)	(7)	(17)	(22)	(13)	(16)	(5)	(6)	(98)	(104)
<b>Net underwriting income</b>	<b>104</b>	<b>104</b>	<b>(2)</b>	<b>12</b>	<b>8</b>	<b>12</b>	<b>(34)</b>	<b>8</b>	<b>26</b>	<b>(3)</b>	<b>(4)</b>	<b>4</b>	<b>99</b>	<b>136</b>
General expenses	(30)	(34)	(10)	(13)	(4)	(6)	(2)	(5)	(11)	(17)	(5)	(5)	(63)	(81)
<b>Net underwriting income after general expenses</b>	<b>74</b>	<b>70</b>	<b>(11)</b>	<b>(2)</b>	<b>4</b>	<b>6</b>	<b>(36)</b>	<b>2</b>	<b>15</b>	<b>(20)</b>	<b>(9)</b>	<b>(1)</b>	<b>36</b>	<b>55</b>
Other incomes / expenses not allocated													85	(81)
<b>CONSOLIDATED INCOME STATEMENT - Net income</b>													<b>121</b>	<b>(26)</b>
Total loss ratio net of reinsurance	42,5%	39,8%	79,9%	68,3%	68,9%	64,3%	134,4%	53,9%	53,6%	87,3%	96,8%	73,2%	66,0%	59,5%
Net commissions & brokerage ratio	13,8%	12,7%	21,6%	21,4%	12,9%	13,7%	35,0%	34,4%	15,3%	15,6%	10,1%	15,6%	16,9%	17,6%
General Expense Ratio	12,7%	15,6%	8,8%	11,6%	9,3%	11,4%	4,5%	8,3%	13,5%	16,3%	10,3%	13,3%	10,9%	13,6%
<b>Combined Ratio</b>	<b>69,1%</b>	<b>68,2%</b>	<b>110,3%</b>	<b>101,4%</b>	<b>91,1%</b>	<b>89,4%</b>	<b>173,9%</b>	<b>96,6%</b>	<b>82,4%</b>	<b>119,2%</b>	<b>117,2%</b>	<b>102,1%</b>	<b>93,8%</b>	<b>90,7%</b>

## Note 14. Financial Result

US \$ thousand

6 months

	June 30, 2009	June 30, 2008
Bonds	43 469	29 665
Equities	32	9
Other financial assets available for sale	247	10 203
Other assets held by non consolidated investment funds	102	502
Loans and other loans	71	78
Other investment income	275	852
Income from Funds withheld Asset <sup>(1)</sup>	42 426	84 532
Income from cash equivalent	2 316	5 207
Expenses on investments and loans	(1 666)	(1 597)
<b>Net investment income</b>	<b>87 272</b>	<b>129 452</b>
Bonds	(2 206)	3 624
Equities	80	(3 048)
Non consolidated mutual funds invested in other assets (mainly money market funds)	-	(4 216)
Cash equivalent	-	4 216
Other realized gains and losses	(1)	-
<b>Net capital gains and losses</b>	<b>(2 127)</b>	<b>576</b>
Variations in investment impairment	(38)	-
Exchange rate impact	43 546	(149 581)
Valuation of derivative instruments	6 120	4 316
Financial results - Other	(343)	(900)
<b>Net financial income including debt expense</b>	<b>134 430</b>	<b>(16 138)</b>

- (1) Income from Funds withheld Asset also include capital gains and losses, impairment and exchange rate impact related to financial invested assets within FWA.

## Note 15. Income tax

US \$ thousand

	June 30, 2009	June 30, 2008
<b>Swiss income tax</b>	<b>(11 170)</b>	<b>(3 596)</b>
Current	(11 313)	(2 829)
Deferred	144	(767)
<b>Non Swiss income tax</b>	<b>(9 282)</b>	<b>(11 651)</b>
Current	(5 045)	(20 466)
Deferred	(4 237)	8 814
<b>TOTAL INCOME TAX</b>	<b>(20 452)</b>	<b>(15 247)</b>

## INCOME TAX BY COUNTRY

US \$ thousand

	June 30, 2009				June 30, 2008				
	France	Switzerland	Others	TOTAL	France	Switzerland	Bermuda	Others	TOTAL
<b>Net result after tax</b>	1 017	89 625	30 342	120 984	25 839	(45 054)	12 435	(18 815)	(25 596)
<b>Net result before tax</b>	6 417	100 794	34 223	141 435	39 282	(41 458)	12 435	(20 606)	(10 348)
<b>Tax and deferred taxes</b>	(5 400)	(11 170)	(3 882)	(20 452)	(13 443)	(3 596)	0	1 791	(15 247)
<b>Calculated tax rate</b>	<b>84,1%</b>	<b>11,1%</b>	<b>11,3%</b>	<b>14,5%</b>	<b>34,2%</b>	<b>(8,7%)</b>	<b>0,00%</b>	<b>8,7%</b>	<b>(147,3%)</b>
Impact of permanent differences	2 684	-	(2 633)	52	80			(230)	(150)
Tax losses not activated <sup>(1)</sup>	0	1 261	0	1 262		6443		2 435	8 878
Tax rate adjustment and other	507	-	310	817	(183)	1178		(52)	943
<b>Total adjusted tax</b>	<b>(2 209)</b>	<b>(9 909)</b>	<b>(6 204)</b>	<b>(18 322)</b>	<b>(13 546)</b>	<b>4 025</b>	<b>0</b>	<b>3 944</b>	<b>(5 576)</b>
<b>Adjusted tax rate</b>	<b>34,4%</b>	<b>9,8%</b>	<b>18,1%</b>	<b>13,0%</b>	<b>34,5%</b>	<b>9,7%</b>	<b>0,0%</b>	<b>19,1%</b>	<b>(53,9%)</b>

(1) Deferred taxes not activated on tax losses comes from holding companies of the PARIS RE Group.



## Note 16. Net earnings per share

The Company computes net earnings per share and fully diluted net earnings per share as follows:

- The net earnings per share is calculated on the basis of the average number of shares weighted during the period. This calculation does not take into account RSU, stock options and warrants.
- The fully diluted net earnings per share is calculated on the basis of the diluted shares outstanding, including stock options, restricted stock units and warrants. The impact of the stock options and warrants on the total number of diluted shares is based on the “in the money” value of these instruments based on PARIS RE’s common stock price.

US \$ thousand		6 months	
		June 30, 2009	June 30, 2008
Group net income			
<b>Group net income</b>	<b>A</b>	<b>120 984</b>	<b>(25 596)</b>
Group net income restated to include the impact of dilutive financial instruments			
	<b>B</b>	<b>120 984</b>	<b>(25 596)</b>
Equity shares (in thousands of units)			
<b>Equity shares (ordinary) weighted at opening</b>		<b>80 660</b>	<b>85 557</b>
<b>Equity shares (ordinary) weighted at closing</b>	<b>C</b>	<b>80 627</b>	<b>84 645</b>
Instruments potentially dilutive			
- Restricted Stock Units		809	2 295
- Stock options		-	25
- Warrants		634	732
<b>Equity shares (ordinary) weighted after impact of the instruments potentially dilutive</b>	<b>D</b>	<b>82 071</b>	<b>87 697</b>
Net earning per share (in US dollars)			
<b>Net earning per share</b>	<b>= A/C</b>	<b>1,50</b>	<b>(0,30)</b>
<b>Net earning per share diluted</b>	<b>= B/D</b>	<b>1,47</b>	<b>(0,29)</b>

## Note 17. Subsequent events

### PartnerRe Combination Agreement

On July 4, 2009, PARIS RE entered into agreements with PartnerRe Ltd. (“PartnerRe”), a global multi-line re-insurer, to effect a multi-step acquisition by PartnerRe of all the outstanding common shares and warrants of PARIS RE.

In the first step of the acquisition (the “block purchase”), which is expected to close in the fourth quarter of 2009, PartnerRe, will acquire the shares held by several significant shareholders (Stone Point Capital, Hellman & Friedman, Vestar Capital Partners, Crestview Partners, New Mountain Capital and Caisse de Dépôt et Placement du Québec and their investment entities) representing approximately 57.5% of PARIS RE’s outstanding common shares. These shares, when added together with the approximately 6.1% of the outstanding Paris Re common shares that PartnerRe purchased from certain other PARIS RE shareholders prior to the announcement of the acquisition and the additional approximately 19.5% of the outstanding PARIS RE common shares that PartnerRe has subsequently committed to acquire simultaneously with the closing of the block purchase from certain other PARIS RE shareholders, will give PartnerRe an aggregate ownership of approximately 83.1% of the outstanding PARIS RE common shares following the closing of the block purchase.

Following the closing of the block purchase and subject to certain conditions, PartnerRe intends to cause a wholly-owned subsidiary to commence a voluntary public exchange offer for all remaining outstanding PARIS RE common shares and PARIS RE warrants not then owned by PartnerRe. The exchange offer is expected to close in the first quarter of 2010. If, after completion of the exchange offer, PartnerRe and its affiliates own at least 90% of the outstanding PARIS RE common shares, PartnerRe will effect a compulsory merger in accordance with Swiss law to acquire all remaining outstanding PARIS RE common shares. In the merger, PARIS RE will be merged into a wholly-owned subsidiary of PartnerRe with the PartnerRe subsidiary surviving the merger.

The consideration payable in each step of the acquisition will be 0.300 PartnerRe common shares per PARIS RE common share and 0.167 PartnerRe common shares per PARIS RE warrant. The consideration payable in each step of the acquisition is subject to adjustment up or down if the parties' relative tangible book values per share diverge significantly relative to each other prior to the closing of the block purchase. In addition, the consideration payable in the exchange offer and the merger is subject to adjustment upwards to account for any dividends or other cash distributions on the PartnerRe common shares with a record date on or after the closing of the block purchase and prior to the settlement of the exchange offer.

Immediately prior to the closing of the block purchase, PARIS RE intends, subject to obtaining the requisite regulatory approvals, to effect an extraordinary cash distribution (the "share capital repayment") by way of a capital reduction to all PARIS RE shareholders in the amount of CHF 4.17 per PARIS RE common share (the Swiss franc equivalent of \$3.85 as of July 7, 2009, the date on which PARIS RE fixed the U.S. dollar/Swiss franc currency exchange rate to be used for the extraordinary cash distribution). To the extent that the share capital repayment is not made in full immediately prior to the closing of the block purchase, the remaining portion will be paid (i) to the shareholders selling their PARIS RE common shares and PARIS RE warrants to PartnerRe at or contemporaneously with the block purchase at the closing of the block purchase in the form of a PartnerRe promissory note and (ii) to all other holders of PARIS RE common shares in the form of cash by way of a capital distribution from PARIS RE immediately prior to the settlement of the exchange offer.

PARIS RE will convene an extraordinary shareholder meeting on August 11, 2009 to request that its shareholders vote upon the appointment of new directors upon closing of the block purchase, the removal of the provision in its articles of incorporation that imposes the filing of a cash tender offer by any entity which acquires more than one third of its voting rights and the approval of the share capital repayment. The sellers in the block purchase along with certain other selling shareholders have agreed to vote in favor of such resolutions.

The acquisition is subject to, among other things, PartnerRe shareholder approval of the issuance of new shares to be paid as consideration to PARIS RE shareholders, the obtaining of relevant regulatory and anti-trust approvals, the listing of PartnerRe shares on Euronext Paris or another European stock exchange and other customary closing conditions.

#### **Capital Management:**

On July 9, 2009 PARIS RE Holdings Limited announced that, in connection with the transaction with PartnerRe, a conditional capital distribution by way of a reduction of the nominal value of PARIS RE's shares will be proposed to the Extraordinary General Meeting of shareholders to be held on August 11, 2009 and will amount to up to CHF4,17 per share, the CHF equivalent of US \$3,85 as of July 7, 2009, the date on which PARIS RE fixed the U.S. dollar/Swiss franc currency exchange rate to be used for the extraordinary cash distribution.

PARIS RE intends to implement this distribution, subject to the conditions set forth in the agreements entered into with PartnerRe on July 4, 2009 being satisfied and requisite regulatory approvals being obtained, immediately prior to the closing of the block purchase by PartnerRe of approximately 57,5% of PARIS RE's outstanding shares, which purchase is expected to take place in the fourth quarter of 2009. If the share capital repayment is not paid in full prior to the closing of the block purchase due to, among other things, the failure to obtain all necessary regulatory approvals, each holder of PARIS RE common shares that holds PARIS RE common shares on the relevant record date occurring shortly prior to the settlement of the exchange offer (including PartnerRe with respect to the PARIS RE common shares owned by PartnerRe and its subsidiaries at that time) will receive the remaining per share portion in the form of cash by way of a capital distribution from PARIS RE immediately prior to the settlement of the exchange offer. The cash payment, however, will only be paid if the exchange offer is settled.

# **Independent Group Auditor's Review Report on the Consolidated Financial Statements as of June 30, 2009**

## *Introduction*

We have reviewed the accompanying consolidated balance sheet of PARIS RE Holdings Limited as of June 30, 2009 and the related consolidated statements of income, changes in equity and cash flows for the six-month period then ended, and a summary of significant accounting policies and other explanatory notes. Management is responsible for the preparation and fair presentation of this interim financial information in accordance with International Financial Reporting Standards as adopted by the European Union and the International Financial Reporting Standards as issued by the International Accounting Standards Board. Our responsibility is to express a conclusion on this interim financial information based on our review.

## *Scope of Review*

We conducted our review in accordance with International Standard on Review Engagements 2410, "Review of Interim Financial Information Performed by the Independent Auditor of the Entity". A review of interim financial information consists of making inquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures. A review is substantially less in scope than an audit conducted in accordance with International Standards on Auditing and consequently does not enable us to obtain assurance that we would become aware of all significant matters that might be identified in an audit. Accordingly, we do not express an audit opinion.

## *Conclusion*

Based on our review, nothing has come to our attention that causes us to believe that the accompanying interim financial information does not give a true and fair view of the financial position of the Group as at June 30, 2009, and of its financial performance and its cash flows for the six-month period then ended, in accordance with International Financial Reporting Standards as adopted by the European Union and International Financial Reporting Standards as issued by the International Accounting Standards Board. Without qualifying our opinion, we draw attention to note 2.1 to the financial statements describing the impact of the adoption of IFRS 8 "Operating segments".

Geneva, August 10, 2009

**MAZARS CORESA**

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Jean-Claude Pauly  
*Auditor in charge*

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Jacques Fournier

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## Statement of the Person Responsible

I certify that, to the best of my knowledge, the condensed financial statements as of June 30, 2009 have been prepared in accordance with the applicable accounting standards and provide a true and fair view of the assets, liabilities, financial position and results of PARIS RE Holdings Limited and all consolidated entities, and that the half year management report on page 3 *et seq.* includes a fair review of the material events that occurred in the first six months of the financial year and their impact on the interim financial statements, the main related-party transactions and a description of the main risks and uncertainties for the remaining six months of the year.

August 13, 2009

Hans Peter Gerhardt  
Chief Executive Officer

### ***Cautionary Statement Regarding Forward-Looking Statements***

This communication may contain “forward-looking statements” about PARIS RE and PartnerRe within the meaning of the “safe harbor” provisions of the Private Securities Litigation Reform Act of 1995. These forward-looking statements are based on PARIS RE’s and PartnerRe’s assumptions and expectations concerning future events and financial performance, in each case, as they relate to PARIS RE, PartnerRe or the combined company. Such statements are subject to significant business, economic and competitive risks and uncertainties that could cause actual results to differ materially from those reflected in the forward-looking statements. These forward-looking statements could be affected by numerous foreseeable and unforeseeable events and developments such as exposure to catastrophe, or other large property and casualty losses, adequacy of reserves, risks associated with implementing business strategies and integrating new acquisitions, levels and pricing of new and renewal business achieved, credit, interest, currency and other risks associated with the PARIS RE’s, PartnerRe’s, or the combined company’s investment portfolio, changes in accounting policies, the risk that a condition to closing of the proposed transaction may not be satisfied, the risk that a regulatory approval that may be required for the proposed transaction is not obtained or is obtained subject to conditions that are not anticipated, failure to consummate or delay in consummating the proposed transaction for other reasons, and other factors identified in PartnerRe’s filings with the United States Securities and Exchange Commission and in PARIS RE’s Registration Document (Document de Référence) filed with the Autorité des Marchés Financiers (the French securities regulator, the “AMF”) on April 29, 2009 under the n° R.09-036, which is also available in English on PARIS RE’s web site (<http://www.paris-re.com>). In light of the significant uncertainties inherent in the forward-looking information contained herein, readers are cautioned not to place undue reliance on these forward-looking statements, which speak only as of the dates on which they are made. Each of PARIS RE and PartnerRe disclaims any obligation to publicly update or revise any forward-looking information or statements.

PARIS RE Holdings Limited does not communicate a “profit forecast” in the sense of Article 2 of (EC) Regulation n°809/2004 of the European Commission. Thus, any forward-looking statements contained in this press release should not be held as corresponding to such profit forecasts.

### ***Additional Information and Where to Find It***

PartnerRe has filed a preliminary proxy statement and will file a final proxy statement and if required by the applicable laws and regulations, an exchange offer prospectus with the United States Securities and Exchange Commission (the “SEC”) in connection with the proposed transactions. PARIS RE and PartnerRe urge investors and shareholders to read such documents as soon as they become available and any other relevant documents filed with the SEC because they will contain important information. When these documents are filed, investors and shareholders may obtain these documents free of charge at the website maintained by the SEC at [www.sec.gov](http://www.sec.gov). In addition, documents filed with the SEC by PartnerRe are available free of charge by contacting Robin Sidders, Director of Investor Relations, PartnerRe Ltd., 90 Pitts Bay Road, Pembroke, Bermuda HM 08, (441) 292-0888 or on the investor relations portion of the PartnerRe website at [www.partnerre.com](http://www.partnerre.com). An information document and a document in response will be filed with the AMF and will be published and available on the website of the AMF ([www.amf-france.org](http://www.amf-france.org)).

### ***Important Information for Investors and Shareholders***

This communication shall not constitute an offer to sell or the solicitation of an offer to buy any securities, nor shall there be any sale of securities in any jurisdiction in which such offer, solicitation or sale would be unlawful prior to registration or qualification under the securities laws of any such jurisdiction. The distribution of this communication may, in some countries, be restricted by law or regulation. Accordingly, persons who come into possession of this document should inform themselves of and observe any such restrictions.

Subject to satisfaction of certain conditions precedent, PartnerRe will file an exchange offer for PARIS RE shares and warrants to purchase such shares. The offer remains subject to review by the AMF.

### **Contact and information**

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