REPORT ON EXAMINATION

OF THE

CLEARWATER INSURANCE COMPANY

AS OF

DECEMBER 31, 2007

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, 2007 of the

CLEARWATER INSURANCE COMPANY

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

Attest By: Sonia C. Harris

Date: 29 June 2009

In Witness Whereof, I have hereunto set my hand and affixed the official seal of this Department at the City of Dover, this 29th day of June 2009.

Karen Weldin Stewart, CIR-ML
Insurance Commissioner

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Karen Weldin Stewart, CIR-ML
Commissioner

Delaware Department of Insurance

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OF THE

CLEARWATER INSURANCE COMPANY

AS OF

DECEMBER 31, 2007

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.

Karen Weldin Stewart, CIR-ML
Insurance Commissioner

Dated this 29th day of June, 2009

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SALUTATION

March 20, 2009

Honorable Alfred Gross, Chairperson
NAIC Financial Condition (E) Committee
State Corporation Commission
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Honorable Karen W. Stewart, CIR-ML
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Department of Insurance
State of Delaware
841 Silver Lake Blvd, Suite 100
Dover, DE 19904

Commissioners:

In compliance with instructions and pursuant to statutory provisions contained in Certificate of Authority Number 08.005, an examination has been made of the affairs, financial condition and management of

CLEARWATER INSURANCE COMPANY

hereinafter referred to as "Company" or "CIC" incorporated under the laws of the State of Delaware, the statutory home office of which was located at The Corporation Trust Center, 1209 Orange St., Wilmington, DE, 19801. The main administrative offices of the Company were the same as that of its upstream parent, Odyssey Re Holdings Corp. (ORH) located at 300 First Stamford Place, Stamford, Connecticut 06902. The examination of the Company was conducted concurrently with that of its Delaware domestic subsidiaries, Hudson Insurance Company (HIC) and Clearwater Select Insurance Company (CSIC). Separate reports of examination were filed for each company.

The report of this examination is respectfully submitted.

SCOPE OF EXAMINATION

This financial condition examination of the Company covered the period from January 1, 2005 through December 31, 2007, and consisted of a general survey of the Company's business policies and practices; management and any corporate matters incident thereto; a verification and evaluation of assets and a determination of liabilities. Transactions subsequent to the latter date were reviewed to the extent deemed necessary.

This report is presented on an exception basis. It is designed to set forth material facts with regards to adverse findings discovered during the examination. The text will explain changes wherever made. If necessary, comments and recommendations have been made in those areas in need of correction or improvement. In such cases, these matters were thoroughly discussed with responsible personnel and/or officials during the course of the examination.

The examination followed rules established by the National Association of Insurance Commissioners (NAIC) Committee on Financial Condition Examiners Handbook, as adopted by the Delaware Insurance Department under Delaware Insurance Code Section 526, and generally accepted statutory insurance examination standards. In accordance with the aforementioned Handbook, the consulting firm of INS Services, Inc. reviewed and tested, in part, the Company's high level controls over Information Technology systems and control environment based on its responses to questions contained in the Evaluation of Controls in Information Systems Questionnaire – Exhibit C. Other planning exhibits were reviewed and tested, as needed, by the examiners.

Work papers prepared by the Company's external accounting firm, Price-waterhouseCoopers, LLC, (PWC) New York, NY, in connection with its annual audit, were extensively reviewed in order to ascertain its analysis, review of controls, audit procedures, and conclusions. We relied upon and utilized PWC's work papers to the fullest extent possible. In addition, the Company's Sarbanes-Oxley (SOX), Section 404, compliance documentation related to the identification of financial reporting Key Activities and the attendant processes and controls maintained therein was also reviewed and relied upon to the fullest extent possible. Based upon the review of PWC work papers, SOX compliance documentation, as well as the performance of other examination planning procedures including: account analysis, the assessment of management and the ORH organization (as a whole), the assessment of account specific and cycle controls, and the assessment of the ORH control environment, an overall assessment was made determining: compliance risk, operational risk, financial reporting risk, and risk of material misstatement. In those areas in which a high reliance was placed on controls, and we determined a low likelihood of material misstatement, limited examination procedures were performed. In other areas, we identified examination procedures to specifically address those concerns or risks noted, based on professional judgment.

In addition to items noted in this report, the following topics were reviewed without material exception and are included in the work papers of this examination:

Fidelity Bond and Other Corporate Insurance
Corporate Records
Legal Actions
NAIC Ratios
All Asset and Liability Items Not Mentioned

HISTORY

The Company (formerly Skandia America Reinsurance Corporation) was incorporated on May 15, 1974 under the laws of the State of New York. The Company is the successor to the United States Branch of Skandia Insurance Company, Ltd, Stockholm, Sweden, which entered the United States on May 29, 1900.

On May 1, 1978, a Delaware company was incorporated to act as the vehicle for the transfer of the corporate domicile from New York to Delaware. The re-domestication was accomplished effective December 31, 1978, by merger of the two companies, with the surviving company adopting the identity of the original company, including its date of incorporation, May 15, 1974. Fairfax Inc. (a Wyoming Corporation) purchased the Company and its subsidiary, HIC, on May 31, 1996.

On April 13, 1999, Fairfax purchased the TIG Insurance Group. Included in this group of companies was the TIG Reinsurance Company (TIG Re). Subsequent to its acquisition, the name of TIG Re was changed to Odyssey America Reinsurance Corporation (Odyssey America) and the name of the Company was changed to Odyssey Reinsurance Corporation. On September 15, 1999, the Delaware Insurance Department approved the Company’s request to realign the companies so that the Company became the subsidiary of Odyssey America. During 1999, the Company stopped accepting new reinsurance business.

On December 3, 2003, the name of the Company was changed to Clearwater Insurance Company. The name was changed to better reflect the change of the Company from a professional reinsurer to a direct writer. During 2004 the Company starting writing direct business.

At December 31, 2007, the Company continues to be owned 100% by Odyssey America.

CAPITALIZATION

At December 31, 2007, the Company's authorized capital is $7,500,000, consisting of 25,000 issued and outstanding shares of common stock at a par value of $300 per share. Total Adjusted Capital of $652,741,910 was approximately 319% over Adjusted Control Level risk based capital of $155,622,311. The following changes occurred in the capital and surplus accounts since the prior examination and reflect amounts per this examination:

	Common Capital Stock	Gross Paid-in and Contributed Surplus	Unassigned Surplus	Total
December 31, 2004	$7,500,000	$359,595,676	$216,311,512	$583,407,188
Operations: (1)				
2005			19,523,766	19,523,766
2006			57,465,805	57,465,805
2007			9,795,545	9,795,545
Capital changes:				
Surplus paid-in		0		
2007 Exam Changes		0		
December 31, 2007	$ 7,500,000	$ 359,595,676	$ 303,096,628	$ 670,192,304

1. Operations is defined as Net income, Change in net unrealized capital gains or (losses), Change in net unrealized foreign exchange capital gain (loss), Change in non-admitted assets, Change in net deferred income tax, and Change in provision for reinsurance.

DIVIDENDS TO STOCKHOLDER

The Company paid no dividends to its stockholder during the examination period.

MANAGEMENT AND CONTROL

Pursuant to the General Corporation Law of the State of Delaware as implemented by the Company's Certificate of Incorporation and bylaws, all corporate powers of the Company and its business, property, and affairs are managed by or under the direction of its Board of Directors. The Board shall consist of not less than three and not more than nine members who serve until either resignation, removal, or until their successor is qualified and elected. Members of the Board of Directors serving as of December 31, 2007, were as follows:

Director's Name

Andrew A. Barnard *	Robert S. Bennett	Christopher L. Gallagher	James E. Migliorini
Donald L. Smith	Richard S. Donovan	Michael G. Wacek	Brian D. Young

* Chairman of the Board of Directors

The Company's bylaws provide for the Board to designate one or more committees, each committee to consist of one or more of the directors of the corporation. As of December 31, 2007, the Board of Directors had appointed the following committees.

Investment Committee	Benefit Committee	Compensation Committee
Andrew A. Barnard	Andrew A. Barnard	Andrew A. Barnard
Richard S. Donovan	Donald L. Smith	Richard S. Donovan
Michael G. Wacek	Michael G. Wacek	Michael G. Wacek

A review of Company corporate records showed that regular business of the Shareholder and Board of Directors was conducted via Written Consents in lieu of regular meetings.

The bylaws of the Company provide for a President, one or more Vice Presidents, one or more Secretaries, and such other officers, if any, as may be designated by the Board of Directors. As of December 31, 2007, the Company's principal officers and their respective titles are as follows:

Name	Title
Andrew A. Barnard	Chief Executive Officer
James E. Migliorini	President & Chief Operating Officer
Robert S. Bennett	Executive Vice President & Actuary
Richard S. Donovan	Executive Vice President
Scott F. Galiardo	Executive Vice President
Christopher L. Gallagher	Executive Vice President
Brian D. Quinn	Executive Vice President
Michael G. Wacek	Executive Vice President
Brian D. Young	Executive Vice President
Donald L. Smith	Senior Vice President, General Counsel & Corp. Secretary
James B. Salvesen	Senior Vice President & Controller
Anthony J. Narciso, Jr.	Senior Vice President & Chief Financial Officer
Seymour L. Andrew	Senior Vice President
Gerard A. Dugan	Senior Vice President
Patrick E. Gentile	Senior Vice President
Joseph A. Guardo	Senior Vice President
Jeffery M. Rubin	Senior Vice President
Christopher T. Suarez	Senior Vice President

INSURANCE HOLDING COMPANY SYSTEM

The Company is a member of an Insurance Holding Company System under the ultimate parent company, Fairfax Financial Holdings Ltd, (Fairfax) a Canadian company. Fairfax is traded on the Toronto and New York stock exchanges under the ticker symbol "FFH.SV" and "FFH", respectively. Fairfax conducts insurance and reinsurance business globally in all segments of the property/casualty industries. At December 31, 2007, Fairfax owned 60.99% of Odyssey Re Holdings Corp., (NYSE "ORH") a publicly traded Delaware holding company that indirectly owns 100% of the Company. For the fiscal year ending 2007, Fairfax realized a consolidated combined ratio of 94%, earned $1.096 billion on revenues of $7.484 billion, held assets totaling $27.942 billion, and maintained total equity of $5.843 billion. The Company was rated by AM Best as "A" and Standard & Poor's as "A".

For the year ending 2007, the organizational chart of Fairfax showed 196 separate legal entities, including the Company, chartered and/or domesticated globally. The following chart illustrates the relationships between the Company and its direct affiliates, its parent, and upstream parent companies, as of December 31, 2007:

Fairfax Financial Holdings, Ltd. (1)	Canada
Fairfax Inc.	Wyoming
TIG Holdings, Inc.	Delaware
TIG Insurance Group Inc.	California
Odyssey Re Holdings Corp. (60.99%)	Delaware
Odyssey America Rein. Corp.	Connecticut
Clearwater Ins. Co.	**Delaware**
Hudson Ins. Co.	**Delaware**
Clearwater Select Ins. Co.	**Delaware**
Hudson Specialty Ins. Co.	New York

(1) V. Prem Watsa, through either himself, a Family Trust or, other holding entities controls, 48.7% of the total votes attached to all shares of Fairfax.

GROWTH OF THE COMPANY

The financial growth of the Company since its last examination (2004) is summarized as follows and was compiled from its filed Annual Statements, reflective of examination changes:

Year	Premiums Earned	Assets	Liabilities	Surplus as Regards Policyholders	Net Income/Net (Loss)
2004	$15,483,584	$1,102,497,699	$519,090,511	$583,407,188	$(52,052,374)
2005	22,861,963	1,127,539,775	524,608,821	602,930,954	(61,801,326)
2006	18,522,132	1,308,348,733	647,951,974	660,396,759	29,040,467
2007	43,364,545	1,326,014,265	655,821,961	670,192,304	82,373,488

The changes over the examination period are as follows:

- A 180% increase in Premiums Earned
- A 20.3% increase in Assets
- A 26.3% increase in Liabilities
- A 14.9% increase in Surplus as Regards Policyholders
- A 258% increase in Net Income

Premiums earned increased due to an increase in direct premiums written. Assets increased due to the net income in 2006 and 2007. Liabilities increased as a result of reserves attendant with the increase in premiums written and reserve increases in its Asbestos and Environmental business. Surplus increased due to net income. Net income for the period varied from loss to income due to the on-going high payout of losses related to its Asbestos and Environmental business and materially significant realized capital gains in 2006 and 2007.

TERRITORY AND PLAN OF OPERATION

Territory:

The Company is licensed to transact business in all states, except Colorado, Florida, Maine, Massachusetts, Minnesota as well as the District of Columbia and Puerto Rico. For the year ending 2007, the Company wrote 80% of its business in the state of Tennessee (27%) (Commercial Auto), offshore platform (Ocean Marine) (19%), and crop insurance business classified as Allied Lines (34%), the two latter classified as Aggregate Other Alien.

Plan of Operation:

The Company ceased operations as a professional reinsurer in 1999 and continues to settle losses as called upon or commute remaining reinsurance assumed contracts, as opportunities arise. From its last examination in 2004, to this current examination, these activities were considered the principal operations of the Company. Beginning in 2004, and as part of management efforts to better direct capital utilization and use its domestic licenses, the Company started writing direct business and now operates as an admitted carrier of the Odyssey Re Holdings Corp. (ORH) U.S. insurance operations. The group provides a full range of property and casualty products on a world wide basis.

The Company participates in Program business written through specialized general agents. These contracted agents write on Company paper business that meets its underwriting guidelines. Claims and claims management of the Company are managed by the Managing General Agent (MGA), Third Party Administrators (TPA) and, Company personnel who specialize in the business managed.

Program Business:

The following table lists all programs and business underwritten by the Company, followed by a brief synopsis of their respective agreements and management:

Program	Gross Written Premiums	Program Coverage	Territory
Crop USA	$ 23,346,825	Crop	Other Alien
Ocean Marine	13,119,376	Ocean Marine	Other Alien
TIS	29,906,285	Commercial Auto	USA
Crop Hail	2,350,100	Crop	USA
Total	$68,722,586		

Crop USA and Crop Hail

Effective March 6, 2006, Crop USA entered into a Managing General Underwriter (MGU) agreement with the Company to write Crop Multi-peril business reinsured by the Federal Crop Insurance Company (FCIC) and Crop Hail. The agreement stipulates the full duties, responsibilities, compensation, confidentiality, arbitration and other general provisions protecting the Company. Claims and claim management attendant with this business is handled by Crop USA.

Ocean Marine

Clearwater began writing Offshore Energy business in May 2007. The risks for this business segment are individually underwritten and claims are settled in-house.

Transportation Insurance Services, Inc.

Effective February 1, 2004, Transportation Insurance Services, Inc. (TIS), entered into a Program Administrators (PA) Agreement with the Company to write Non-Trucking Commercial Auto Liability and Commercial Auto Physical Damage. The agreement stipulates the full duties, responsibilities, compensation, confidentiality, arbitration and other general provisions protecting the Company. Claims and claim management attendant with this business is handled under a separate agreement with Specialty Claims Inc. of Tennessee.

INTERCOMPANY AGREEMENTS

Expense Sharing Agreement

Effective January 1, 2000, Fairfax Inc., Odyssey America Reinsurance Corporation, the Company, and HIC entered into an expense sharing agreement. Under provisions of this agreement, each company is to make available to the others: management, underwriting, claims, accounting, financial, legal, personnel, data processing services and consulting, to be used at times and in amounts determined necessary or appropriate by the managing officers of each company. The Company reported that $1,000,000 was paid to Odyssey America Reinsurance Corporation for services received in 2007.

Tax Services Agreement

Effective May 10, 2001, the Company is party to a Tax Services Agreement with Fairfax Inc. Under the provisions of this agreement, Fairfax Inc. provides the Company with tax consulting and compliance services. The Company reported that $87,375 was paid to ORH in 2007 for services rendered pursuant to this agreement, which amount was then paid by ORH to Fairfax Inc.

Tax Allocation Agreement

Effective June 19, 2001, Fairfax Inc., Odyssey Re Holdings Corp., Odyssey America Reinsurance Corp., the Company, HIC, CSIC, and HSIC entered into a tax allocation agreement. Under terms of the agreement, the affiliated group exercises the privileges granted under IRS Code Section 1501 to file a consolidated return. Each company's tax liability is calculated based upon its respective share of consolidated income. The agreement further provides that each member shall receive reimbursement to the extent that its losses and other credits result in a reduction of the current year's consolidated tax liability, not to exceed its liability as if filed on an individ ual basis. The Company reported $41,516,229 was paid to ORH in connection with the tax allocation agreement during 2007.

Investment Management Agreement

Effective January 1, 2003, the Company entered into an investment agreement with Hamblin Watsa Investment Counsel, Ltd (Hamblin Watsa), and Fairfax. Under terms of the agreement, Hamblin Watsa is to manage on a continuous basis the Company's investment account in accordance with investment objectives communicated in writing by Company management. The Company pays a base fee of .20% per annum of marketable securities managed, plus a graduated incentive fee for investment performance greater than the S&P 500 + 200 basis points. The Company reported $1,572,724 in administrative fees and $(284,419) in incentive fees, paid to Fairfax during 2007.

REINSURANCE

A schedule of the Company's premiums written follows:

Direct		$68,748,505
Assumed:		
Affiliates	2,958,296	

Non-Affiliates	(294,048)	
Total Assumed		2,664,248
Ceded:		
Affiliates	(7,567)	
Non-Affiliates	(25,702,013)	
Total Ceded		(25,709,580)
Total Net Premium		$45,703,173

Assumed Reinsurance

The Company assumes 100% of its crop insurance business from its subsidiary, HIC. This business is retro-ceded to the Federal Crop Insurance Company ("FCIC"), a federally run program that has a blend of quota share and stop loss elements tailored to the crop market. The Company also assumes from its subsidiary, CSIC, losses up to $10 million on a 75% quota share basis, business relating to environmental losses which has been in run-off since 2002.

Ceded Reinsurance

As noted above in assumed reinsurance, the Company cedes 100% of both its assumed Allied Lines, HIC crop insurance business and its direct CropUSA program business to FCIC. The Company also cedes through two quota share reinsurance agreements, its Ocean Marine off-shore platform program business, amounts of $50 million per event up to $10 million per policy with an aggregate limit of $100 million under a 50% quota share agreement with Platinum Underwriters Reinsurance, Inc. and, amounts up to $45 million under a 66.67% quota share agreement with D.E. Shaw Re (Bermuda), LTD.

As part of its on-going run-off of Asbestos and Environmental business, beginning in 1999, the Company still has in effect reinsurance coverage under which recoverables are generated. As of year end, recoverables related to this business totaled approximately $62 million. A review of these balances showed that no individual balance due from reinsurers was material and that they were being settled.

ACCOUNTS AND RECORDS

The accounts and records reviewed included an evaluation of the Company's operation and organization controls. The areas evaluated included computer systems, financial reporting processes and controls, its organizational structure, compliance, management, and operations. The Company operates in a computer dominated environment. All services and operational needs of the Company are provided under its Expense Sharing Agreement with ORH and affiliates.

PricewaterhouseCoopers, LLC (PWC) audits the statutory-basis financial statements of ORH and its subsidiaries, including the Company, annually. PWC reviewed the internal control structure of ORH in order to establish necessary audit procedures required to express an opinion on the December 31, 2007 financial statements. No material qualifying deficiencies were found to exist in either the design or over-sight of the internal control structure of ORH. Based on the examination review of the Company's accounts and records related to its filed Annual Statements, discussions with management, and our review of financial reporting processes and controls, the accounting: systems, processes, and procedures (excluding recommendations made in this report) were found to conform to required insurance accounting practices.

FINANCIAL STATEMENTS

The following financial statements as determined by this examination are presented herein:

Analysis of Assets, as of December 31, 2007
Liabilities, Surplus and Other Funds, as of December 31, 2007
Statement of Income, for the year ended December 31, 2007

Capital and Surplus Account, December 31, 2004 to December 31, 2007
Schedule of Examination Adjustments

Analysis of Assets
As of December 31, 2007

	Assets	Non-Admitted Assets	Net Admitted Assets	Note
Bonds	$ 452,218,528		$ 452,218,528	1
Common Stocks	443,186,460		443,186,460	2
Cash, cash equivalents and short term investments	173,835,497		173,835,497	
Other Invested Assets	128,137,080		128,137,080	
Receivable for securities	649,565		649,565	
Subtotals, cash and invested assets	$1,198,027,130		$1,198,027,130	
Investment income due and accrued	5,862,508		5,862,508	
Premiums and considerations:				
Uncollected prem. & agents' balances in course of collection	8,612,469	1,848,066	6,764,403	
Deferred prem. & agents' balances booked but deferred and not yet due	127,798		127,798	
Accrued retrospective premiums	3,538,298	1,089,557	2,448,741	
Reinsurance:				
Amounts recoverable from reinsurers	66,451,199		66,451,199	
Funds held by or deposited with rein.	5,084,973		5,084,973	
Federal income tax recoverable	22,419,497		22,419,497	
Receivable from parent	23,222		23,222	
Aggr. Write-ins for other than invested Assets	18,804,794	0	18,804,794	
Totals	$1,328,951,888	$2,937,623	$1,326,014,265	

Liabilities, Surplus and Other Funds
As of December 31, 2007

			Note
Losses	$	564,300,999	3
Reinsurance payable on paid losses and loss adjustment expenses		14,604,608	
Loss adjustment expenses		3,944,987	3
Commissions payable		(256,788)	
Other expenses		1,408,188	
Taxes, licenses and fees		832,704	
Net deferred tax liability		1,816,143	
Unearned premiums		2,511,366	
Ceded reinsurance premiums payable		18,594,985	
Funds held by company under reinsurance treaties		2,592,565	
Amounts withheld or retained by company for account of others		(772)	
Provision for reinsurance		44,753,481	
Drafts outstanding		271,732	
Payable to parent, subsidiaries and affiliates		447,763	
Total Liabilities	$	655,821,961	
Common capital stock		$ 7,500,000	
Gross paid in and contributed surplus		359,595,676	
Unassigned funds (surplus)		303,096,628	
Surplus as regards policyholders	$	670,192,304	
Total	$	1,326,014,265	

Underwriting and Investment Exhibit: Statement of Income
For the Year Ended December 31, 2007

Underwriting Income		
Premiums earned	$	43,364,545
Deductions:		
Losses incurred	$	99,666,094
Loss expenses incurred		29,648,212
Other underwriting expenses incurred		11,957,598
Total underwriting deductions	$	141,271,904
Net underwriting gain or (loss)	$	(97,907,359)
Investment Income		
Net investment income earned	$	33,951,660
Net realized capital gains or (losses)		145,635,342
Net investment gain (loss)	$	179,587,002
Aggregate write-in for miscellaneous income	$	278,135
Net income before federal income taxes	$	81,957,778
Federal and foreign income taxes		(415,710)
Net income	$	82,373,488

Capital and Surplus Account

Surplus as regards policyholders December 31, 2004	$	583,407,188
Net income	$	49,612,629
Change in net unrealized capital gains or (losses)		57,959,610
Change in net unrealized foreign exchange capital gain (loss)		(1,959,963)
Change in net deferred income tax		(34,608,225)
Change in non-admitted assets		11,117,060
Change in provision for reinsurance		4,664,005
Change in surplus as regards policyholders	$	86,785,116
Surplus as regards policyholders, December 31, 2007	$	670,192,304

SCHEDULE OF EXAMINATION ADJUSTMENTS

No financial adjustments were made as a result of this examination.

NOTES TO THE FINANCIAL STATEMENTS

Note 1
Bonds **$452,218,528**

Investments in bonds are reported at values (amortized cost) adopted and approved by the Securities Valuation Office (SVO) of the NAIC. As of the examination date, $384,770,484 (85.1%) of the Company's Bond investments were designated by the SVO with the highest quality of "1". Bonds rated "2" totaled $506,048 (0.1%), and a Private Placement Bond totaling $66,941,996 (14.8%) was rated "4". This investment, maturing in 2027 and carrying a rate of 9%, was current in interest payments. Bonds with carrying values of $29.1 million were on deposit with various states, or governmental insurance departments in compliance with insurance laws. The Company did not have any securities on loan.

Note 2
Common Stock **$443,186,460**

Common stocks totaling $387,213,919 (87.4%) were invested in affiliates and subsidiaries HIC, CSIC, and HSIC totaling $300,575,814, and other affiliates totaling $86,638,105. The valuations of HIC and CSIC were confirmed through their concurrent examinations.

<u>Note 2</u>

Loss Reserves	**$564,300,999**
Loss Adjustment Expense Reserves	**3,944,987**

Loss and loss adjustment expense reserves represent 86.6% of the Company's liabilities as of December 31, 2007. Of Loss Reserves, Outstanding Reported Loss Reserves equaled $384,682,005 and Incurred but not reported reserves (IBNR) amounted to $179,618,994 (31.8%). During the examination period, the Company increased its asbestos and environmental (A&E) reserves approximately $195.3 million, based on both reported claims and future analysis. The Company's total reinsurance recoverables were approximately $264 million, of which direct and A&E represented approximately $16 million and $248 million, respectfully.

INS Consultants, Inc. (INS) was retained by the Delaware Insurance Department to conduct a review of the Company's reserve methodologies and adequacy. INS evaluated the Company's book of business by line of business for loss and allocated loss adjustment expenses. The conclusions reached by INS are largely based upon information supplied by the Company's staff, which included an in-depth actuarial analysis. The INS reserve analysis was performed on both a gross and net basis of reinsurance and did not address the collectability of reinsurance recoverables. Based on their review, the Company's combined net loss and loss adjustment expense reserves were considered reasonably stated and adequate to support the business underwritten.

The aggregated actuarial data provided by the Company was verified and reconciled to Schedule P of the Company's filed Annual Statement.

<u>Caveat</u>

Loss and LAE reserves are subject to errors of estimation arising from the fact that the ultimate liability for claims evaluated as of the valuation date are 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 this examination report.

As a result of this study, the reserves were accepted.

COMPLIANCE WITH PRIOR RECOMMENDATIONS

The prior examination made recommendations related to deficiencies noted during the review of high level information systems over-sight and security protections, specifically related to: documentation, procedures manuals, scheduled maintenance, and soft ware selection: **The Company has complied.**

SUMMARY OF RECOMMENDATIONS

No recommendations where made as a result of this examination.

CONCLUSION

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

Description	12-31-07 Current Examination	12-31-04 Prior Examination	Changes Increase (Decrease)
Assets	$1,326,014,265	$1,102,497,699	$223,516,566
Liabilities	655,821,961	519,090,511	136,731,450
Common capital stock	7,500,000	7,500,000	0
Gross paid in and contributed surplus	359,595,676	359,595,676	0
Unassigned funds (surplus)	303,096,628	216,311,512	86,785,116
Total surplus as regards policyholders	670,192,304	583,407,188	86,785,116
Totals	$1,326,014,265	$1,102,497,699	$223,516,566

Since the last examination, the Company's assets increased $223,516,566, liabilities increased $136,731,450 and capital and surplus increased $86,785,116. In addition to the undersigned, acknowledgement is made of the assistance provided by the Delaware Insurance Department, INS Consultants, Inc. and INS Services, Inc.

Respectfully submitted,

Steven E. Guest, CFE
Examiner-in-Charge
State of Delaware