REPORT OF EXAMINATION
OF THE

HOMESITE INSURANCE COMPANY OF CALIFORNIA

AS OF
DECEMBER 31, 2007

Filed May 26, 2009

TABLE OF CONTENTS

PAGE

Los Angeles, California
April 10, 2009

Honorable Steve Poizner
Insurance Commissioner
California Department of Insurance
Sacramento, California

Dear Commissioner:

Pursuant to your instructions, an examination was made of the

HOMESITE INSURANCE COMPANY OF CALIFORNIA

(hereinafter also referred to as the Company) at the main administrative office and primary location of its books and records, 99 Bedford Street, Boston, Massachusetts 02111. The Company's statutory home office is located at 818 West 7th Street, Los Angeles, California 90017.

SCOPE OF EXAMINATION

The previous examination of the Company was made as of December 31, 2005. This examination covers the period from January 1, 2006 through December 31, 2007. The examination included a review of the Company's practices and procedures, an examination of management records, tests and analyses of detailed transactions within the examination period, and an evaluation of the assets and a determination of liabilities as of December 31, 2007 as deemed necessary under the circumstances.

The examination of the Company was made concurrently with the examinations of the following non-California domiciled affiliated companies within the Homesite Group Incorporated organization:

Homesite Indemnity Company (Kansas)
Homesite Insurance Company (Connecticut)
Homesite Insurance Company of Florida (Florida)

Homesite Insurance Company of New York (New York)
Homesite Insurance Company of Pennsylvania (Pennsylvania)
Homesite Insurance Company of the Midwest (North Dakota)

In addition to those items specifically commented upon in this report, other phases of the Company's operations were reviewed including the following areas that require no further comment: corporate records; fidelity bonds and other insurance; officers', employees' and agents' welfare and pension plans; business in force by states; loss experience; and sales and advertising.

SUBSEQUENT EVENTS

Effective January 1, 2008, Homesite Insurance Company of Illinois and Homesite Insurance Company of New York were added to the existing reinsurance pooling agreement. On April 15, 2008, the California Department of Insurance (CDI) approved the third amendment to the reinsurance pooling agreement to add these new participants and to extend the term to December 31, 2008. The following are the member company participation percentages in effect as of January 1, 2008:

Pool Participants	Percentage
Homesite Insurance Company of the Midwest (North Dakota)	29%
Homesite Insurance Company (Connecticut)	29%
Homesite Insurance Company of California (California)	17%
Homesite Indemnity Company (Kansas)	13%
Homesite Insurance Company of New York (New York)	6%
Homesite Insurance Company of Illinois (Illinois)	3%
Homesite Insurance Company of Pennsylvania (Pennsylvania)	3%
	100%

The most recent and fourth amendment to the reinsurance pooling agreement to extend the term to December 31, 2009 was submitted to the CDI for approval. The CDI approval is pending.

On June 2, 2008, a new shareholders agreement was executed establishing Alleghany Insurance Holdings LLC as the ultimate controlling entity of Homesite Group Incorporated, the Company's ultimate parent. The new shareholders agreement and Form A acquisition of control filing were approved by the CDI on May 30, 2008.

COMPANY HISTORY

On December 5, 2006, the Company's ultimate parent, Homesite Group Incorporated (HGI) entered into a stock purchase agreement with Alleghany Insurance Holdings LLC (AIH). Pursuant to the agreement, AIH acquired 85,714 shares of common stock or 32.9% ownership interest of HGI for a purchase price of $120 million.

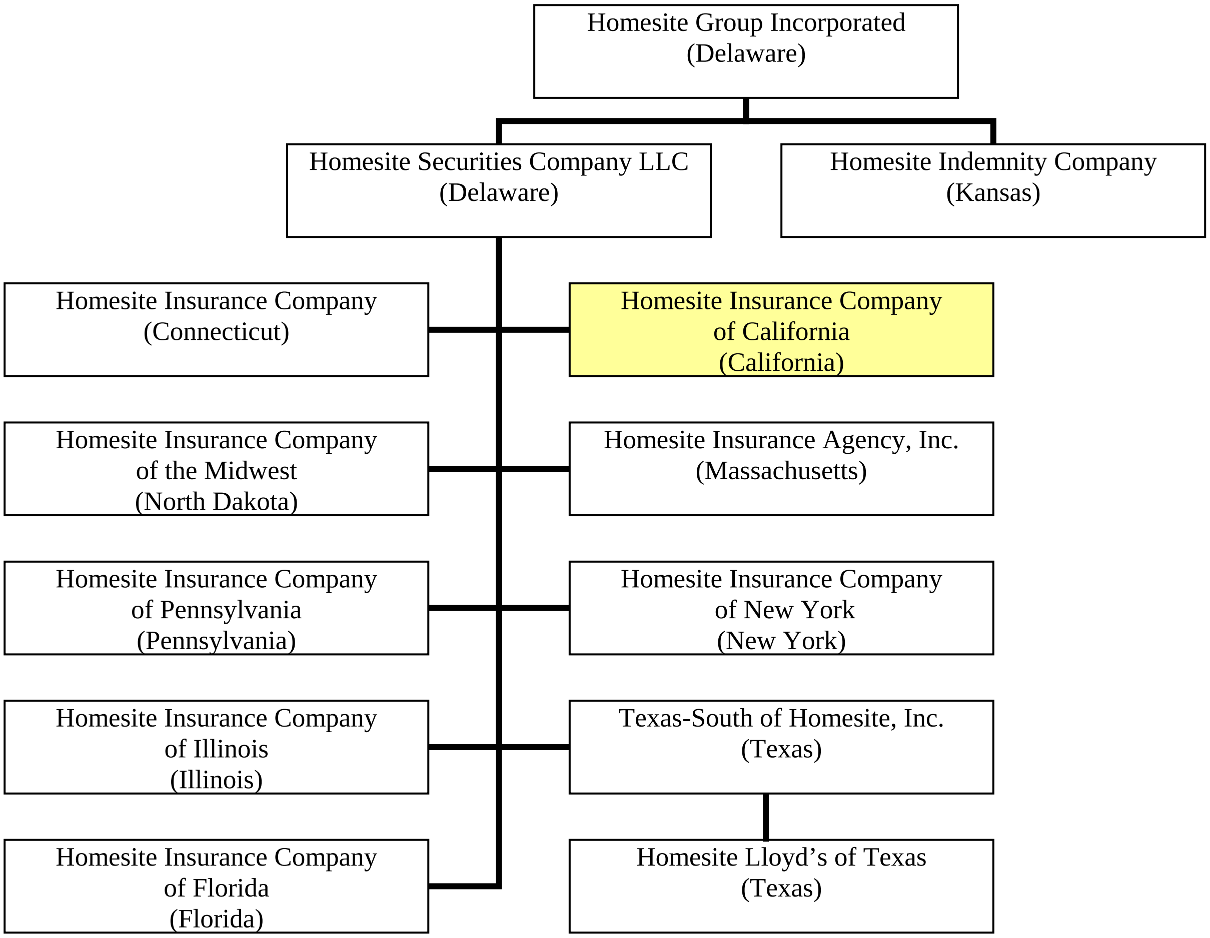
On December 29, 2006, the Company received a $14.5 million capital contribution from its parent, Homesite Securities Company LLC, of which, $12 million came directly from the AIH purchase.

On December 29, 2006, the California Department of Insurance (CDI) approved AIH's request for exemption from filing a Form A acquisition of control application until the expiration of the existing shareholders agreement on December 14, 2007. The shareholders agreement confined HGI's board representation to its then existing contracting parties which did not include AIH. On December 13, 2007, the CDI granted an extension of the shareholders agreement and the Form A exemption until June 2, 2008.

As of December 31, 2007, the entities with ownership interest in HGI exceeding 10% includes AIH with 32.9%, Morgan Stanley Capital Partners III, L.P. with 26%, and HDC Investors, L.P. with 17.6%.

MANAGEMENT AND CONTROL

The Company is a member of an insurance holding company system of which Homesite Securities Company LLC (HSC) is the immediate parent. HSC is wholly-owned by Homesite Group Incorporated (HGI), the ultimate parent. The following organizational chart depicts the Company's relationship within the holding company system as of December 31, 2007:



(*) all ownership is 100% unless otherwise noted

Management of the Company is vested in a seven-member board of directors elected annually. A listing of the members of the board and principal officers serving on December 31, 2007 follows:

Directors

Name and Residence	Principal Business Affiliation
Douglas A. Batting Boston, Massachusetts	Executive Vice President Homesite Group Incorporated
Fabian J. Fondriest Concord, Massachusetts	Chief Executive Officer and President Homesite Group Incorporated
Preston B. Kavanagh, III (*) Burlington, Connecticut	Vice President and Chief Financial Officer Homesite Group Incorporated

Name and Residence	Principal Business Affiliation
James T. Morahan, Jr. Foxboro, Massachusetts	Vice President of Finance and Treasurer Homesite Group Incorporated
Anthony M. Scavongelli Duxbury, Massachusetts	Vice President of Partner Marketing, Secretary and General Counsel Homesite Group Incorporated
Peter B. Settel Duxbury, Massachusetts	Vice President of Information Technology Homesite Group Incorporated
Stephen D. Stayton Duxbury, Massachusetts	Vice President of Actuarial Homesite Group Incorporated

Principal Officers

Name	Title
Fabian J. Fondriest	Chief Executive Officer
Douglas A. Batting	President
Preston B. Kavanagh, III (*)	Vice President and Chief Financial Officer
Anthony M. Scavongelli	Vice President and Secretary
Christopher L. Conti	Vice President of Operations
Sherry J. Little	Vice President, Assistant Secretary and General Counsel
James T. Morahan, Jr.	Vice President of Finance and Treasurer
Peter B. Settel	Vice President of Information Technology
Stephen D. Stayton	Vice President of Actuarial
Brendan G. Voss	Vice President of Claims
Steven J. Walsh	Vice President of Underwriting

(*) Resigned in May 2008. Current responsibilities are shared by Fabian J. Fondriest and James T. Morahan, Jr.

Management Agreements

Investment Management Agreement: During the examination period, the Company was included in its ultimate parent's, HGI, investment management agreement with SRB Corporation (SRB). Services provided under the agreement include investment accounting, cash management, and the development of investment objectives, policies and guidelines. SRB is compensated quarterly based upon a fee schedule relating to the Company's asset mix. The total fees paid by the Company for these services in 2006 and 2007 were $145,428 and $236,922, respectively. The significant increase in fees from 2006 to 2007 was due to portfolio growth after a capital contribution of $14.5 million in December 2006. Effective February 12, 2009, the Company was no longer included in HGI's investment management agreement and entered into a similar but separate agreement directly with SRB.

Intercompany Service Agreement: On November 3, 1999, the Company entered into an Intercompany Service Agreement with its ultimate parent, HGI, for the leasing of employees and facilities to the Company. Under the terms of the agreement, the Company reimburses HGI for salaries, administrative services and facilities based on the actual cost of these services. The total expenses paid for these services in 2006 and 2007 were $3,582,000 and $4,288,000, respectively. The California Department of Insurance (CDI) approved this agreement as part of the Certificate of Authority filing in 1999.

Consolidated Federal Income Tax Liability Allocation Agreement: The Company and its affiliates are part of a consolidated federal income tax liability allocation agreement with its ultimate parent, HGI. The tax allocation is based on separate return calculations. Intercompany tax balances are settled within thirty days after the filing of the consolidated income tax return by HGI. The CDI approved this agreement on May 18, 2007.

TERRITORY AND PLAN OF OPERATION

The Company writes homeowners insurance coverage solely in California. The Company's business is marketed directly, online, and most significantly through its partnerships with large financial and insurance institutions.

The direct premiums written during 2006 and 2007 were $17.6 million and $18.3 million, respectively.

GROWTH OF COMPANY

Although the direct premiums written did not experience substantial growth since the last examination, on a gross and net basis the premiums fluctuated significantly as noted in the following schedule:

Year	Direct Premiums Written		Gross Premiums Written		Net Premiums Written	
	Amount	% Growth	Amount	% Growth	Amount	% Growth
2005	$16,181,135		$58,086,979		$27,960,977	
2006	$17,598,317	8.76%	$31,336,085	-46.05%	$19,368,177	-30.73%
2007	$18,303,827	4.01%	$42,755,668	36.44%	$28,864,732	49.03%
*2008	$19,571,322	6.92%	$64,773,363	51.50%	$44,022,614	52.51%

* Subsequent to examination date of December 31, 2007

The fluctuations in gross and net premiums written is primarily a result of (1) reinsurance activity of the lead company in the pool, Homesite Insurance Company of the Midwest, with affiliated non-pool participants from October 2005 through March 2007, (2) the addition of two pool participants in 2008, and (3) increased writings for the pool. Additionally, the Company received capital contributions of $5.1 and $14.5 million in 2005 and 2006, respectively, in anticipation of future growth.

REINSURANCE

Reinsurance Pooling Agreement

Effective January 1, 2005, the Company entered into a reinsurance pooling agreement with its affiliates. Under the terms of the agreement, the Company and its affiliates cede 100% of direct premiums written to the lead company, Homesite Insurance Company of the Midwest (HMW). In return, HMW retrocedes to each pool member a certain percentage of the premiums based on each member’s participation. The participants in the reinsurance pooling agreement, and their respective participation percentages as of December 31, 2007, were as follows:

Pool Participants	Percentage
Homesite Insurance Company of the Midwest (North Dakota)	33%
Homesite Insurance Company (Connecticut)	29%
Homesite Insurance Company of California (California)	17%
Homesite Indemnity Company (Kansas)	13%
Homesite Insurance Company of Pennsylvania (Pennsylvania)	8%
	100%

The Company's pool participation percentage is 17%. In 2007, the Company's portion of the assumed business was $24.5 million. The agreement was approved by the California Department of Insurance (CDI) on April 17, 2005. The agreement has an annual term, therefore requires annual amendments to extend the term.

Assumed

Other than the Reinsurance Pooling Agreement, the Company did not assume any reinsurance during the period under examination.

Ceded

The following is a summary of the principal ceded reinsurance treaties inforce as of December 31, 2007:

Type of Contract	Reinsurer's Name	Company's Retention	Reinsurer's Maximum Limits
	Property - Excess		
1st Excess of Loss	General Reinsurance Corporation	$750,000 per risk	$250,000 per risk, maximum $500, 000 per occurrence
2nd Excess of Loss	General Reinsurance Corporation – 75% Hannover Ruckversicherungs – 25%	$1 million per risk	$1 million per risk, maximum $1 million per occurrence, annual aggregate limit $3 million
	Casualty - Excess		
Casualty Excess of Loss	General Reinsurance Corporation	$500,000 per occurrence	$500,000 per occurrence

The Company and its affiliates are participants in a Property Catastrophe Excess of Loss reinsurance agreement. For any one occurrence, the Company retains the liability for the first $20 million of paid losses. For losses that exceed $20 million for one occurrence, the coverage provided by the property catastrophe excess reinsurance is summarized as follows:

Type of Contract	**Reinsurer's Name**	**Company's Retention**	**Reinsurer's Maximum Limits**
	Catastrophe - Excess		
1st Catastrophe Excess	Various Authorized and Unauthorized	$20 million per occurrence	$20 million per occurrence, annual aggregate limit $40 million
2nd Catastrophe Excess	Various Authorized and Unauthorized	$40 million per occurrence	$40 million per occurrence, annual aggregate limit $80 million
3rd Catastrophe Excess	Various Authorized and Unauthorized	$80 million per occurrence	$50 million per occurrence, annual aggregate limit $100 million

As of December 31, 2007, reinsurance recoverables for all ceded reinsurance totaled $19.7 million or 69.5% of surplus as regards policyholders. Of the ceded reinsurance recoverables, 94% was from an affiliated accredited reinsurer, HMW, as a result of the pooling agreement, and 5.3% were from non-affiliated authorized reinsurers.

Subsequent to the examination date, the Company and its insurance affiliates changed their method of acquiring external reinsurance. All external reinsurance for the pooled business will be acquired in the name of the lead company in the pool, HMW. As a result, starting in 2008, all transactions for external reinsurance for pool participants will be reported by HMW.

ACCOUNTS AND RECORDS

Information System Controls

During the course of the examination, the Kansas and Connecticut Insurance Departments performed a review of the information system (IS) general controls of Homesite Group Incorporated, which includes the Company and its affiliates. While deficiencies were noted in the areas of reconciliation and program change controls, there is a sufficient control environment in place to warrant reliance on the IS controls. However, it is recommended the Company establish and implement the following control policies and procedures to improve the overall effectiveness of the IS controls:

1. The Company's source systems (i.e., premiums and losses) do not feed directly into the general ledger. As a result, data is retrieved from the data repository into an Excel pivot table (internally referred to as "cubes") which is then used to book journal entries. Although the Company states that various reconciliations between the source data, data repository and cubes are performed periodically by the Information Technology Department and monthly by the Finance Department, only the most current reconciliation was available for review. It is recommended the Company establish and implement formalized written procedures to ensure that reconciliations from the source system down through the general ledger are performed on a monthly basis. In addition, the procedures should include requirements for retaining all reconciliations to ensure availability to the examiners for future review.

2. The Company did not have adequate controls to ensure that all program changes released to production were appropriately documented and authorized during the examination period. It is recommended the Company consistently document business requirements and ensure they are signed off and dated by the business area prior to development. It is also recommended the Company implement the appropriate controls subsequent to testing and prior to implementation into production. In addition, it is recommended the current IT request management standard be updated to reflect these requirements and ensure that maintenance ticket requirements are appropriately documented.

FINANCIAL STATEMENTS

The financial statements prepared for this examination report include:

Statement of Financial Condition as of December 31, 2007

Underwriting and Investment Exhibit for the Year Ended December 31, 2007

Reconciliation of Surplus as Regards Policyholders
from December 31, 2005 through December 31, 2007

Statement of Financial Condition
as of December 31, 2007

Assets	Ledger and Nonledger Assets	Assets Not Admitted	Net Admitted Assets	Notes
Bonds	$ 36,644,188	$	$ 36,644,188	
Stocks:				
Common stocks	4,412,515		4,412,515	
Cash and short-term investments	8,131,922		8,131,922	
Other invested assets	2,164,268		2,164,268	
Investment income due and accrued	462,915		462,915	
Premiums and considerations:				
Uncollected premiums and agents' balances in the course of collection	3,487,206		3,487,206	
Deferred premiums, agents' balances and installments booked but deferred and not yet due	1,525,778		1,525,778	
Reinsurance:				
Amounts recoverable from reinsurers	2,103,618		2,103,618	
Current federal income tax recoverable	72,929		72,929	
Net deferred tax asset	1,559,196		1,559,196	
Total assets	$ 60,564,535	$ 0	$ 60,564,535	

Liabilities, Surplus and Other Funds				
Losses			$ 7,499,229	(1)
Reinsurance payable on paid losses and loss adjustment expenses			1,433,931	
Loss adjustment expenses			2,373,856	(1)
Commissions payable, contingent commissions and other similar charges			276,773	
Taxes, licenses and fees			100,880	
Unearned premiums			17,046,573	
Advance premium			262,665	
Ceded reinsurance premiums payable			1,113,069	
Amounts withheld or retained by company for account of others			45,157	
Provision for reinsurance			139,000	
Payable to parent, subsidiaries and affiliates			1,879,300	
Total liabilities			32,170,433	
Common capital stock		$ 2,600,000		
Gross paid-in and contributed surplus		24,850,001		
Unassigned funds (surplus)		944,101		
Surplus as regards policyholders			28,394,102	
Total liabilities, surplus and other funds			$ 60,564,535	

Underwriting and Investment Exhibit
for the Year Ended December 31, 2007

Statement of Income

Underwriting Income		
Premiums earned		$ 28,147,068
Deductions:		
Losses incurred	$ 15,463,270	
Loss expense incurred	3,959,473	
Other underwriting expenses incurred	9,757,589	
Total underwriting deductions		29,180,332
Net underwriting loss		(1,033,264)
Investment Income		
Net investment income earned	$ 2,098,088	
Net realized capital gains	158,782	
Net investment gain		2,256,870
Other Income		
Net loss from agents' or premium balances charged off	$ (97,614)	
Finance and service charges not included in premiums	193,912	
Total other income		96,298
Net income before federal income taxes		1,319,904
Federal income taxes incurred		609,629
Net income		$ 710,275

Capital and Surplus Account

Surplus as regards policyholders, December 31, 2006		$ 26,714,957
Net income	$ 710,275	
Change in net unrealized capital gains	307,609	
Change in net deferred income tax	187,784	
Change in nonadmitted assets	718,038	
Change in provision for reinsurance	(139,000)	
Aggregate write-ins for losses in surplus	(105,561)	
Change in surplus as regards policyholders		1,679,145
Surplus as regards policyholders, December 31, 2007		$ 28,394,102

Reconciliation of Surplus as Regards Policyholders
from December 31, 2005 through December 31, 2007

	Gain in Surplus	Loss in Surplus	
Surplus as regards policyholders, December 31, 2005, per Examination			$ 9,174,010
Net income	$ 2,390,055		
Change in net unrealized capital gains	751,373		
Change in net deferred income tax	157,261		
Change in nonadmitted assets	1,665,964		
Change in provision for reinsurance		$ 139,000	
Surplus adjustments: Paid-in	14,500,000		
Aggregate write-ins for losses in surplus		105,561	
Totals	$ 19,464,653	$ 244,561	
Net increase in surplus as regards policyholders for the examination			19,220,092
Surplus as regards policyholders, December 31, 2007, per Examination			$ 28,394,102

COMMENTS ON FINANCIAL STATEMENT ITEMS

(1) Losses and Loss Adjustment Expenses

The Connecticut Insurance Department (CID) actuary conducted a comprehensive actuarial analysis to determine the reasonableness of the loss and loss adjustment expense reserves on a pooled basis as of December 31, 2007. Based on the analysis by the CID and the review of their work by a Casualty Actuary from the California Department of Insurance, the Company's December 31, 2007 reserves for losses and loss adjustment expenses were determined to be reasonably stated and have been accepted for purposes of this examination.

SUMMARY OF COMMENTS AND RECOMMENDATIONS

Current Report of Examination

Accounts and Records - Information System Controls (Page 10): It is recommended the Company establish and implement the following control policies and procedures to improve the overall effectiveness of the information system controls:

(1) It is recommended the Company establish and implement formalized written procedures to ensure that reconciliations from the source system down through the general ledger are performed on a monthly basis. In addition, the procedures should include requirements for retaining all reconciliations to ensure availability to the examiners for future review.

(2) It is recommended the Company consistently document business requirements and ensure they are signed off and dated by the business area prior to development. It is also recommended the Company implement the appropriate controls subsequent to testing and prior to implementation into production. In addition, it is recommended the current IT request management standard be updated to reflect these requirements and ensure that maintenance ticket requirements are appropriately documented.

Previous Report of Examination

Accounts and Records (Page 7): It was recommended that the Company maintain documentation to support loss and loss adjustment expense accounts. The documentation should be prepared in sufficient detail as to allow for a full and complete audit trail from the Annual Statement to individual records. The Company has complied with this recommendation.

ACKNOWLEDGEMENT

The courtesy and cooperation extended by the Company’s officers and parent’s employees during the course of this examination are hereby acknowledged.

Respectfully submitted,

_____/S/__________________
Deanna Lo, CFE
Examiner-In-Charge
Senior Insurance Examiner
Department of Insurance
State of California