REPORT OF EXAMINATION
OF THE

HOMESITE INSURANCE COMPANY
OF CALIFORNIA

AS OF
DECEMBER 31, 2005

Filed June 12, 2007

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Los Angeles, California
May 31, 2007

Honorable Steven 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 its home office located at 99 Bedford Street, Boston, Massachusetts 02111.

SCOPE OF EXAMINATION

The previous examination of the Company was made as of December 31, 2002. This examination covers the period from January 1, 2003 through December 31, 2005. 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, 2005 as deemed necessary under the circumstances.

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; growth of company; business in force by states; and sales and advertising.

SUBSEQUENT EVENTS

On December 5, 2006, the Company's ultimate parent, Homesite Group Incorporated (HGI), and Alleghany Insurance Holdings LLC (Alleghany) entered into a Stock Purchase Agreement. Pursuant to the agreement, Alleghany purchased 32.9% of the issued and outstanding shares of HGI's common stock for $120 million.

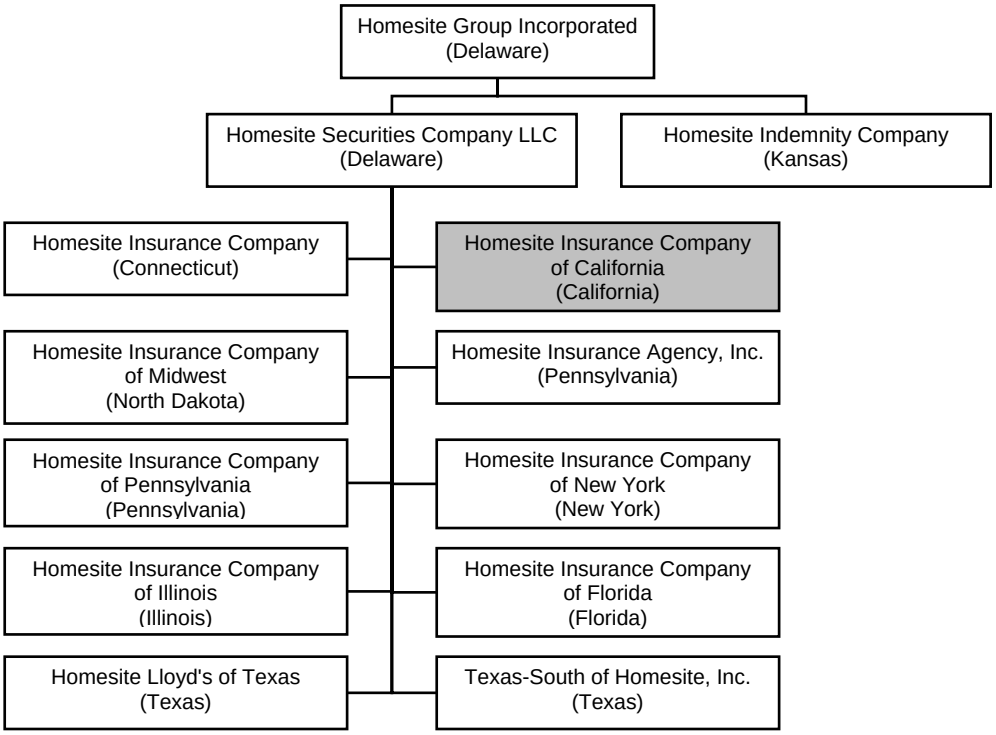
COMPANY HISTORY

The Company received $1.5 and $5.1 million surplus contribution in 2003 and 2005, respectively, from its ultimate parent, Homesite Group Incorporated (HGI).

During 2006, the Company received $14.5 million capital contribution from its parent, Homesite Securities Company LLC (HSC), of which $12 million came directly from the Alleghany purchase.

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 controlling parent. The following organizational chart reflects the Company's position within this system:



all ownership is 100%

Management of the Company is vested in a seven-member board of directors elected annually. The following are lists of directors and principal officers of the Company serving as of December 31, 2005:

Directors

Name and Residence	Principal Business Affiliation
Anthony M. Scavongelli Duxbury, Massachusetts	Vice President and General Counsel Homesite Group Incorporated
Bennett C. Verniero Wellesley, Massachusetts	Vice President, Partner Operations Homesite Group Incorporated

Name and Residence	Principal Business Affiliation
Douglas Andrew Batting Boston, Massachusetts	Executive Vice President Homesite Group Incorporated
Fabian J. Fondriest Concord, Massachusetts	Chief Executive Officer and President Homesite Group Incorporated
James T. Morahan Jr. Foxboro Massachusetts	Vice President, Finance Homesite Group Incorporated
Peter B. Settel Duxbury, Massachusetts	Vice President, Operations and Information Technology Homesite Group Incorporated
Stephen D. Stayton Duxbury, Massachusetts	Vice President, Actuarial Homesite Group Incorporated

Principal Officers

Name	Title
Douglas A. Batting	President
Fabian J. Fondriest	Chief Executive Officer
Anthony M. Scavongelli	Vice President, General Counsel and Secretary
Manuel Z. Rios	Vice-President, Underwriting
Peter B. Settel	Vice President, Operations and Information Technology
James T. Morahan	Vice President and Treasurer
Bennett C. Verniero	Vice President, Partner Operations
Stephen D. Stayton	Vice President and Chief Actuary
Brendan G. Voss	Vice President, Claims

Management Agreement

Intercompany Service Agreement: The Company entered into an Intercompany Service Agreement with its ultimate parent, Homesite Group Incorporated (HGI). HGI provides certain administrative services and facilities to the Company and its affiliates. The Company reimburses HGI for the cost

of these services on an actual cost basis. The total expenses paid for these services in 2005, 2004 and 2003 were $3,631,000, $2,444,000 and $2,393,000, respectively. This agreement was submitted for approval to the California Department of Insurance (CDI). The approval is still pending.

Federal Income Tax Allocation Agreement: The Company and its affiliates are part of a consolidated federal income tax 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 is licensed to transact property and casualty insurance business in California only. The Company markets homeowner's insurance and related coverages directly and through appointed licensed agents.

The direct premiums written during 2005, 2004 and 2003 were $16.2 million, $7.2 million and $10 million respectively.

LOSS EXPERIENCE

The Company reported operating net losses in all years under examination except one as follows:

Year	Net Operating Gain or (Loss)	Net Income Or (Loss)
2003	**$(3,261,819)**	**$(1,816,702)**
2004	**519,517**	**680,064**
2005	**(2,162,150)**	**(1,899,072)**

The Company has maintained its reported surplus since the previous examination primarily through capital contributions, including $1.5 million and $5.1 million capital infusions in 2003 and 2005, respectively.

REINSURANCE

Intercompany Pooling Agreement: Effective January 1, 2005, the Company entered into an inter-company 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 Midwest (Homesite Midwest). In return, Homesite Midwest retrocedes to each pool member a certain percentage of the premiums which is based on each member's participation. The Company's pool participation percentage is 17%. In 2005, the Company's portion of the assumed business was $41,905,844. The agreement was approved by the California Department of Insurance (CDI) on April 17, 2005. On March 29, 2006, the CDI granted its approval to extend the inter-company pooling agreement to the end of 2006.

Multiple Cedant Reinsurance Allocation Agreement Among the Affiliated Group of Homesite Companies: Effective January 1, 2004, the Company entered into this agreement to establish a method of allocating and recording reinsurance among the affiliated group of companies. The Company submitted the agreement for approval to the California Department of Insurance (CDI), but it has not received formal approval.

Assumed

Other than the business assumed based on the intercompany pooling agreement, the Company did not assume any other business during the period under examination.

Ceded

The following is a summary of the principal ceded reinsurance treaties inforce as of December 31, 2005:

Type of Contract	Reinsurer's Name	Company's Retention	Reinsurer's Maximum Limits
1st Excess of Loss	American Re-Insurance Company 100%	$350,000 each loss occurrence	$150,000 each loss occurrence
2nd Excess of Loss	American Re-Insurance Company 67% Endurance Corporation of America 33%	$500,000 each loss occurrence	$500,000 each loss occurrence
3rd Excess of Loss	Lloyds' of London 100%	$1million each loss occurrence	$1million each loss occurrence
Casualty Excess of Loss	American Re-Insurance Company 67% Endurance Corporation of America 33%	$500,000 each loss occurrence	$650,000 each loss occurrence

The Company is a participant in a Property Catastrophe Excess of Loss reinsurance agreement with its affiliate Homesite Indemnity Company (HIC). The agreement provides additional catastrophe protection up to $170 million.

ACCOUNTS AND RECORDS

This examination experienced significant difficulties in obtaining supporting documentation for loss and loss adjustment expenses that was reported by the Company in its Annual Statement. This included routine requests for account reconciliations and detailed supporting reports. It is 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.

FINANCIAL STATEMENTS

The financial statements prepared for this examination report include:

Statement of Financial Condition as of December 31, 2005

Underwriting and Investment Exhibit for the Year Ended December 31, 2005

Reconciliation of Surplus as Regards Policyholders
from December 31, 2002 through December 31, 2005

Statement of Financial Condition
as of December 31, 2005

Assets	Ledger and Nonledger Assets	Assets Not Admitted	Net Admitted Assets	Notes
Bonds	$ 20,979,124	$	$ 20,979,124	
Stocks:				
Common Stocks	1,039,624		1,039,624	
Cash and short-term investments	6,106,961		6,106,961	
Premiums and considerations:				
Uncollected premiums and agents' balances in course of collection	524,547		524,547	
Agents' balances and installments booked but deferred	1,044,395		1,044,395	
Amounts recoverable from reinsurers	997,581		997,581	
Funds held by or deposited with reinsured companies	13,320,339		13,320,339	
Net deferred tax assets	1,665,964	1,665,964	0	
Receivables from parent, subsidiaries and affiliates	115,072		115,072	
Interest, dividends, and real estate income due and accrued	204,906		204,906	
Total assets	$ 45,998,513	$1,665,964	$ 44,332,549	
Liabilities, Surplus and Other Funds				
Losses			$ 3,591,541	(1)
Loss adjustment expenses			892,149	(1)
Commissions payable, contingent commissions and other similar charges			240,090	
Other expenses			30,000	
Taxes, licenses and fees			526,287	
Current federal and foreign income taxes			218,267	
Unearned premiums			16,251,507	
Advance premiums			327,290	
Ceded reinsurance premiums payable			299,505	
Funds held by company under reinsurance treaties			12,781,903	
Total liabilities			35,158,539	
Common capital stock		$ 2,600,000		
Gross paid-in and contributed surplus		10,350,001		
Unassigned funds (surplus)		(3,775,991)		
Surplus as regards policyholders			9,174,010	
Total liabilities, surplus and other funds			$ 44,332,549	

Underwriting and Investment Exhibit
for the Year Ended December 31, 2005

Statement of Income

Underwriting Income		
Premiums earned		$ 17,104,940
Deductions:		
Losses incurred	$ 9,506,934	
Loss expenses incurred	1,957,750	
Other underwriting expenses incurred	7,802,406	
Total underwriting deductions		19,267,090
Net underwriting loss		(2,162,150)
Investment Income		
Net investment income earned	$ 527,289	
Net realized capital gain	21,282	
Net investment gain		548,571
Other Income		
Net loss from agents' or premiums balances charged off	$ (61,865)	
Finance and service charges not included in premiums	147,444	
Total other income		85,579
Net loss before federal income taxes		(1,528,000)
Federal income taxes incurred		371,072
Net loss		$(1,899,072)

Capital and Surplus Account

Surplus as regards policyholders, December 31, 2004		$ 5,868,925
Net loss	$ (1,899,072)	
Net unrealized capital gains	72,034	
Change in net deferred income tax	1,698,087	
Change in nonadmitted assets	(1,665,964)	
Surplus adjustments:		
Paid in	5,100,000	
Change in surplus as regards policyholders		3,305,085
Surplus as regards policyholders, December 31, 2005		$ 9,174,010

Reconciliation of Surplus as Regards Policyholders
from December 31, 2002 through December 31, 2005

	Gain in Surplus	Loss in Surplus	
Surplus as regards policyholders, December 31, 2002, per Examination			$ 6,424,692
Net loss		$ 3,035,710	
Net unrealized capital gains	$ 61,787		
Change in net deferred income tax	1,698,087		
Change in nonadmitted assets		1,665,964	
Surplus adjustments:			
Paid in	6,600,000		
Aggregate write-ins for losses in surplus		908,882	
Totals	$ 8,359,874	$ 5,610,556	
Net gain in surplus as regards policyholders			2,749,318
Surplus as regards policyholders, December 31, 2005, per Examination			$ 9,174,010

COMMENTS ON FINANCIAL STATEMENT ITEMS

(1) Losses and Loss Adjustment Expenses

A Casualty Actuary from the California Department of Insurance reviewed the Company's loss and loss adjustment expenses reserves. Based on the review, the Company's December 31, 2005 reserves for losses and loss adjustment expenses were determined to be reasonable and have been accepted for this examination.

SUMMARY OF COMMENTS AND RECOMMENDATIONS

Current Report of Examination

Accounts and Records (Page 7): It is 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

Previous Report of Examination

None

ACKNOWLEDGEMENT

The courtesy and cooperation extended by the Company's officers and employees during the course of this examination is hereby acknowledged.

Respectfully submitted,

_____/S/_____
Ralph Oseguera
Examiner-In-Charge
Associate Insurance Examiner
Department of Insurance
State of California