



PRIMUS GUARANTY, LTD.

Clarendon House, 2 Church Street
Hamilton HM 11, Bermuda

**NOTICE OF 2013 ANNUAL GENERAL MEETING OF SHAREHOLDERS
TO BE HELD ON JULY 30, 2013**

NOTICE IS HEREBY GIVEN that the 2013 Annual General Meeting of Shareholders of Primus Guaranty, Ltd. (the "Company") will be held on July 30, 2013 at 8:00 A.M., Eastern Time, at the Park Hyatt Toronto, 4 Avenue Road, Toronto, Ontario M5R 2E8, Canada, for the following purposes:

1. To elect two Class I directors to hold office for three years and until their successors are elected and qualified;
2. To approve the reduction of the Company's share premium account to nil and correspondingly increase the contributed surplus of the Company;
3. To appoint Ernst & Young LLP as the Company's independent auditors and to authorize the Audit Committee of the Board of Directors to set the auditors' remuneration; and
4. To consider and act on such other business as may properly come before the meeting or any adjournment or postponement thereof.

During the meeting, management also will present the Company's audited consolidated financial statements for the fiscal year ended December 31, 2012. Copies of the audited consolidated financial statements are being mailed to shareholders together with the Proxy Statement.

Only holders of record of the Company's common shares, par value \$0.08 per share (the "Common Shares"), on June 14, 2013 are entitled to notice of, and to vote at, the 2013 Annual General Meeting of Shareholders and any adjournment or postponement thereof. **Whether or not you plan to attend the meeting, please register your vote as soon as possible to ensure that your Common Shares are represented at the meeting.** You may vote your Common Shares by completing and returning the proxy card enclosed with the Proxy Statement, over the Internet, or by telephone. Shareholders of record who attend the meeting may vote their Common Shares in person, even though they have sent in proxies by mail, over the Internet, or by telephone.

By Order of the Board of Directors,

A handwritten signature in black ink, appearing to read 'Scott H. Davis', written over a horizontal line.

Scott H. Davis
Secretary

June 20, 2013



PRIMUS GUARANTY, LTD.

Clarendon House, 2 Church Street
Hamilton HM 11, Bermuda

PROXY STATEMENT

**2013 ANNUAL GENERAL MEETING OF SHAREHOLDERS
TO BE HELD ON JULY 30, 2013**

This Proxy Statement is furnished in connection with the solicitation of proxies by the Board of Directors of Primus Guaranty, Ltd., a company organized under the laws of Bermuda (the "Company"), for use at the Company's 2013 Annual General Meeting of Shareholders (the "Annual General Meeting") to be held at the Park Hyatt Toronto, 4 Avenue Road, Toronto, Ontario M5R 2E8, Canada, on July 30, 2013 at 8:00 A.M., Eastern Time, and at any adjournments or postponements thereof.

The Notice of Annual General Meeting, this Proxy Statement, and the accompanying proxy card are first being sent or given to shareholders of the Company on or about June 20, 2013.

Purposes of Meeting

The purposes of the Annual General Meeting are to consider and act upon the following matters:

1. To elect two Class I directors to hold office for three years and until their successors are elected and qualified;
2. To approve the reduction of the Company's share premium account to nil and correspondingly increase the contributed surplus of the Company;
3. To appoint Ernst & Young LLP as the Company's independent auditors and to authorize the Audit Committee of the Board of Directors to set the auditors' remuneration; and
4. To consider and act on such other business as may properly come before the meeting or any adjournment or postponement thereof.

Record Date

Only holders of record of the Company's common shares, par value \$0.08 per share ("Common Shares"), at the close of business on June 14, 2013, the record date, are entitled to notice of, and to vote at, the Annual General Meeting or any adjournment or postponement thereof. The Company's Common Shares are its only outstanding class of voting securities. Each Common Share entitles the holder of record thereof to one vote. As of the record date, there were 24,125,564 Common Shares outstanding.

How You Can Vote

Shareholders of record can vote in one of the following ways:

- by completing, signing and returning the proxy card accompanying this Proxy Statement; or
- over the Internet, if you are a registered holder of Common Shares or if you hold your Common Shares through a broker, custodian bank, or other nominee (in "street name"), you may view the materials and follow the instructions at <http://www.envisionreports.com/prsg>; or
- over the telephone, by accessing the telephone voting system at 1-800-652-8683 and following the telephone voting instructions; or
- by attending the Annual General Meeting and voting in person.

Internet and telephone voting facilities will close at 11:59 P.M., Eastern Time, on July 29, 2013.

Shareholders who hold their Common Shares through a broker, custodian bank, or other nominee (in "street name") must vote their Common Shares in accordance with the procedures prescribed by their broker, custodian bank, or such nominee. Shareholders who

wish to vote using the proxy card accompanying this Proxy Statement should sign and return their signed proxies before the Annual General Meeting. The proxies will vote their Common Shares as they direct.

If a broker that is the holder of Common Shares indicates on a proxy that it does not have discretionary authority to vote those Common Shares on a Proposal, or if Common Shares are voted in other circumstances in which proxy authority is defective, those non-voted Common Shares (“broker non-votes”) will be counted as present for quorum purposes but as not voting on the Proposal.

Shareholders can specify whether their Common Shares should be voted for both, one, or neither of the nominees for director (Proposal One on the proxy card). They can also specify whether they approve, disapprove, or abstain from the other Proposals to be presented at the Annual General Meeting.

If you do not specify on your proxy card how you want to vote your Common Shares, the proxy holders will vote them “FOR” the election of both nominees for director as set forth under Proposal One, “FOR” Proposals Two and Three, and, with respect to any other matters which may properly come before the Annual General Meeting or any adjournment or postponement thereof, at the discretion of the proxy holders.

Revocation of Proxies

You may revoke your proxy at any time before it is exercised in any of the following ways:

- by notifying the Company’s Secretary in writing; or
- by submitting another proxy by mail, over the Internet, or by telephone that is received at a later date and that is properly signed or transmitted; or
- by voting in person at the Annual General Meeting.

You may not revoke a proxy merely by attending the Annual General Meeting. To revoke a proxy, you must take one of the actions described above.

Quorum and Required Votes

The presence, in person or by proxy, of two or more persons at the start of the Annual General Meeting and representing, in person or by proxy, in excess of 50 percent of the total issued Common Shares is necessary to constitute a quorum.

The affirmative vote of a majority of the Common Shares represented and voting at the Annual General Meeting is required for the election of directors, the reduction of the paid-in capital account, and the appointment of the Company’s independent auditors and authorization of the Audit Committee of the Board of Directors of the Company (the “Board”) to set the auditors’ remuneration.

Abstentions are counted as “shares present” at the meeting for the purposes of determining whether a quorum exists. However, since abstentions are not votes cast in favor of or against any matter, they will not affect the outcome of the vote. Proxies submitted by brokers that do not indicate a vote for some or all of the Proposals because they do not have discretionary voting authority and have not received instructions as to how to vote on those Proposals (“broker non-votes”) are also considered “shares present,” but will not affect the outcome of any vote.

Solicitation

The Company has hired Computershare and D.F. King & Co., Inc. for assistance in the distribution of proxy materials and the solicitation of proxies for an aggregate fee estimated at \$20,000 plus out-of-pocket expenses. This Proxy Statement, including the Notice of the Shareholder Meeting and the proxy card, will first be sent to shareholders on or about June 20, 2013. Proxies will be solicited on behalf of the Board by mail, in person, over the Internet, and by telephone. The Company will bear the cost of soliciting proxies. The Company also will reimburse brokers and other custodians, nominees, and fiduciaries for their reasonable out-of-pocket expenses for forwarding proxy materials to the persons for whom they hold Common Shares.

Audited Financial Statements

Under Bermuda law, audited financial statements must be presented to shareholders at an annual general meeting of shareholders. To fulfill this requirement, the Company will present at the Annual General Meeting its audited consolidated financial statements for fiscal year 2012. Copies of the audited consolidated financial statements are being mailed to shareholders together with this Proxy Statement and related materials.

Other Matters to Be Acted Upon

The Company does not know of any matters to be presented or acted upon at the meeting other than the items described in this Proxy Statement. If any other matter is presented at the Annual General Meeting on which a vote may properly be taken, the Common Shares represented by proxies will be voted at the discretion of the proxy holders.

Returning Your Proxy Card

Shareholders should register their votes by mail, over the Internet, or by telephone as soon as possible. In order to assure that your proxy is received in time to be voted at the Annual General Meeting, the proxy card must be completed in accordance with the instructions on it. If your Common Shares are held in street name, you should return your proxy card or voting instruction card in accordance with the instructions on that card or as provided by the custodian bank, brokerage firm, or other nominee that holds Common Shares on your behalf.

IMPORTANT NOTICE REGARDING THE AVAILABILITY OF PROXY MATERIALS FOR THE 2013 ANNUAL GENERAL MEETING OF SHAREHOLDERS TO BE HELD ON JULY 30, 2013.

This Proxy Statement and the Company's 2012 Audited Consolidated Financial Statements are available at <http://www.envisionreports.com/prsg>

CORPORATE GOVERNANCE

Corporate Governance Practices

The following highlights key corporate governance practices applicable to the Board:

Board Leadership Structure

In accordance with the Company's Bye-laws, the Board elects the Company's Chairman and the Chief Executive Officer. Each of these positions may be held by the same person or may be held by two persons. It has been a long-standing policy of the Board for the positions to be separate and for the Chairman to be selected from the non-management directors, as the Board has determined that having an independent director serve as Chairman of the Board is in the best interest of shareholders. The Board believes such a structure ensures a greater role for the independent directors in the oversight of the Company and the active participation of the independent directors in setting agendas and establishing priorities and procedures for the work of the Board, as well as facilitating the independent directors' fulfillment of their responsibilities.

Board Organization

The Company's Board of Directors currently consists of seven members. The Company's Bye-laws provide for a staggered board of directors. The directors are divided into three classes. Each year one class of directors will stand for election for a term of three years. The current directors and their respective classes and terms are as follows:

- Michael P. Esposito, Jr. and James H. MacNaughton have been designated Class I directors whose terms will expire at this Annual General Meeting;
- Frank P. Filippis, Thomas J. Hartlage, and Vincent Vertin have been designated Class II directors whose terms will expire at the Company's 2015 Annual General Meeting of Shareholders; and
- Richard Claiden and Michael M. Sullivan have been designated Class III directors whose terms will expire at the Company's 2014 Annual General Meeting of Shareholders.

The Board currently maintains two standing committees: the Audit Committee and the Nominating and Corporate Governance Committee (the "Governance Committee"). Until May 1, 2012, the Board also had a Compensation Committee, but the duties and responsibilities of that committee have been assumed by the Governance Committee. (See "Committees of the Board of Directors" below.)

Corporate Governance Policies

The Board has adopted a series of corporate governance policies, which, together with the charters of its two committees, provide a framework for the corporate governance of the Company. Among the responsibilities of the Board are to (1) ensure that the Company

operates in a legal, ethical, and socially responsible manner, (2) select, evaluate, and offer substantive advice and counsel to the Company's Chief Executive Officer, (3) review, approve, and monitor fundamental financial and business strategies and major corporate actions, (4) oversee the Company's capital structure, financial policies, and practices, (5) assess major risks facing the Company and review options for their mitigation, and (6) provide counsel and oversight on the selection and evaluation of the Company's other senior management.

The Board has determined that all of the Company's current and nominated directors, except Mr. Claiden, are independent under the standards adopted by the Board since none of them have any material relationship with the Company which the Board believes would compromise their independence. Mr. Claiden is the Chief Executive Officer of the Company and of Primus Asset Management, Inc., a subsidiary of the Company ("Primus Asset Management"). The independence standards adopted by the Board provide that affiliation with a significant shareholder impairs a director's independence with respect to service on the Audit Committee and the Governance Committee. A copy of the independence standards adopted by the Board is available upon written request to the Company's Secretary. Every director must seek the consent of the Governance Committee and the Chairman of the Board to confirm the absence of any actual or potential conflict prior to accepting any invitation to serve on another corporate or, in the case of a management director, not-for-profit board of directors or with any government or advisory group.

The non-management directors of the Board meet in executive session from time to time without any management directors and any other members of the Company's management present to consider and discuss such issues that they deem important to address and such other matters they may deem appropriate. Generally, such executive session meetings follow the Board's regularly scheduled quarterly meetings, but may be held at any time, with more or less frequency, as the Board considers necessary, appropriate or advisable. Mr. Esposito, the Chairman of the Board, presides at the executive sessions.

In 2012, the Board held nine meetings. Each director attended 75 percent or more of the total number of meetings of the Board held in 2012.

Committees of the Board of Directors

The Board has the power to appoint committees to perform certain management and administration functions. The Board currently has its Audit Committee and its Governance Committee, and, until May 1, 2012, a Compensation Committee. The Company believes that the current members of the Audit Committee and the Governance Committee are "independent" under the standards adopted by the Board.

Audit Committee

The Audit Committee assists the Board in overseeing the integrity of the Company's financial statements, the Company's compliance with legal and regulatory requirements, the independent auditors' qualifications and independence, and the performance of the Company's independent audit function and independent auditors, as well as preparing an audit committee report as required by the rules of the U.S. Securities and Exchange Commission, to which the Company formerly was subject, to be included in this Proxy Statement. The Audit Committee, on behalf of the Board, also recommends to the shareholders the appointment and termination of an independent auditor to be engaged to audit the Company's financial statements; discusses with the independent auditors their independence; and reviews and discusses the audited financial statements with the independent auditor and management. The Audit Committee also monitors the Company's compliance with risk management policies which have been established by the Board. The Audit Committee currently consists of three members, all of whom are financially literate. Messrs. McNaughton (Chairman), Esposito, and Hartlage are the current members of this committee. The Audit Committee operates under a written charter that is available upon written request to the Company's Secretary. The Audit Committee held six meetings in 2012. Each member of the Audit Committee attended 75 percent or more of the total number of meetings of the Audit Committee held in 2012.

Governance Committee

The Governance Committee is responsible for the oversight of, and assists the Board in developing and recommending, the structure and operations of the Board, the responsibilities of each Board committee, the compensation of non-management directors and the principles upon which such compensation is determined, the Company's corporate governance policies (including independence standards for directors) and in selecting the director nominees to stand for election at annual general meetings of the Company's shareholders. Messrs. Esposito (Chairman), Filippis, Hartlage, and McNaughton are the current members of this committee. The Governance Committee also acts as the administrator of the Company's Incentive Compensation Plan. The Governance Committee operates under a written charter that is available upon written request to the Company's Secretary. The Governance Committee held five meetings in 2012. Each member of the Governance Committee attended 75 percent or more of the total number of meetings of the Governance Committee held in 2012.

Director Attendance at Annual General Meeting of Shareholders

The Company's policy is that the directors are expected to attend the Annual General Meeting of Shareholders unless extenuating circumstances prevent them from attending. All of the Company's then serving directors attended the 2012 Annual General Meeting of Shareholders.

Communications with Directors

Shareholders or other interested parties who wish to send communications on any topic to the Board or to the non-management directors as a group, or to the Chairman of the Board, Mr. Esposito, may do so by writing to Primus Guaranty, Ltd. at Clarendon House, 2 Church Street, Hamilton HM 11, Bermuda. Alternatively, they may write to Vincent B. Tritto, General Counsel, c/o Primus Asset Management, Inc., 360 Madison Avenue, 25th Floor, New York, NY 10017, U.S.A.

Code of Business Conduct and Ethics

The Company has adopted a Code of Business Conduct and Ethics, applicable to all officers, employees, and directors. The Code of Business Conduct and Ethics covers various topics, including conflicts of interest, confidentiality of information, and compliance with laws and regulations. A copy of the Company's Code of Business Conduct and Ethics is available upon written request to the Company's Secretary.

PROPOSAL ONE – ELECTION OF DIRECTORS

The nominees for election as directors and those directors whose terms will continue after the Annual General Meeting are:

<u>Nominees for Election</u>	<u>Age</u>	<u>Director Since</u>	<u>Present Term Expires</u>
Michael P. Esposito, Jr.	73	2002	2013
James H. MacNaughton	61	2008	2013
<u>Continuing Directors</u>			
Richard Claiden	61	2010	2014
Michael M. Sullivan	54	2010	2014
Frank P. Filippis	65	2002	2015
Thomas J. Hartlage	61	2002	2015
Vincent Vertin	43	2010	2015

Class I Nominees for Election for Three-Year Terms Expiring in 2016

Michael P. Esposito, Jr. has been the Chairman of the Company's Board of Directors since March 2002. Since March 2006, Mr. Esposito has been Chairman of the Board of Directors of Syncora Holdings Ltd. (formerly known as Security Capital Assurance Ltd.) (OTC:SYCRF). Until his retirement from XL Capital Ltd (now known as XL Group plc, NYSE:XL) in December 2007, Mr. Esposito served as non-executive Chairman of the Board of Directors of XL, a provider of insurance and reinsurance coverage and financial products and services, since 1995 and as a director since 1986. Since 1995, he has served as a director of Forest City Enterprises, Inc. (NYSE:FCY), a real estate development and management firm. Mr. Esposito served as Co-Chairman of the Board of Directors of Inter-Atlantic Capital Partners, Inc., an investment banking firm, from 1995 to 2000. Previously, Mr. Esposito served as Executive Vice President and Chief Corporate Compliance, Control and Administration Officer of The Chase Manhattan Corporation from 1991 to 1995, having previously served as Executive Vice President and Chief Financial Officer from 1987 to 1991.

James H. MacNaughton has been a director since July 2008. Mr. MacNaughton is Vice Chairman of BMO Capital Markets Corp. From April 2008 to August 2011, he was managing member of MacNaughton Associates, a firm engaged in financial advisory activities. Mr. MacNaughton retired in March 2008 from Rothschild Inc. where he was a Senior Advisor. Mr. MacNaughton was a Managing Director and Global Partner of Rothschild from 2001 to 2007. From 1979 through 2000, he was at Salomon Brothers Inc. where he held a variety of positions including, for most of that time, Managing Director in Investment Banking. Mr. MacNaughton began his business career in 1973 at Republic National Bank of Dallas as Vice President and Commercial Lending Officer. He is a member of the International Insurance Society.

The Board's corporate governance policies provide that no person will be nominated by the Board to serve as a director after he or she has passed his/her 72nd birthday, unless the Governance Committee has waived this mandatory retirement age in a given case. The Governance Committee has so granted a waiver with respect to Mr. Esposito in recognition of the contribution that his experience and knowledge of the Company brings to effective Board oversight and the Company's current circumstances.

The Board recommends that shareholders vote FOR the election of the two Class I nominees as directors.

Directors Continuing in Office until 2014

Richard Claiden has been the Company's Chief Executive Officer and a director since November 2010. Mr. Claiden served as the Company's Chief Financial Officer from October 2003 to October 2010 and Chief Operating Officer from January 2008 to October 2010. Mr. Claiden also serves as Chief Executive Officer of Primus Asset Management. Mr. Claiden was previously a Managing Director and Head of Operational Risk for J.P. Morgan Chase's Investment Bank from 2001 to 2003. In that position, Mr. Claiden was responsible for the operational risk integration for the investment bank following the merger of J.P. Morgan and Chase Manhattan Bank. From 1994 to 1999, Mr. Claiden was at Canadian Imperial Bank of Commerce ("CIBC"), initially setting up and running operations for CIBC's Financial Product Group and later as Global Head of Operations for CIBC's wholesale and investment banking activities. Mr. Claiden was in internal audit at Manufacturers Hanover Trust ("MHT"), from 1978 to 1983. Mr. Claiden served as Controller for the Merchant Banking Group and subsequently as head of finance, operations, and technology for MHT's global derivatives group until 1994. Mr. Claiden qualified as a Chartered Accountant with Arthur Andersen & Co. in London from 1974 to 1978. Mr. Claiden received an M.A. in Accounting and Finance from Lancaster University and a B.Sc. in Economics from London University. He is a fellow of the Institute of Chartered Accountants in England and Wales.

Michael M. Sullivan has been a director of the Company since December 2010. Mr. Sullivan is an attorney at EBF & Associates, L.P. ("EBF"), a private investment firm based in Minneapolis, Minnesota. He serves on the board of directors of privately held Athilon Capital Corp. and Athilon Asset Acceptance Corp., the latter of which is a credit derivative product company in run-off. Prior to joining EBF, Mr. Sullivan was in private practice at the Minneapolis law firm of Rider Bennett from 1990 to 2002 and President/CEO of Intrascapes Data, a provider of SAP software development tools, from 2002 through 2006. Mr. Sullivan holds a J.D. from the University of Minnesota and a B.S. from Colorado College.

Directors Continuing in Office until 2015

Frank P. Filippis has been a director of the Company since March 2002. From April 2005 to July 2008, Mr. Filippis was Chairman and Chief Executive Officer of Clayton Holdings, Inc., an information services and analytics company that provides credit and risk management products, primarily mortgage related, to participants in fixed income markets. From 1995 to 2005, Mr. Filippis was Chairman, Chief Executive Officer and a Director of Radian Group Inc. (NYSE:RDN), and its principal subsidiary, Radian Guaranty Inc. (collectively, "Radian Group"). Radian Group provides private mortgage insurance coverage on residential mortgage loans and financial guaranty insurance on debt instruments. Mr. Filippis originally joined Radian Group in 1992 as Senior Vice President and Chief Financial Officer and became Executive Vice President and Chief Operating Officer in 1994. From 1975 to 1992, Mr. Filippis was at American International Group where he served in a number of executive, financial, and investment management positions. Mr. Filippis has been a director of Impac Mortgage Holdings, Inc. (NYSE:IMH), a mortgage originator, servicer, and service provider, since November 1995; Fortegra Financial Corporation (NYSE:FRF), an insurance services and marketing company, since 2010; and Orchid Capital, Inc. (NYSE MKT:ORC), a specialty finance company that invests in residential mortgage-backed securities, since February 2013.

Thomas J. Hartlage has been a director of the Company since March 2002. Until his retirement in 2010 from AEGON N.V. (NYSE:AEG), an insurance company, Mr. Hartlage most recently served as President of Aegon Stable Value Solutions, AEGON's synthetic GIC business. From 1990 until his retirement, Mr. Hartlage was employed in a variety of capacities at subsidiaries of AEGON, where his responsibilities have included strategic planning and product and market development. From 2001 to 2006, he was president of AEGON Structured Products, Inc., a unit of AEGON Institutional Markets focused on building and developing structured transaction business in the capital markets sector. Mr. Hartlage has more than 30 years of experience in the financial services sector. He has an M.B.A. from Indiana University and has achieved the chartered financial analyst (CFA) designation.

Vincent Vertin has been a director of the Company since December 2010. Mr. Vertin is an investment partner at EBF in Minneapolis, Minnesota. A wide range of finance and investing activity has been the focus of Mr. Vertin's professional career. He serves on the board of directors of privately held Athilon Capital Corp. and Athilon Asset Acceptance Corp., the latter of which is a credit derivative product company in run-off. Prior to joining EBF in 2004, Mr. Vertin was an analyst at Providence Capital and an investment banker at J.P. Morgan & Co. Before his career in finance, he served as an Infantry Officer in the U.S. Marine Corps. Mr. Vertin holds an M.S. from George Washington University and a B.S. from the United States Naval Academy.

Compensation of Directors

For the first quarter of 2012, the Company compensated its non-management directors by granting an award of fully vested Common Shares having a value of \$10,000 and paying a cash retainer of \$10,000. Beginning with the second quarter of 2012, the Company eliminated the grants of Common Shares from the non-management directors' compensation and paid cash compensation in

the aggregate of \$70,000, for a total annual award of \$80,000. In addition, the Chairman of the Audit Committee received an annual cash retainer of \$6,000 and the Chairman of the Governance Committee received an annual cash retainer of \$3,000.

The Company reimburses all directors for reasonable expenses incurred to attend meetings of the Board or its committees.

The total 2012 compensation of the Company’s non-management directors is shown in the table below.

Director Compensation for the Fiscal Year Ended December 31, 2012

<u>Name</u>	<u>Fees Earned or Paid in Cash (\$)</u>	<u>Fair Value of Stock Awards (\$)</u>	<u>All Other Compensation</u>	<u>Total (\$)</u>
Michael P. Esposito, Jr.	73,000	9,994.60	—	82,994.60
Frank P. Filippis.....	71,000	9,994.60	—	80,994.60
Thomas J. Hartlage	70,000	9,994.60	—	79,994.60
James H. MacNaughton.....	76,000	9,994.60	—	85,994.60
Michael M. Sullivan(1)	—	—	—	—
Vincent Vertin(1)	—	—	—	—

(1) Messrs. Sullivan and Vertin have waived and will continue to waive all compensation in connection with their position as a member of the Board.

PROPOSAL TWO — REDUCTION OF SHARE PREMIUM ACCOUNT

Under Bermuda law, “share premium” is the difference between the par value of a share and the amount actually paid to the Company for such share. Bermuda law permits a company to reduce the share premium account and credit the corresponding amount to an account called “contributed surplus.” The reduced amount when transferred into the contributed surplus account will remain part of the Company’s capital. The Board proposes to reduce the Company’s share premium account to nil and correspondingly increase the Company’s contributed surplus. The purpose of reducing the share premium account and increasing contributed surplus by a corresponding amount is two-fold.

First, by reducing the amount of share premium and transferring the reduction to contributed surplus, the Company will have more flexibility to make distributions of capital. Pursuant to the Bermuda Companies Act 1981 (the “Companies Act”), under certain circumstances a Bermuda company may pay distributions to its shareholders out of contributed surplus, but not out of share premium. Thus the share premium reduction and subsequent credit arising therefrom to contributed surplus will increase the potentially distributable reserves of the Company. The Board is of the opinion that, as a result, the Company will have greater flexibility to make distributions to shareholders at one or more future dates. Any such distributions would be determined by the Board, in its discretion.

Second, the authorized share capital and share premium are together used to calculate the Company’s annual Bermuda Government fee and the larger the share premium account, the greater such fee. If the share premium is reduced to nil, then the annual Bermuda Government fee of the Company will be reduced by approximately \$10,000 per annum. Thus, reducing the share premium account will reduce the Company’s annual expenses as well as increase the Company’s potentially distributable reserves.

The reduction of share premium will only be accomplished after publication of the notice to creditors in accordance with section 46 of the Companies Act. Such notice to creditors will be published after the Annual General Meeting in the Bermuda Royal Gazette not more than thirty days and not less than fifteen days before the date on which the reduction of the share premium is to have effect.

The Company maintains its consolidated financial statements in accordance with U.S. generally accepted accounting principles, under which the difference between the par value of a share and the amount actually paid to the Company for such a share is recorded as “additional paid-in capital” in the Company’s consolidated financial statements. Notwithstanding the approval of a reduction in share premium account to nil and a corresponding increase in the contributed surplus account for Bermuda law purposes, the Company will continue to record the difference between the par value of a share and the amount actually paid to the Company for such a share as “additional paid-in capital” in the Company’s consolidated financial statements.

The Board recommends that shareholders vote FOR the reduction of share premium to nil and credit to contributed surplus of the Company.

PROPOSAL THREE— APPOINTMENT OF INDEPENDENT AUDITORS

Under Bermuda law, the Company's shareholders have the authority to appoint the independent auditors of the Company and to authorize the Audit Committee to fix the auditors' remuneration. At the Annual General Meeting, the shareholders will be asked to appoint Ernst & Young LLP as the Company's independent auditors for the fiscal year ending December 31, 2013 and to authorize the Audit Committee to fix their remuneration. Ernst & Young LLP has been the Company's independent auditors since 2002 and, by virtue of their familiarity with the Company's affairs and their qualifications, are considered qualified to perform this important function.

Audit Committee Report

The Audit Committee assists the Company's Board of Directors in overseeing the integrity of the Company's financial statements, including its system of internal controls, and the quality of its internal and external audit process. The Audit Committee currently comprises three independent directors and operates under a written charter, which is available upon written request to the Company's Secretary. In discharge of its responsibilities, the Audit Committee held six meetings in 2012. These were in-person meetings that usually included separate executive sessions of the Audit Committee with the independent auditors and management.

The Audit Committee has reviewed and discussed with management the Company's audited financial statements as of and for the fiscal year ended December 31, 2012. Ernst & Young LLP, the Company's independent auditors for 2012, is responsible for expressing an opinion on the Company's audited consolidated financial statements. The Audit Committee has discussed with Ernst & Young LLP the matters required to be discussed by applicable professional standards of the American Institute of CPAs. In addition, the Audit Committee has discussed with Ernst & Young LLP the firm's independence from Company management and the Company.

Based on the review and discussions referred to above, the Audit Committee recommended to the Company's Board of Directors that the Board approve the Company's audited financial statements for the fiscal year ended December 31, 2012. The Committee has also selected Ernst & Young LLP as the Company's independent auditors for 2013 and is presenting the matter to the shareholders of the Company for approval.

Audit Committee

James H. MacNaughton, *Chairman*

Michael P. Esposito, Jr.

Thomas J. Hartlage

Fees of the Independent Auditors

The following table shows the total fees (in thousands) paid or accrued by the Company for audit and other services provided by Ernst & Young LLP for the fiscal years ended December 31, 2012 and 2011.

	<u>2012</u>	<u>2011</u>
Audit fees.....	\$290	\$ 643
Audit-related fees.....	0	0
Tax fees.....	0	0
All other fees.....	<u>0</u>	<u>0</u>
Total	<u>\$290</u>	<u>\$ 643</u>

Audit Fees

"Audit fees" paid to Ernst & Young LLP primarily represent compensation for professional services they rendered for the audits of the consolidated financial statements of the Company.

Audit-Related Fees

There were no "audit-related fees" incurred in the fiscal years ended December 31, 2012 and December 31, 2011.

Tax Fees

There were no fees in the "tax fees" category paid to Ernst & Young LLP in the fiscal years ended December 31, 2012 and December 31, 2011.

All Other Fees

There were no “other fees” paid to Ernst & Young LLP in the fiscal years ended December 31, 2012 and December 31, 2011.

All of the hours expended in the engagement of Ernst & Young LLP to audit the consolidated financial statements of the Company for the fiscal years ended December 31, 2011 and December 31, 2011 were attributable to work performed by full-time, permanent employees of Ernst & Young LLP.

A representative of Ernst & Young LLP is expected to be available at the Annual General Meeting to respond to appropriate questions. The representative will have an opportunity to make a statement if he or she so desires.

The Audit Committee and the Board of Directors recommend that the shareholders vote FOR the appointment of Ernst & Young LLP and the authorization of the Audit Committee to set their remuneration.

OTHER MATTERS

Registered and Principal Executive Offices

The registered office of the Company is at Clarendon House, 2 Church Street, Hamilton HM 11, Bermuda. The offices of the Company’s principal operating subsidiaries, Primus Financial Products, LLC and Primus Asset Management, are located at 360 Madison Avenue, 25th Floor, New York, NY 10017, U.S.A., and their telephone number is +1 (212) 697-2227.

Shareholder Proposals for the 2014 Annual General Meeting of Shareholders

Shareholder proposals intended for inclusion in the proxy statement for the Company’s 2014 Annual General Meeting of Shareholders should be submitted in accordance with the procedures prescribed by the Bye-Laws and sent to the Company’s Secretary at Clarendon House, 2 Church Street, Hamilton HM 11, Bermuda. Such proposals must be received by April 30, 2014. Pursuant to the Company’s Bye-Laws, any shareholder entitled to attend and vote at any annual general meeting may nominate persons for election as directors if written notice of such shareholder’s intent to nominate such persons is received by the Company’s Secretary not less than 90 days before the anniversary date of the last annual general meeting prior to the giving of the notice or not less than 10 days prior to the meeting at which directors are to be elected, whichever deadline occurs earlier. Such notice must include the following information about the proposed nominee: (i) name, age, business address and residence address of such individual, (ii) the principal occupation or employment of such individual, (iii) the class and number of shares of the Company which are beneficially owned by such individual, and (iv) such other information relating to such individual that is required to be disclosed in solicitations of proxies with respect to nominees for election as directors pursuant to Regulation 14A under the U.S. Securities Exchange Act of 1934 (including, without limitation, such individual’s written consent to being named as a nominee in the Company’s proxy statement delivered to shareholders in connection with the annual general meeting at which the nominee is to be nominated and to serving as director, if elected). In addition, such notice must also include information on the shareholder making the nomination, including (i) such shareholder’s name and address as they appear on the Company’s Register of Shareholders, (ii) the class and number of shares which are beneficially owned by such shareholder, and (iii) the period of time such shares have been owned.

Financial Statements

Copies of the Company’s audited consolidated financial statements for the year ended December 31, 2012 are available free of charge on the Company’s Web site at www.primusguaranty.com or upon written request to the Company’s Secretary or to the Company’s Investor Relations Officer, c/o Primus Asset Management, Inc., 360 Madison Avenue, 25th Floor, New York, NY 10017.

General

The enclosed proxy is solicited on behalf of the Company’s Board. Unless otherwise directed, proxies held by the Chief Executive Officer, Chief Financial Officer or General Counsel will be voted at the Annual General Meeting or any adjournment or postponement thereof FOR the election of both nominees to the Board named on the proxy card, FOR the reduction of share premium to nil and corresponding credit to contributed surplus of the Company, and FOR the appointment of the independent auditors and authorizing the Audit Committee of the Board to set their remuneration. If any matter other than those described in this Proxy Statement properly comes before the Annual General Meeting, or with respect to any adjournment or postponement thereof, the proxy holders will vote the Common Shares represented by such proxies in accordance with their discretion.

Please vote all of your Common Shares. Beneficial shareholders sharing an address who are receiving multiple copies of the Company's proxy materials and annual reports should contact their broker, custodian bank, or other nominee to request that in the future only a single copy of each document be mailed to all shareholders at the shared address. In addition, if you are the beneficial owner, but not the record holder, of Common Shares, your broker, custodian bank, or other nominee may deliver only one copy of this Proxy Statement and the audited consolidated financial statements for the year ended December 31, 2012 to multiple shareholders who share an address unless that nominee has received contrary instructions from one or more of the shareholders. The Company will deliver promptly, upon written or oral request, a separate copy of this Proxy Statement and the audited consolidated financial statements for the year ended December 31, 2012 to a shareholder at a shared address to which a single copy of the documents was delivered. Shareholders who wish to receive a separate copy of any proxy statement or audited consolidated financial statements in the future should submit their request in writing to the Company, Clarendon House, 2 Church Street, Hamilton HM 11, Bermuda, attention: Secretary.