

REPORT ON EXAMINATION
OF THE
PARIS RE AMERICA INSURANCE COMPANY
AS OF
DECEMBER 31, 2008

Karen Weldin Stewart, CIR-ML
Commissioner



Delaware Department of Insurance

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The above-captioned Report was completed by examiners of the Delaware Department of Insurance.

Consideration has been duly given to the comments, conclusions and recommendations of the examiners regarding the status of the Company as reflected in the Report.

This Report is hereby accepted, adopted and filed as an official record of this Department.

A handwritten signature in black ink, appearing to be "Karen Weldin Stewart".

Karen Weldin Stewart, CIR-ML
Insurance Commissioner

Dated this 30th day of June, 2010

Karen Weldin Stewart, CIR-ML
Commissioner



Delaware Department of Insurance

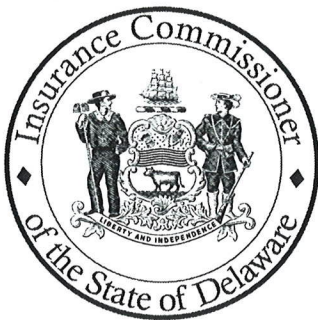
I, Karen Weldin Stewart, Insurance Commissioner of the State of Delaware, do hereby certify that the attached REPORT ON EXAMINATION, made as of December 31, 2008 of the

PARIS RE AMERICA INSURANCE COMPANY

is a true and correct copy of the document filed with this Department.

Attest By: *Sonia C. Harris*

Date: 30 June 2010



In Witness Whereof, I have hereunto set my hand and affixed the official seal of this Department at the City of Dover, this 30th day of June 2010.

Karen Weldin Stewart, CIR-ML
Insurance Commissioner

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SALUTATION

May 31, 2010

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Honorable Karen Weldin Stewart, CIR-ML
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Dear Commissioners:

In compliance with instructions and pursuant to statutory provisions contained in Certificate of Authority No. 09.023, dated June 3, 2009, an examination has been made of the affairs, financial condition and management of the

PARIS RE AMERICA INSURANCE COMPANY

hereinafter referred to as “Company” or “PRAIC”, incorporated under the laws of the State of Delaware as a stock company with its statutory home office located at 1209 Orange Street,

Wilmington, Delaware. The examination was conducted at the principal offices of the Company located at 801 Brickell Avenue, Suite 850, Miami, FL 33131. The examination report thereon is respectfully submitted.

SCOPE OF EXAMINATION

The last examination was as of December 31, 2004. This examination covered the period of January 1, 2005, through December 31, 2008, and encompasses a general review of transactions during the period; the Company's business policies and practices; as well as management and relevant corporate matters; with a determination of the financial condition of the Company at December 31, 2008. Transactions subsequent to the examination date were reviewed where deemed necessary.

We conducted our examination in accordance with the National Association of Insurance Commissioners (NAIC) *Financial Condition Examiners Handbook* (Examiners Handbook). The Examiners Handbook requires that we plan and perform the examination to evaluate the financial condition and identify prospective risks of the Company by obtaining information about the Company including corporate governance, identifying and assessing inherent risks within the Company and evaluating system controls and procedures used to mitigate those risks. The examination included assessing the principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation, management's compliance with Statutory Accounting Principles and annual statement instructions when applicable to domestic state regulations.

All accounts and activities of the Company were considered in accordance with the risk-focused examination process. This examination report addresses regulatory issues revealed during the examination process. During the course of this examination, consideration was given

to work performed by the Company's external accounting firm, Mazars, LLP (Mazars). Certain auditor work papers have been incorporated into the work papers of the examiners and have been utilized in determining the scope and areas of emphasis in conducting the examination.

The Sarbanes-Oxley Act was not applicable to the Company at December 31, 2008 due to ownership by a non-US company.

SUMMARY OF SIGNIFICANT FINDINGS

There were no material adverse findings, significant non-compliance findings or material changes in the financial statements.

SUBSEQUENT EVENTS

2009 Acquisition by PartnerRe

On October 2, 2009, PARIS RE Holdings Limited (PARIS RE Holdings) received regulatory approval for merger with PartnerRe, Ltd. (PartnerRe), a global multi-line reinsurer. On December 7, 2009, PartnerRe completed its acquisition of 100% of the outstanding common shares of PARIS RE Holdings, following the approval by PARIS RE Holdings shareholders of the previously announced merger.

Earthquakes and Other Natural Catastrophes

On Tuesday, January 12, 2010, a 7.0-magnitude earthquake occurred in Haiti. On February 27, 2010, an 8.8-magnitude earthquake occurred in Chile. The Company reported March 31, 2010, that its net loss exposure could reach \$15 million for the two catastrophes.

Windstorm Xynthia struck Western Europe over the weekend of February 27-28, 2010. The Company has some exposure in the resulting damage.

HISTORY

The following events have occurred since the prior examination as of December 31, 2004:

- On December 15, 2006, the Delaware Commissioner of Insurance approved acquisition of the Company by PARIS RE Holdings (through acquisition of AXA RE – France by PARIS RE Holdings).
- On January 31, 2007, with approval by the Delaware Secretary of State, AXA RE America Insurance Company changed its name to PARIS RE America Insurance Company.
- On December 7, 2009 PartnerRe Ltd. (Bermuda) acquired 100% of the outstanding common shares of PARIS RE Holdings.

2006 Acquisition by PARIS RE Holdings Limited

On April 7, 2006, AXA RE, the parent of AXA RE – France, announced receipt of a binding offer from PARIS RE Holdings for the business of the Company's parent, AXA RE – France. PARIS RE Holdings was a newly created company sponsored by a consortium of investors such as Trident III, L.P.: a fund managed by Stone Point Capital LLC, AXA RE with 5% to 10%; Hellman & Friedman; Vestar Capital Partners; Crestview Capital Partners; ABN Amro; New Mountain Capital.

The business of AXA RE – France was ceded in 2007 to PARIS RE Holdings. On November 28, 2006, a hearing was held for a decision on the Form A filing for acquisition by PARIS RE Holdings of the Company. On December 15, 2006, the Form A filing was approved by the Delaware Commissioner of Insurance.

As part of the overall transaction, PARIS RE Holdings also acquired AXA RE Latin America Inc. and AXA SPACE Inc. on December 21, 2006. On January 1, 2008, the business of the two organizations was conveyed to the Company.

The Company at December 31, 2008, was a wholly owned subsidiary of PARIS RE – France. PARIS RE – France was owned by PARIS RE Holdings of which approximately 15% was publicly traded on the Paris Stock Exchange (Euro next).

2009 Acquisition by PartnerRe Ltd.

On December 7, 2009, PartnerRe completed the acquisition of 100% of the outstanding common shares of PARIS RE Holdings Limited (Switzerland).

Capitalization

The Company had 55,000 shares authorized with a par value of \$60 per share. At December 31, 2008, there were 50,000 shares issued providing the Company with capital of \$3,000,000. The schedule below shows the changes in the Company's capital and surplus from the previous examination to the current examination.

	Common Capital Stock	Gross Paid-In & Contributed Surplus	Unassigned Funds (Surplus)	Total Capital and Surplus
December 31, 2004	\$ 3,000,000	\$ 32,005,475	\$ 13,411,516	\$48,416,991
2005 Operations			(647,291)	2,166,316
2006 Operations			2,166,316	2,166,316
2007 Operations			2,043,423	2,043,423
2008 Operations		(1) 106,864,265	(5,800,865)	101,065,407
December 31, 2008	\$3,000,000	\$138,869,739	\$11,173,099	\$155,858,453

(1) The change in Gross Paid-in & Contributed Surplus of \$106,864,265 in 2008 was the result of a cash contribution from the Parent of \$100,000,000 and increases resulting from the assumed business from AXA Space Inc. and PARIS RE Latin America, Inc. The

capital contribution was reported to the Delaware Department of Insurance as required in 18 Del. C. § 5005. “Standards and management of an insurer within a holding company system.”

CORPORATE RECORDS

The recorded minutes of the shareholder and Board of Directors (Board) were reviewed for the period under examination. The minutes of the Board made reference to a 401 (k) compensation committee, but no minutes were found to exist. The recorded minutes of the Board adequately documented its meetings and approval of Company transactions and events, including approval of investments.

MANAGEMENT AND CONTROL

Pursuant to the general Corporation Laws of the State of Delaware, as implemented by the Company’s Certificate of Incorporation and bylaws, the property and business of the Company shall be managed by the Board of Directors. The number shall be no fewer than three or more than nine.

Directors are elected at the annual meeting of the stockholders and serve until such person's successor shall be elected and qualified.

If the office of any director or member of a committee becomes vacant, the remaining directors in office, though less than a quorum, may appoint any qualified person to fill such vacancy. They shall hold office for the unexpired term or until such person's successor shall be duly chosen.

The Board shall exercise all of the powers of the Company except for those powers as the law, Articles of Incorporation or the bylaws conferred upon or reserved for the stockholders. A majority of directors shall constitute a quorum. Any action may be taken without a meeting, if a

written consent thereto is signed by all members of the Board. The Board may designate one or more committees.

The Directors, duly elected in accordance with the Company's bylaws and serving as of December 31, 2008, are as follows:

<u>Name</u>	<u>Principal Occupation</u>
Jean-Luc Robert Gourgeon	Chairman of the Board of Directors of the Company and Chief Executive Officer of PARIS RE – France
Michel Albert Frederic Plecy	Executive Vice President of PARIS RE – France
Christophe Boizard	Chief Financial Officer of PARIS RE – France
Frank Dominic Papalia	General Counsel of PARIS RE – France

All Directors named above are members of the Management Board of PARIS RE Holdings.

The bylaws indicate that the officers of the corporation shall include a President, a Treasurer, and a Secretary, all of whom shall be elected by the Board. The Board may also elect a Chairman, a Chief Executive Officer, one or more Vice-Presidents, Assistant Secretaries, Assistant Treasurers and such other officers as they may deem proper. None of the officers need be Directors. The officers shall be elected at the annual meeting of the Board. Two or more offices may be held by the same person.

The following officers were elected and serving at December 31, 2008.

<u>Name</u>	<u>Office</u>
Edmund J. Kelly	President and Chief Executive Officer
Sandro Chavannes	Vice President and Secretary
Francois Blaizot	Treasurer and Chief Financial Officer

Written correspondence was submitted to the Delaware Department of Insurance in regards to the changes in officers and directors during the period under examination in compliance with 18 Del. C. § 4919, “Change of directors, officers; notice”.

Corporate Governance

The Company maintains an Entity Level Controls document which describes corporate governance and internal control procedures set up by the Company. The document describes composition and authority of the Board of Directors and Officers of the Company and provides guidelines for operations. The framework and objectives of internal control are also documented.

Audit Committee

The Company, with only 40 employees, does not have its own Audit Committee or internal audit division. Audit activities are performed through a Group Audit Committee established by the Board of Directors of PARIS RE Holdings, the ultimate parent. An independent Enterprise Risk Management and Internal Audit (ERMIA) Division is located in Paris at PARIS RE – France and services all of the PARIS RE Holdings’ companies.

Enterprise Risk Management & Internal Audit (ERMIA) Division

At inception of PARIS RE Holdings, the Board of Directors established the Underwriting & Risk Management Committee among three designated committees to assist the Board in carrying out its mission of control and supervision.

The principal mission of the Committee is to review PARIS RE Holdings' technical risk management processes and procedures. The Committee also monitors and controls global underwriting policies and policies governing reinsurance coverage, delegation of underwriting authority and aggregate risk exposure by line of business and geographic area.

Permanent members of the Committee include the Chief Underwriting Officer, the Chief Financial Officer and the Chief Risk Officer.

The Enterprise Risk Management & Internal Audit (ERMIA) Division is a Group central function dedicated to Risk Management, Internal Audit and Internal Control as well as Internal Modeling.

The Division acts as the second level of control between operations and external controls in the global scheme of the Internal Control System. The Division has no functional or geographical limitation and, therefore, covers the Company's activities.

The ERMIA Division is led by the Group Chief Risk Officer (CRO) who reports directly to the Group Audit Committee of the PARIS RE – France's Board of Directors. The CRO monitors, supervises and consolidates risks and controls information from operations, both at local and Group central function levels.

Risk Assessment

The Division of Enterprise "Risk Management and Internal Auditing" has set a global methodology used to identify and monitor risks. The risk typology covers all areas of PARIS RE Holdings' activities:

- Production (underwriting, rating, exposure);
- Financial market operations (investments, liquidity, insolvency);
- Technological infrastructure and data processing;
- Human resources and outsourcing;

- Legal and regulatory compliance and;
- Business operations (interruption, integrity, reputation).

The quantification of risk includes measurement for financial impact as well as probability of occurrence. Both elements are evaluated based on information provided by PARIS RE Holdings' key personnel and officers and are components of a matrix in which risks are positioned for reasons of comparison and identification of the most significant exposures; which provides for a common and accurate risk mapping system.

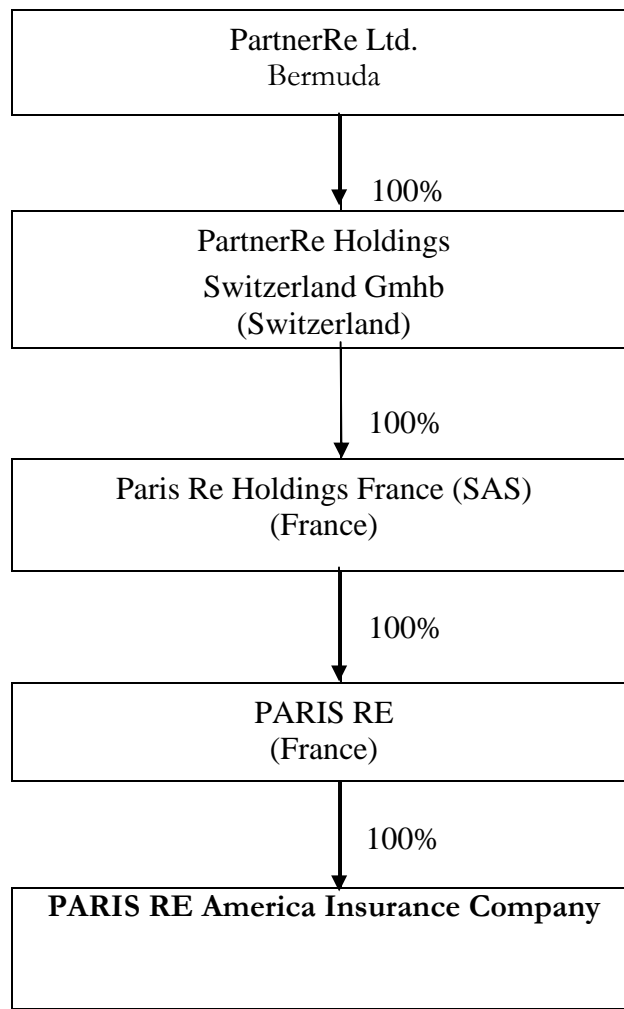
HOLDING COMPANY SYSTEM

The Company is a member of an insurance holding company system as defined under Chapter 50, "Insurance Holding Companies" of the Delaware Insurance Code. The immediate parent of the Company at December 31, 2008 was PARIS RE – France, who is ultimately owned 100% by PARIS RE Holdings Limited (Switzerland).

On December 7, 2009, and subsequently to the date of examination, the Company was acquired by PartnerRe Ltd. (Bermuda). The following organizational chart depicts the Company's relationship within the holding company system at December 31, 2009 (to reflect current ownership):

ORGANIZATIONAL CHART

DECEMBER 31, 2009



AFFILIATED AGREEMENTS

The following agreements were in effect between the Company and its parent at December 31, 2008:

Claims Guarantee Agreement

Effective June 7, 2007, PARIS RE – France and the Company entered into a claims guarantee agreement under which PARIS RE – France agreed to take all actions in order to

enable the Company at all times to maintain a solvency margin ratio at or above the minimum levels required by applicable laws and regulations in each jurisdiction where licensed to conduct business, and to be in a position to pay any and all claims in a timely fashion in accordance with the terms and conditions of the policies issued. If the Company should fail for any reason to pay any due and payable claim in a timely fashion, then PARIS RE – France undertakes to provide the Company with cash in an amount sufficient to ensure that the Company has resources sufficient to promptly and fully pay all due but unpaid claims. The agreement was approved by the Delaware Department of Insurance on July 16, 2007.

Retrocession Management and Services Agreement

Effective October 1, 2007, PARIS RE – France and the Company entered into an agreement where PARIS RE – France acts as an agent procuring retrocessional protections on behalf of the Company as the principal. PARIS RE – France regularly provides the Company with services in negotiations, pricing and management of its retrocession arrangements with external retrocessionaires in order to assist the Company in carrying on and developing its business. PARIS RE – France is not paid any management fee or other fee under the agreement for procuring retrocessions; the Company pays only the pro-rata cost of the retrocessions covering its business. The agreement was approved by the Delaware Department of Insurance on July 16, 2007.

Administrative Services Agreement-Life

Effective January 1, 2008, PARIS RE – France and the Company entered into an administrative services agreement under which the Company agreed to perform underwriting and servicing with respect to pure life and related reinsurance business in Latin American and

Caribbean countries, and reinsurance business packages containing pure life business on behalf of PARIS RE – France. This business was written through PARIS RE Latin America, Inc., which previously was an MGA of PARIS RE – France, now in run-off. The Company is being delegated functions by PARIS RE – France, and thus is the service provider under the agreement. The agreement was approved by the Delaware Department of Insurance on December 13, 2007.

Administrative Services Agreement-Information Technology Services/Other

Effective January 1, 2008, PARIS RE – France and the Company entered into a second administrative services agreement under which PARIS RE – France agreed to perform a variety of management services for the Company. The bulk of the charges are for information technology services. The agreement was approved by the Delaware Department of Insurance on March 12, 2009.

Stock Chargeback Agreement

Effective October 6, 2008, PARIS RE Holdings and the Company entered into a stock chargeback agreement under which the Company repays PARIS RE Holdings for the cost of grants of restricted stock and options to the Company's employees. The agreements and a subsequent amendment defining allocation of cost were approved by the Delaware Department of Insurance on November 18, 2008, and March 12, 2009, respectively.

Federal Income Taxes

The Company at December 31, 2008 and 2007, filed its federal income taxes on a stand alone basis. The Company filed on a consolidated basis with members of the AXA RE America Inc. Holding Company from September 30, 2004 through 2006.

FIDELITY BONDS AND OTHER INSURANCE

The Company provided a master policy (fidelity bond) from PARIS RE Holdings, and identified as a Corporate Guard Comprehensive Crime for Financial Institutions policy, the European equivalent of a U.S. fidelity bond. The coverage provided by this policy was found adequate for the minimum fidelity bond coverage suggested in guidelines of the *NAIC Financial Examiners Handbook*.

In addition to the fidelity bond, the Company had the following insurance coverage in place at December 31, 2008:

- Commercial Package
- General Liability Coverage
- Business Automobile Coverage
- Property Portfolio Protection
- Business Auto Policy
- Workers Compensation and Employers Liability Policy
- Commercial Umbrella Policy
- World Risk Policy/Foreign Commercial Package Policy
- Windstorm Policy

PENSIONS, STOCK OWNERSHIP AND INSURANCE PLANS

Pension

During 2008, the Company participated in a 401(k) Plan for all eligible employees. The Plan consists of employee 401(k) elective contributions, matching contributions and Company

non-elective contributions. The Company matches 100% of the employees' contribution up to a maximum of 5% of the employees' salary, subject to the limit by the Internal Revenue Code.

Stock Ownership

In 2006, PARIS RE Holdings implemented an Equity Incentive Plan as incentive for attracting, retaining and motivating corporate officers and employees, and to provide PARIS RE Holdings and its subsidiaries with a share plan providing incentives directly linked to shareholder value. In 2008, the Company formalized a new Restricted Stock Unit (RSU) Plan, whereby PARIS RE Holdings granted RSUs or stock options to subscribe/purchase common stock of PARIS RE Holdings to qualified employees and officers of the Company. The Company shall reimburse to PARIS RE Holdings the cost attached to the transferred common treasury stock.

A Stock Award Chargeback Agreement, effective October 6, 2008, providing for allocation of costs of restricted stock and option awards made by PARIS RE Holdings to employees of the Company and reimbursement to PARIS RE Holdings was submitted to, and approved by the Delaware Department of Insurance.

Insurance Plans

Employees of the Company are also eligible for Medical, Dental, Group Life Insurance and AD&D, and Long Term / Short Term Disability Coverage.

TERRITORY AND PLAN OF OPERATION

Territory

The Company was licensed to write business in all 50 states, the District of Columbia, Puerto Rico, U.S. Virgin Islands and 15 Central and South American countries.

Operations

Effective January 1, 2008, the Company acquired AXA Space Inc. and PARIS RE Latin America Inc. from its immediate parent, PARIS RE – France, and commenced direct servicing of this business. The following describes the major categories of the business acquired:

Space – This business insures large commercial satellite operations and is written through brokers worldwide. There is some associated reinsurance written with this program as well.

Facultative (US) – This business relates primarily to facultative property and energy business and is written through a limited number of brokers countrywide.

Latin America and Caribbean Accident and Health, Treaty and Facultative
Approximately 95% of this business is written through brokers in London, the US, Latin America and the Caribbean, or directly from insurance companies (5%) in Latin America and the Caribbean. It is primarily non-proportional reinsurance coverage for insurance companies selling medical coverage for doctors, hospitals and Medicare personnel. Treaty coverage provides excess of loss and proportional coverage for catastrophe exposures. Facultative coverage applies to property (utility and energy).

Program Business

Since 2002, the Company has continued to exit the program business segment.

- Cabrillo Program Business: Non-standard auto in California, which is subject to mandatory renewal continues in runoff;
- ICAT Program: Property-catastrophe program business written from 2001 to 2003. No new business has been written under this program since 2005.

As part of this strategy, the Company has issued notices of non-renewal to its managing general agents. There is very little net claim liability associated with this business since the Company has in place a 100% retrocession arrangement for both Programs.

Subsequent to year-end 2008, the Company exited its accident and health reinsurance business, but remains to service the business.

Premium Writings

Premium writings remained static through most of the years under examination, 2005 through 2008. The business acquired from the Company's immediate parent, PARIS RE – France, during 2008, is evidenced in the following schedule. Premium writings since January 1, 2005 through December 31, 2008, as taken from "Part 1B – Premiums Written" of the annual statements:

Year	Direct Business	Premiums Assumed	Premiums Ceded	Net Written Premiums
2005	\$ 5,358,367	\$ 47,008	\$ 5,238,206	\$ 167,169
2006	3,537,957	128,480	4,331,695	(665,258)
2007	2,561,211	37,047	2,573,447	24,811
2008	11,927,536	119,795,179	102,798,293	28,924,422

Ninety-one percent (91%) of the direct business in 2008 was produced by space business, formerly AXA RE Space Inc. The remaining nine percent (9%) of direct business is from run-off business. Premiums assumed of \$120 million are from the core facultative, Latin America and Caribbean accident and health, and treaty and facultative business. Premiums ceded totaling \$103 million are comprised of primary cessions of \$16 million to non-affiliates, and \$87 million under a seventy-five percent quota share to PARIS RE (Switzerland) SA.

All policy files are processed and maintained through operating systems extended to the Company by PARIS RE Holdings, the direct parent of PARIS RE – France, and ultimate parent of the Company.

GROWTH OF THE COMPANY

The following information was obtained from the Company's filed Annual Statements and covers the four-year period since the previous exam:

<u>Year</u>	<u>Admitted Assets</u>	<u>Surplus as Regards Policyholders</u>	<u>Net Premium Written</u>	<u>Net Income</u>
2008	\$ 276,904,770	\$ 153,042,839	\$ 28,924,422	\$ (2,170,874)
2007	55,752,790	51,979,439	24,811	1,781,076
2006	56,757,572	49,936,016	(665,258)	2,104,823
2005	\$ 59,454,414	\$ 47,769,700	\$ 167,169	\$ (824,651)

Growth of the Company remained static for the three-year period prior to 2008, as no new business was being written and there was only run-off of Program Business previously written by AXA and mandatory renewals of the run-off business. The dramatic increase in 2008 is the result of acquisition of AXA Space Inc. and PARIS RE Latin America, Inc. and new, facultative business from the New York office.

Increases in Admitted Assets and Surplus as Regards Policyholders is the result of a cash contribution by the parent of \$100 million in 2008, and the contributed value of the business of AXA Space Inc. and PARIS RE Latin America, Inc. of \$6.8 million to the Company effective January 1, 2008.

LOSS EXPERIENCE

There were no unusual values for loss experience noted in the Company's IRIS ratios for 2008.

REINSURANCE

Assumed

The Company assumed approximately \$120 million in premiums in 2008. The amount was comprised of reinsurance from non-U.S. reinsurers totaling \$107 million, and reinsurance from unaffiliated U.S. insurers totaling \$13 million.

Ceded

The Company ceded approximately \$103 million in premiums in 2008.

Effective January 1, 2008, the Company and PARIS RE Switzerland AG (PRSL) entered into a reinsurance agreement under which the Company is required to cede to PRSL and PRSL is required to reinsure, a 75% Quota Share Cession of all classes of business, excluding MGA business. Approximately 69% of the shares of PRSL are owned by PARIS RE Holdings and the remaining shares of PRSL are owned by PARIS RE Luxemburg S.a r t, a direct wholly owned subsidiary of PARIS RE Holdings. The Company is an indirect, wholly owned subsidiary of PARIS RE Holdings. This agreement was approved by the Delaware Department of Insurance on December 19, 2007.

ACCOUNTS AND RECORDS

Accounting services for underwriting, claims and financial reporting in runoff were provided by AXA RE to June 2007 under the acquisition agreement by PARIS RE Holdings. Effective June 1, 2007, Chilington USA, an unrelated party, by agreement began management of services previously provided by AXA RE. Chilington's duties included services relating to the mandatory renewal business in runoff, claims, technical accounting and state filing requirements.

In 2008, accounting and operating services of the Company were assumed by its own staff, including Program Business.

The Company maintains its records on a combination of client server, host, and network applications which utilize various reporting systems to record and report financial information.

The independent certified public accounting firm, Mazars LLP, audited the Company's records for the years ended 2006, 2007 and 2008. Audit reports and applicable work papers were made available for the examiners' use. PricewaterhouseCoopers rendered the audit for 2005, when the Company was under ownership of AXA.

The accounts and records review included an assessment of the Company's risk management process in identifying and controlling risks in the key operational areas of the Company. In making the assessment in each key area, processes were reviewed, risks were identified, operational and organizational controls were identified and tested, and the Company's methodology for assessing the effectiveness of the established mitigation factors was evaluated.

Information Technology Report

INS Services, Inc., Philadelphia, PA, performed a desk review of the Evaluation of Controls in Information Systems Questionnaire prepared by the Company. The desk review documented an

understanding of the IT control environment and provided an assessment of the Company's overall risk mitigation strategies/controls related to the Company's information systems for those policies and procedures represented to be in place as of December 31, 2008, and subsequent thereto. Results of the evaluation were noted in the Information Technology Report provided to the Company.

The Company's books and records were reviewed and compared to reported items and values in the annual statements. No material discrepancies were noted during this review.

STATUTORY DEPOSITS

<u>State</u>	<u>Description</u>	<u>Par Value</u>	<u>Fair Value</u>
AR	US Treasury Notes	\$ 100,000	\$ 111,008
DE	US Treasury Notes	\$3,150,000	\$ 3,314,674
GA	Evergreen Inst Treasury MMKT	\$ 50,000	\$ 50,000
IL	US Treasury Notes	\$ 50,000	\$ 50,822
KS	US Treasury Notes	\$ 600,000	\$ 706,080
KY	US Treasury Notes	\$ 100,000	\$ 109,875
LA	Capital One Bank	\$ 20,000	\$ 20,000
MA	US Treasury Notes	\$ 550,000	\$ 586,652
NE	US Treasury Notes	\$ 100,000	\$ 111,008
NM	US Treasury Notes	\$ 300,000	\$ 304,935
NC	US Treasury Notes	\$ 315,000	\$ 346,413
SC	US Treasury Notes	\$ 150,000	\$ 166,512
TN	US Treasury Notes	\$ 130,000	\$ 132,539
TX	US Treasury Notes	\$ 125,000	\$ 134,190
PR	Puerto Rico Commonwealth	<u>\$1,000,000</u>	<u>\$ 965,024</u>
	Total Statutory Deposits	<u>\$6,740,000</u>	<u>\$ 7,109,732</u>

FINANCIAL STATEMENTS

The following statements show the assets, liabilities, surplus and other funds of the Company, as determined by this examination, as of December 31, 2008.

Assets
Liabilities, Surplus and Other Funds
Statement of Income
Capital and Surplus Account
Analysis of Financial Statement Changes Resulting from Examination

Assets**As of December 31, 2008**

<u>Assets</u>	<u>Ledger Assets</u>	<u>Non-Admitted Assets</u>	<u>Net Admitted Assets</u>	<u>Note</u>
Bonds	\$ 171,688,339	\$ -	\$ 171,688,339	
Preferred stocks	604,629		604,629	
Common stocks	6,507		6,507	
Cash, cash equivalents and short short-term investments	47,243,850		47,243,850	
Investment income due and accrued	1,837,299		1,837,299	
Uncollected premiums	9,057,936	211,717	8,846,219	
Deferred premiums	39,185,097		39,185,097	
Amounts recoverable from reinsurers	4,421,142		4,421,142	
Current income tax recoverable	808,797		808,797	
Net deferred tax	2,715,674	1,500,320	1,215,354	
Electronic data processing equipment	111,370		111,370	
Furniture and equipment	263,723		263,723	(2)
Receivable from parent, subsidiaries & affiliates	139,383		139,383	
Aggregate write-ins for other than invested assets	<u>\$ 3,182,856</u>	<u>\$ 2,649,795</u>	<u>\$ 533,061</u>	
Totals	<u><u>\$ 281,266,602</u></u>	<u><u>\$ 4,361,832</u></u>	<u><u>\$ 276,904,770</u></u>	

Liabilities, Surplus and Other Funds

		<u>Note</u>
Losses	\$ 9,059,021	(1)
Loss adjustment expenses	382,746	(1)
Commissions payable and contingent commission	(1,849,816)	
Other expenses	4,001,665	
Taxes, licenses and fees	20,382	
Federal and foreign income taxes	22,653	
Unearned premiums	11,058,888	
Advance premiums	3,868,211	
Ceded reinsurance premiums payable	74,856,865	
Funds held by company under reinsurance treaties	3,595,342	
Remittances and items not allocated	12,868,053	
Provision for reinsurance	712,000	
Payable to parent, subsidiaries and affiliates	962,878	
Aggregate write-ins for liabilities	<u>\$ 4,303,043</u>	
Total liabilities	<u>\$ 123,861,931</u>	
Common capital stock	3,000,000	
Gross paid-in and contributed surplus	138,869,740	
Unassigned funds (surplus)	<u>\$ 11,173,099</u>	
Surplus as regards policyholders	<u>\$ 153,042,839</u>	
Total	<u><u>\$ 276,904,770</u></u>	

Statement of Income

For the Year Ended December 31, 2008

Premiums earned	<u>\$ 18,013,380</u>
Deductions:	
Losses incurred	9,791,135
Loss expenses incurred	377,169
Other underwriting expenses incurred	16,058,532
Aggregate write-ins for underwriting deductions	<u>153,830</u>
Total underwriting deductions	<u>\$ 26,380,666</u>
Net underwriting gain (loss)	<u>\$ (8,367,286)</u>
 <u>Investment Income</u>	
Net investment income earned	6,193,373
Net realized gains or (losses)	<u>(1,338,683)</u>
Net investment gain or (loss)	<u>\$ 4,854,690</u>
 <u>Other Income</u>	
Aggregate write-ins for miscellaneous income	<u>\$ 1,341,722</u>
Net income before federal income taxes	(2,170,874)
Federal income taxes incurred	<u>0</u>
Net Income (Loss)	<u><u>\$ (2,170,874)</u></u>

Capital and Surplus Account

Capital and Surplus, December 31, 2007	<u>\$ 51,979,439</u>
Net income (loss)	(2,170,874)
Change in net unrealized foreign exchange capital gain (loss)	132,227
Change in net deferred income tax	1,302,514
Change in non-admitted assets	(4,352,732)
Change in provision for reinsurance	(712,000)
Surplus:	
Paid in	<u>106,864,265</u>
Change in surplus as regards policyholders for the year	<u>101,063,400</u>
Capital and Surplus, December 31, 2008	<u><u>\$ 153,042,839</u></u>

Analysis of Changes in Financial Statements

For the Year Ended December 31, 2008

There were no financial adjustments to the Company's financial statements as a result of this examination.

NOTES TO THE FINANCIAL STATEMENTS

Note 1	<u>Losses</u>	\$ 9,059,021
	<u>Loss Adjustment Expenses</u>	\$ 382,746

The above captioned amounts are the same as that reported by the Company in its 2008 Annual Statement.

The Department's consulting actuary INS Consultants Inc., (INS) was retained and performed an independent analysis of the Company's loss and loss adjustment expense (LAE) reserves as of December 31, 2008.

The INS review of loss and LAE consisted of analyzing the Company's book of business by line of business on both a gross and net basis. INS does not address the collectability of reinsurance recoverables from the Company's reinsurers. Should any of the Company's reinsurers fail to fulfill obligations as stated in their contracts, a contingent liability would need to be established.

The examination staff reviewed the Company's claims controls and determined that INS could rely upon the reserve data. The INS analysis employs standard reserving methodologies and techniques that are based upon the prevailing standards of the Casualty Actuarial Society and the American Academy of Actuaries. Loss and LAE reserves are subject to errors of estimation arising from the fact that the ultimate liability for claims evaluated as of the evaluation date is dependent on future contingent events which cannot always be anticipated. The possible

occurrence of such events, as well as the inherent uncertainty associated with statistical estimates, allows no guarantee that the actual ultimate liabilities will be the same as the reserve levels described in the actuary's report.

Note 2 Furniture and Equipment

\$ 263,723

The above captioned amount was reported by the Company in its 2008 Annual Statement as a Net Admitted Asset. Furniture and equipment (other than data processing, recordkeeping and accounting systems) are not allowed under 18 Del. C. § 1102. "Assets not allowed." No change in the financial statements of this report has been made since the amount was considered immaterial.

It is recommended that the Company comply with 18 Del. C. § 1102. "Assets not allowed."

COMPLIANCE WITH PRIOR EXAMINATION RECOMMENDATIONS

The Company has complied with the recommendations from the prior examination.

SUMMARY OF CURRENT RECOMMENDATIONS

- (1) The Company entered a Net Admitted Asset for furniture and equipment. Furniture and equipment (other than data processing, recordkeeping and accounting systems) are not allowed under 18 Del. C. § 1102. "Assets not allowed."

It is recommended that the Company comply with 18 Del. C. § 1102. "Assets not allowed."

CONCLUSION

The following schedule shows the results of this examination and the results of the prior examination with changes between the examination periods:

<u>Description</u>	<u>12/31/2008 Current Examination</u>	<u>12/31/2004 Prior Examination</u>	<u>Changes Increase (Decrease)</u>
Assets	<u>\$ 276,904,770</u>	<u>\$ 64,079,560</u>	<u>\$ 212,825,210</u>
Liabilities	\$ 123,861,931	\$ 15,662,569	\$ 108,199,362
Common capital stock	\$ 3,000,000	\$ 3,000,000	\$ -
Gross paid in and contributed capital	\$ 138,869,740	\$ 32,005,475	\$ 106,864,265
Unassigned funds (surplus)	<u>\$ 11,173,099</u>	<u>\$ 13,411,516</u>	<u>\$ (2,238,417)</u>
Total surplus as regards policyholders	<u>\$ 153,042,839</u>	<u>\$ 48,416,991</u>	<u>\$ 104,625,848</u>
Totals	<u>\$ 276,904,770</u>	<u>\$ 64,079,560</u>	<u>\$ 212,825,210</u>

The assistance of Delaware's consulting actuarial firm, INS Consultants, Inc. and INS Services, Inc. is acknowledged.

Respectfully submitted,



Donald M. Sanders, CFE
Examiner In-Charge
State of Delaware