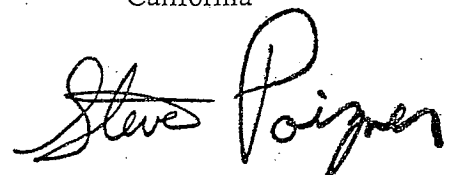


REPORT OF EXAMINATION
OF THE
TIG INSURANCE COMPANY
AS OF
DECEMBER 31, 2008

Participating States
and Zone:

California

A handwritten signature in black ink that reads "Steve Poizner". The signature is written in a cursive style with a large, looped initial "S".

Insurance Commissioner

FILED 06-24-10

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Los Angeles, California
May 5, 2010

Honorable Alfred W. Gross
Chairman of the NAIC Financial
Condition Subcommittee
Commissioner of Insurance
Virginia Bureau of Insurance
Richmond, Virginia

Honorable Christina Urias
Secretary, Zone IV-Western
Director of Insurance
Arizona Department of Insurance
Phoenix, Arizona

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

Dear Chairman, Secretary, and Commissioner:

Pursuant to your instructions, an examination was made of the

TIG INSURANCE COMPANY

(hereinafter also referred to as the Company) at the primary location of its books and records, 250 Commercial Street, Suite 5000, Manchester, New Hampshire 03101. The Company's statutory home office and main administrative office is located at 8880 Rio San Diego Drive, Suite 510, San Diego, California 92108.

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, 2008. The examination was made pursuant to the National Association of Insurance Commissioners' plan of examination. 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, 2008, as deemed necessary under the circumstances.

This examination was conducted in conjunction with the examination of the Company's wholly-owned subsidiaries, TIG Indemnity Company, Fairmont Premier Insurance Company, Fairmont Insurance Company, and Fairmont Specialty Insurance Company.

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; loss experience; accounts and records; and sales and advertising.

COMPANY HISTORY

Effective December 28, 2007, the California Department of Insurance (CDI) approved the redomestication of the Company's subsidiary, TIG Specialty Insurance Company (TIG Specialty), to Arizona. On December 31, 2007, the Company sold all of the shares of common stock of TIG Specialty to Ironshore Holdings Inc.

In conjunction with this sale, the Company and TIG Specialty executed an Amended and Restated Reinsurance Agreement to replace the 100% Quota Share Reinsurance Agreement that was terminated effective with the sale. Under the new reinsurance agreement the Company assumes 100% of all business written by TIG Specialty through December 31, 2007. The Company and TIG Specialty also entered into an Administrative Services Agreement whereby the Company provides claims handling and other services related to the business written through December 31, 2007 by TIG Specialty.

On March 8, 2007, the CDI approved the Company's purchase of 800,000 shares of common stock of its affiliate, Odyssey Re Holdings Corporation. This purchase occurred on March 15, 2007, for a total price of \$30.1 million.

The Company owned two notes receivable from its affiliate, Fairfax, Inc. with maturity dates of June 30, 2007. On March 8, 2007, the Company received approval from the CDI to pay an extraordinary

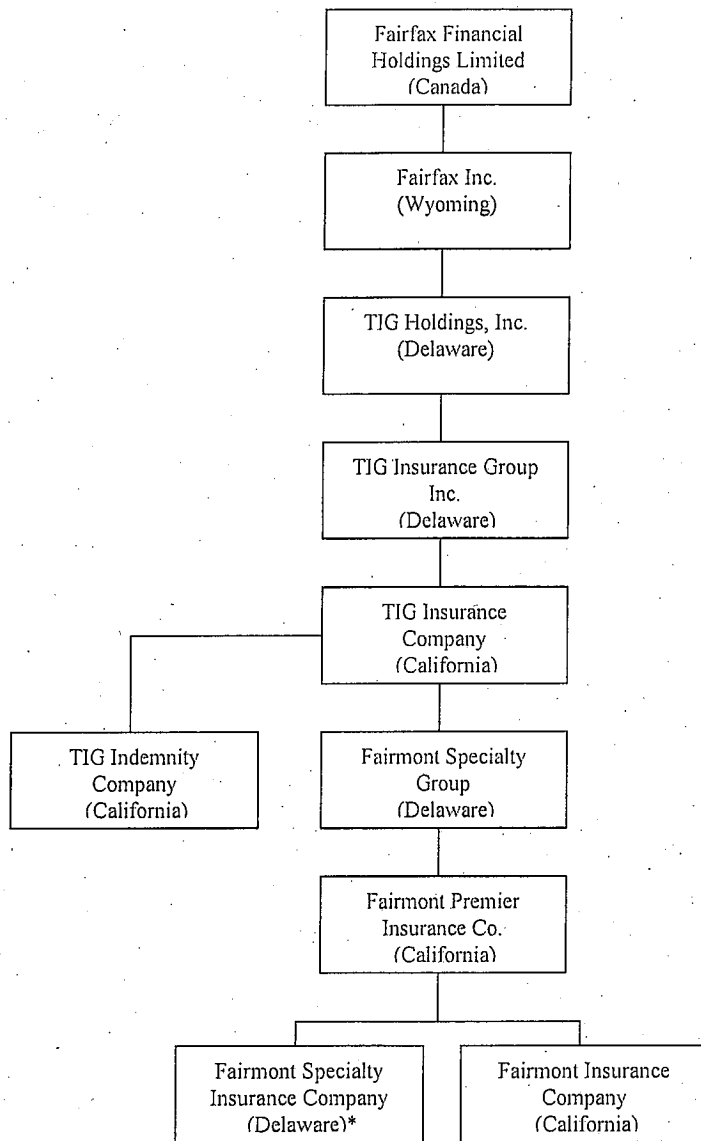
dividend of \$124.8 million to its immediate parent, TIG Insurance Group, Inc. The dividend was comprised of the two notes, plus accrued interest.

On May 2, 2008, the Company received CDI approval to pay an extraordinary dividend which comprised 100% of its owned investment Credit Default Swaps (CDS), with a then-current market value of \$100.4 million, and \$100 million in cash and other investments to its immediate parent TIG Insurance Group, Inc.

TIG Insurance Company executed a stock purchase agreement on January 19, 2010, to sell the Company subsidiary TIG Indemnity Company to a third-party. The sale is pending. Effective April 30, 2010, the Company subsidiary TIG Indemnity Company (California) re-domesticated to Delaware.

MANAGEMENT AND CONTROL

The following abridged organizational chart, which is limited to the Company's parents along with its subsidiary insurance companies, depicts the Company's relationship within the holding company system as of December 31, 2008:



All ownership is 100%

(*) During February 2009, Fairmont Specialty Insurance Company (Delaware) re-domesticated to California.

Management of the Company is vested in a five-member board of directors elected annually. A listing of the members of the board and principal officers serving on December 31, 2008 follows:

Directors

| <u>Name and Residence</u> | <u>Principal Business Affiliation</u> |
|--|---|
| John J. Bator Bedford, New Hampshire | Senior Vice President, Chief Financial Officer RiverStone Resources, LLC |
| Nicholas C. Bentley Exeter, New Hampshire | President and Chief Executive Officer, RiverStone Resources, LLC |
| Frank J. DeMaria Windham, New Hampshire | Senior Vice President RiverStone Resources, LLC |
| Charles G. Ehrlich Amherst New Hampshire | Senior Vice President, Secretary RiverStone Resources, LLC |
| John M. Parker Manchester, New Hampshire | Senior Vice President RiverStone Resources, LLC |

Principal Officers

| <u>Name</u> | <u>Title</u> |
|---------------------|--|
| Nicholas C. Bentley | President and Chief Executive Officer |
| John J. Bator | Senior Vice President and Chief Financial Officer |
| Charles G. Ehrlich* | Senior Vice President, Secretary, and General Counsel |
| Frank DeMaria | Senior Vice President |
| Henry W. Edmiston | Senior Vice President |
| John M. Parker | Senior Vice President |
| Robert D. Warren** | Senior Vice President |

* On February 10, 2009, Charles Ehrlich resigned as General Counsel. However he remained as Senior Vice President and Secretary. Richard Fabian, Senior Vice President was elected by the Board as General Counsel on February 10, 2009.

** Robert Warren resigned on March 15, 2009, and was not replaced.

Management Agreements

Tax allocation agreement: The Company is party to a tax allocation agreement with TIG Holdings, Inc., dated January 1, 2000, whereby it files its federal income taxes on a consolidated basis along with 41 other affiliated companies. Each company computes its federal income tax liability on a separate basis and settles with its parent. The California Department of Insurance (CDI) approved the agreement on January 1, 2001. The Company's portion of the federal income taxes paid for 2006, 2007, and 2008 were \$636,960, \$355,997, and \$5,346,026, respectively.

Investment Agreement: The Company is party to an affiliated agreement with Hamblin Watsa Investment Counsel Ltd. (HWIC) and Fairfax Financial Holdings Limited (Fairfax) effective January 1, 2003. Pursuant to the agreement, HWIC manages the investments of the Company in accordance with specific investment objectives. All fees are paid by the Company to Fairfax, and Fairfax reimburses HWIC for investment management services. The CDI approved the agreement on December 3, 2003. For 2006, 2007, and 2008, fees paid by the Company were \$3,500,000, \$4,950,894, and \$3,688,607, respectively.

Information Technology Services Agreement: The Company is party to an agreement with the affiliated Fairfax Information Technology Services, Inc. (FITS) initially effective August 1, 2001, and amended effective January 1, 2004. Pursuant to this agreement FITS is authorized to manage and provide information technology services to the Company. The CDI approved the initial agreement on September 17, 2001, and the amendment on November 16, 2005. For 2006, 2007, and 2008, fees paid by the Company were \$6,700,000, \$4,973,275, and \$4,297,616, respectively.

Service Contract and Expense Sharing Agreement: The Company is party to a Service Contract and Expense Sharing Agreement, effective January 1, 1994, with TIG Holdings, Inc. The agreement applies to all shared functions of the two companies. This agreement is for all personnel and personnel service requirements, home office space, supplies, business equipment, and all other requirements for the conduct of business. The CDI approved the agreement on June 20, 1994.

Although management indicates it is currently in effect the Company paid no fees under this agreement during the examination period.

Services Agreement: The Company is party to an ongoing Services Agreement, effective August 11, 1999, between RiverStone Resources LLC (RiverStone Resources) and the former International Insurance Company of Illinois (IIC), which continued in effect during the period covered by this examination. The Company became a party to this agreement as a result of the December 2002 merger with IIC. The services provided include financial services, human resources, legal services, and various other services necessary for the daily operation of the Company. For 2006, 2007, and 2008, fees paid by the Company were \$18,527,957, \$20,635,304, and \$28,072,105, respectively.

Claims Service and Management Agreement: The Company is party to a Claims Service and Management Agreement effective December 31, 2000, with RiverStone Claims Management LLC (RiverStone Claims). RiverStone Claims is providing claims managerial services for the Company on an actual cost reimbursement basis. For 2006, 2007, and 2008 fees paid by the Company were \$8,945,505, \$9,480,607, and \$8,686,750, respectively. The CDI approved this agreement on December 26, 2000.

Reinsurance Service Agreement: Concurrent to the aforementioned Claims Service and Management Agreement, the Company also entered into a Reinsurance Service Agreement effective December 31, 2000, with RiverStone Reinsurance Services LLC which provides reinsurance collection services for the Company on an actual cost reimbursement basis. The CDI approved this agreement on December 26, 2000. For 2006, 2007, and 2008, fees paid by the Company were \$4,894,503, \$3,817,315, and \$4,670,676, respectively.

Claims Services Agreement: The Company has a Claims Services Agreement effective October 16, 2006, with Risk Enterprise Management Limited (REM) a non-affiliated third-party-administrator. Most of the Company's workers' compensation claims handling was outsourced to REM after the Company closed several of its claims offices. REM charges are based on per-claim rates determined

annually. For 2006, 2007, and 2008, fees paid by the Company were \$ 0, \$4,066,093, and \$4,179,508, respectively.

TERRITORY AND PLAN OF OPERATION

As of December 31, 2008, the Company was licensed to transact multiple lines of property and casualty insurance and is admitted in all 50 states and the District of Columbia.

The gross premiums written by the Company since entering runoff were as follows:

| <u>Year</u> | <u>Premiums</u> |
|-------------|-----------------|
| 2002 | \$1,044,253,997 |
| 2003 | 487,923,042 |
| 2004 | 58,384,836 |
| 2005 | 14,532,700 |
| 2006 | 11,136,608 |
| 2007 | (10,892,699) |
| 2008 | 13,113,059 |

In 2008, the Company wrote \$13.1 million of direct premiums, of which 96.4% was written in California.

The Company announced its intention to enter into an orderly runoff in late 2002. Because of contractual requirements with certain Managing General Agents (MGA's) and Managing General Underwriters (MGU's) the Company continued to write substantial amounts of business thru 2003.

Prior to discontinuing its operations, the Company and its subsidiaries offered reinsurance, personal lines, workers' compensation, and commercial products, primarily throughout the United States and Canada.

Premiums were generated through brokers and independent agents, and a limited number of general agents.

REINSURANCE

Assumed

The Company assumed business from approximately 100 reinsurers including 10 affiliated reinsurers. Business assumed from affiliates represented roughly 13% of the total \$283.9 million of assumed case loss and loss adjustment expense reserves at December 31, 2008. Affiliated assumed reinsurance payables resulted primarily from reinsurance treaties with North River Insurance Company and TIG Indemnity Company. Material assumed case loss and loss adjustment expense reserves payable to non-affiliates included \$58.4 million to TIG Specialty Insurance Company (see the Company History section of this report), and \$34.3 million to the National Workers' Compensation Reinsurance Plan.

Ceded

The Company has a very complex reinsurance ceded program, involving over 670 authorized and unauthorized reinsurers. Many of the reinsurers had several treaties with the Company and there are in excess of 1,000 ceded treaties in total, all in runoff. Therefore, only the most significant treaties were reviewed. The following schedule represents the most recently active principal ceded reinsurance program:

| <u>Type of Contract/ Period Covered</u> | <u>Reinsurer's Name</u> | <u>Company's Retention</u> | <u>Reinsurer's Maximum Limits</u> |
|--|---------------------------------|---|---|
| Casualty Lines: | | | |
| Workers' Comp Excess of Loss Layers 1 to 3 | Swiss Reinsurance America Corp. | \$1 million each occurrence Plus 5% of | 95% of \$1 million excess of \$1 million, \$3 million excess |

| <u>Type of Contract/ Period Covered</u> | <u>Reinsurer's Name</u> | <u>Company's Retention</u> | <u>Reinsurer's Maximum Limits</u> |
|---|---|--|--|
| Calendar year 2002 | | reinsured limit | of \$2 million, \$5 million excess of \$5 million, each occurrence |
| Workers' Comp Excess of Loss Layers 4 to 5 Calendar year 2002 | American National, American United Life Insurance Company, London Life Reinsurance Company, Life Insurance Company of North America, Transatlantic Reinsurance Company and various other reinsurers. | \$10 million each occurrence | \$5 million excess of \$10 million, \$10 million excess of \$15 million |
| Workers' Comp Excess of Loss Layers 6 and 7 Calendar year 2002 | Lloyd's Syndicates | \$25 million each occurrence \$50 million each occurrence | \$25 million excess of \$25 million, \$25 million excess of \$50 million |
| Workers' Comp Excess of Loss Layer 1 Calendar year 2003 | nSpire Reinsurance Limited | \$1 million each occurrence | \$5 million excess of \$1 million |
| Workers' Comp Excess of Loss Layers 2 thru 5 Calendar year 2003 | Lloyds Syndicates, Arch Re, Endurance Specialty, Renaissance Re | \$6 million each occurrence | \$4 million excess of \$6 million, \$5 million excess \$10 million, \$10 million excess \$15 million, \$25 million excess \$25 million |
| Corporate Casualty Clash Excess of Loss Layer 1 Calendar year 2002 | XL Reinsurance Company of America (55%) and Odyssey Reinsurance (5%) | \$2 million each occurrence, plus 40% of \$3 million excess of \$2 million | 60% of \$3 million excess of \$2 million each occurrence |

| <u>Type of Contract/ Period Covered</u> | <u>Reinsurer's Name</u> | <u>Company's Retention</u> | <u>Reinsurer's Maximum Limits</u> |
|---|---|---|--|
| Corporate Casualty Clash Excess of Loss Layers 2 thru 4 Calendar year 2002 | Various, including XL Reinsurance Company of America, Transatlantic Reinsurance Company, and Swiss Reinsurance America Corporation | \$5 million each occurrence | \$5 million excess of \$5 million, \$15 million excess of \$10 million, \$25 million excess of \$25 million |
| Corporate Casualty Excess of Loss July 1, 2002 thru June 30, 2003 | Hannover Re, Arch Reinsurance Company, Ace Tempest Reinsurance, St. Paul Fire and Marine Insurance Company, Odyssey America Reinsurance Company | \$500,000 each and every claim plus \$3 million aggregate deductible | \$500,000 excess of \$500,000 each and every claim, excess of \$3 million aggregate deductible |
| Quota Share Umbrella and Special Risk Business July 1, 2002 thru June 30, 2003 | American Reinsurance Company, nSpire Reinsurance Limited, Hannover Re, Arch Reinsurance Company, Ace Tempest Reinsurance USA, St. Paul Fire and Marine Insurance Company, Odyssey America Reinsurance Company | 15% quota share up to \$10 million | 85% quota share up to \$10 million |
| PDP Umbrella Quota Share July 1, 2002 thru December 24, 2003 | American Reinsurance Company | 15% quota share up to \$5 million | 85% quota share up to \$5 million |
| Hawaii Umbrella Quota Share April 1, 2002 thru March 31, 2003 | General Cologne Re | 20% quota share up to \$5 million | 80% quota share up to \$5 million |
| Quota Share Professional Liability | XL Reinsurance America, Odyssey America Reinsurance | Primary \$1 million plus 20% quota | 80% quota share of \$5 million umbrella |

| <u>Type of Contract/ Period Covered</u> | <u>Reinsurer's Name</u> | <u>Company's Retention</u> | <u>Reinsurer's Maximum Limits</u> |
|--|--|---|--|
| Umbrella October 1, 2001 thru February 1, 2003 | | share of \$5 million umbrella | |
| Public Transportation 1 st XOL April 1, 2002 thru March 31, 2003 | Swiss Reinsurance America Corp. | \$500,000 per occurrence plus 5% of \$500,000 excess of \$500,000 | 95% of \$500,000 excess of \$500,000 per occurrence |
| Public Transportation 2 nd XOL April 1, 2002 thru March 31, 2003 | Swiss Reinsurance America Corp. | \$1 million plus 5% of \$4 million excess of \$1 million per occurrence | 95% of \$4 million excess of \$1 million per occurrence |
| Public Entity 1 st XOL August 1, 2002 thru July 31, 2003 | Swiss Reinsurance | \$1 million per occurrence | \$5 million excess of \$1 million per occurrence |
| Public Entity 2 nd and 3 rd XOL August 1, 2002 thru July 31, 2003 | Hannover Re, Endurance Specialty Ins. Ltd., Brit Insurance Ltd., Converium Re North America, Odyssey America Re, Lloyds Syndicates, Liberty Mutual | \$6 million | \$5 million excess of \$6 million, and \$10 million excess of \$11 million per occurrence |
| Property Lines: | | | |
| Corporate Property First Excess of Loss July 1, 2002 thru June 30, 2003 | Various, including American Reinsurance Company, Ace Tempest Reinsurance USA, Hanover Insurance Company, Odyssey America Re. and Partner Reinsurance Company | \$1 million per risk, plus \$1 million annual aggregate, Plus 15% of \$4 million excess of \$1 million | 85% of \$4 million excess of \$1 million per risk, up to \$16 million per occurrence |
| Corporate Property Second | Various, including American Reinsurance Company, Lloyd's | \$5 million per risk | \$10 million excess \$5 |

| <u>Type of Contract/ Period Covered</u> | <u>Reinsurer's Name</u> | <u>Company's Retention</u> | <u>Reinsurer's Maximum Limits</u> |
|--|--|--|--|
| Excess of Loss July 1, 2002 thru June 30, 2003 | Syndicates, Hanover Insurance Company, Liberty Mutual Insurance Company, Partner Reinsurance Company | | million per risk, up to \$30 million per occurrence |
| Corporate Property Third Excess of Loss July 1, 2002 thru June 30, 2003 | Lloyd's Syndicates, Hanover Insurance Company, Montpelier Insurance Company, Patriot Insurance Company, Odyssey America Reinsurance Company | \$15 million per risk, | \$10 million excess \$15 million per risk up to \$20 million per occurrence |
| Corporate Property Catastrophe First Excess of Loss July 1, 2002 thru June 30, 2003 | Lloyd's Syndicates, XL Reinsurance Company of America, Montpelier Insurance Company, Hanover Insurance Company, Odyssey America Reinsurance Company, General Cologne Re., Liberty Mutual Insurance Company | \$15 million per occurrence | \$5 million excess of \$15 million per occurrence |
| Corporate Property Catastrophe Second Excess of Loss July 1, 2002 thru June 30, 2003 | Lloyd's Syndicates, XL Reinsurance Company of America, Hanover Insurance Company, Odyssey America Reinsurance Company, General Cologne Re., Liberty Mutual Insurance Company | \$20 million per occurrence | \$10 million excess of \$20 million per occurrence |
| Corporate Property Catastrophe Third Excess of Loss July 1, 2002 thru June 30, 2003 | Lloyd's Syndicates, XL Reinsurance Company of America, nSpire Re. Limited, Odyssey America Reinsurance Company, General Cologne Re., Liberty Mutual Insurance Company | \$30 million per occurrence | \$20 million excess of \$30 million per occurrence |
| Healthcare/Medi cal Malpractice: | | | |
| Healthcare Professional Liability Quota Share | Arch Re 10%, Odyssey Re 10%, nSpire Re. 5% | 75% quota share of \$500,000 plus certain | 25% quota share up to \$20 million |

| <u>Type of Contract/ Period Covered</u> | <u>Reinsurer's Name</u> | <u>Company's Retention</u> | <u>Reinsurer's Maximum Limits</u> |
|--|---|--|--|
| June 1, 2002 thru May 30, 2003 | | percentages of upper layers | |
| Healthcare Professional Liability 1 st XOL June 1, 2002 thru May 30, 2003 | Transatlantic Re 32.5%, Employers Re 10% | 57.5% of \$1.5 million excess of \$500,000 | 42.5% of \$1.5 million excess of \$500,000 |
| Healthcare Professional Liability 2nd XOL June 1, 2002 thru May 30, 2003 | Transatlantic Re 30%, Employers Re 10%, Hannover Re 12.5%, Lloyds Syndicates 10%, Lumberman's Casualty 2.5% | 35% of \$3 million excess of \$2 million | 65% of \$3 million excess of \$2 million |
| Healthcare Professional Liability 3rd XOL June 1, 2002 thru May 30, 2003 | Transatlantic Re 18%, Employers Re 10%, Hannover Re 7.5%, Lloyds Syndicates 22%, Swiss Reinsurance America Corp. 17.5% | 25% of \$10 million excess of \$5 million | 75% of \$10 million excess of \$5 million |
| Healthcare Professional Liability 4th XOL June 1, 2002 thru May 30, 2003 | Transatlantic Re 18%, Employers Re 20%, Hannover Re 10%, Lloyds Syndicates 18.75%, | 33.25% of \$5 million excess of \$15 million | 66.75% of \$5 million excess of \$15 million |

Effective December 31, 2001, the Company entered into an agreement with an affiliate, nSpire Re Limited (nSpire), whereby the Company transferred \$52.2 million in cash and investments to nSpire in exchange for nSpire's purchase of \$52.5 million of the Company's net loss and loss adjustment expense reserves. This represented 100% of the Company's exposure to construction defect claims incurred as of December 31, 2001, in excess of \$47.5 million, which was retained by the Company.

This transaction, a sale of reserves rather than reinsurance, was approved, with a one-year permitted accounting practice granted on October 24, 2002, and an indefinite permitted accounting practice granted on July 2, 2004. Fairfax Financial Holdings Limited has guaranteed the performance of nSpire with respect to the payment of these claims. Effective December 31, 2008, the Company still remains contingently liable for \$26.7 million of estimated unpaid claims obligations subject to this sale of reserves.

As of December 31, 2008, reinsurance recoverables, for all ceded reinsurance totaled \$1.5 billion or 215% of surplus as regards policyholders. Approximately \$169 million of the above ceded reinsurance recoverables were from affiliated admitted and non-admitted reinsurers with the remaining \$1.3 billion from nonaffiliated admitted and non-admitted reinsurers.

FINANCIAL STATEMENTS

The financial statements prepared for this examination report include:

Statement of Financial Condition as of December 31, 2008

Underwriting and Investment Exhibit for the Year Ended December 31, 2008

Reconciliation of Surplus as Regards Policyholders
from December 31, 2005 through December 31, 2008

Statement of Financial Condition
as of December 31, 2008

| <u>Assets</u> | <u>Ledger and Nonledger Assets</u> | <u>Assets Not Admitted</u> | <u>Net Admitted Assets</u> | <u>Note</u> |
|---|--|--------------------------------|--------------------------------|-------------|
| Bonds | \$ 448,118,373 | \$ | \$ 448,118,373 | |
| Stocks: | | | | |
| Common stocks | 930,098,607 | | 930,098,607 | |
| Cash and short-term investments | 474,194,800 | | 474,194,800 | |
| Other invested assets | 4,687,579 | | 4,687,579 | |
| Receivables for securities | 7,661,911 | | 7,661,911 | |
| Aggregate write-ins for invested assets | 438 | | 438 | |
| Investment income due and accrued | 9,267,231 | | 9,267,231 | |
| Agents' balances or uncollected premiums: | | | | |
| Premiums and agents' balances in course of collection | 7,536,857 | 5,707,594 | 1,829,263 | |
| Amounts recoverable from reinsurers | 77,395,497 | 2,953,327 | 74,442,170 | |
| Funds held by or deposited with reinsured companies | 1,000,282 | | 1,000,282 | |
| Net deferred tax asset | 553,439,366 | 553,439,366 | | |
| Receivables from parent, subsidiaries and affiliates | 3,586,431 | 232,821 | 3,353,610 | |
| Aggregate write-ins for other than invested assets | <u>2,623,783</u> | <u>1,300,142</u> | <u>1,323,641</u> | |
| Total assets | <u>\$2,519,611,155</u> | <u>\$563,633,250</u> | <u>\$1,955,977,905</u> | |
| <u>Liabilities, Surplus and Other Funds</u> | | | | |
| Losses | | | \$1,033,098,021 | (1) |
| Reinsurance payable on paid loss & adjustment exp | | | (289,579) | |
| Loss adjustment expenses | | | 121,964,594 | (1) |
| Other expenses | | | 32,992,689 | |
| Taxes, licenses and fees | | | 2,940,577 | |
| Current federal and foreign income taxes | | | 2,079,805 | |
| Funds held by company under reinsurance treaties | | | 5,702,940 | |
| Provision for reinsurance | | | 100,050,360 | |
| Payable to parent, subsidiaries and affiliates | | | 23,089,706 | |
| Aggregate write-ins for liabilities | | | <u>(39,630,517)</u> | |
| Total liabilities | | | 1,281,998,596 | |
| Aggregate write-ins for special surplus funds | | \$ 44,225,579 | | |
| Common capital stock | | 4,329,920 | | |
| Gross paid-in and contributed surplus | | 584,894,234 | | |
| Unassigned funds (surplus) | | <u>40,529,576</u> | | |
| Surplus as regards policyholders | | | <u>673,979,309</u> | |
| Total liabilities, surplus and other funds | | | <u>\$1,955,977,905</u> | |

Underwriting and Investment Exhibit
for the Year Ended December 31, 2008

Statement of Income

Underwriting Income

| | | |
|--------------------------------------|-------------------|--------------------|
| Premiums earned | | \$ 17,597,448 |
| Deductions: | | |
| Losses incurred | \$ 82,596,332 | |
| Loss expense incurred | (2,938,694) | |
| Other underwriting expenses incurred | <u>60,463,881</u> | |
| Total underwriting deductions | | <u>140,121,519</u> |
| Net underwriting loss | | (122,524,071) |

Investment Income

| | | |
|------------------------------|--------------------|-------------|
| Net investment income earned | \$ 65,235,422 | |
| Net realized capital gains | <u>368,408,592</u> | |
| Net investment gain | | 433,644,014 |

Other Income

| | | |
|--|----------------|-----------------------|
| Net loss from agents' balances charged off | \$ (674,335) | |
| Aggregate write-ins for miscellaneous income | <u>356,130</u> | |
| Total other income | | <u>(318,205)</u> |
| Net income before federal income taxes | | 310,801,738 |
| Federal income taxes incurred | | <u>(747,247)</u> |
| Net income | | <u>\$ 311,548,985</u> |

Capital and Surplus Account

| | | |
|--|----------------------|-----------------------|
| Surplus as regards policyholders, December 31, 2007 | | \$ 738,418,635 |
| Net income | \$ 311,548,985 | |
| Change in net unrealized capital losses | (131,121,662) | |
| Change in net unrealized foreign exchange capital loss | (20,824,857) | |
| Change in net deferred income tax | (79,067,209) | |
| Change in nonadmitted assets | 48,314,208 | |
| Change in provision for reinsurance | 7,156,868 | |
| Surplus adjustments: Paid in | <u>(200,445,659)</u> | |
| Change in surplus as regards policyholders | | <u>(64,439,326)</u> |
| Surplus as regards policyholders, December 31, 2008 | | <u>\$ 673,979,309</u> |

COMMENTS ON FINANCIAL STATEMENT ITEMS

(1) Losses and Loss Adjustment Expenses

The Company was directed by the California Department of Insurance (CDI), under California Insurance Code Section 733, to retain the actuarial firm of AMI Risk Consultants, Inc. (AMI) for the purpose of assisting this examination in determining the reasonableness of the Company's loss and loss adjustment expense reserves. Based on the analysis by AMI and the review of their work by a Casualty Actuary from the CDI, the Company's December 31, 2008 net reserves for losses and loss adjustment expenses of \$1,155,056,000 were within the range of AMI's determined estimates and were therefore considered to be reasonable for the purposes of this report.

AMI's analysis indicated a range of \$1,114,433,000 to \$1,630,624,000 for net loss and loss adjustment expense reserves on an all-lines basis, and the Company-carried net reserves appeared moderately above the low end of this range. AMI's analysis indicates most of the variability of carried reserves fitting between the low range, and a mid-point within the range, is occurring on the asbestos and environmental reserves (A&E) component. For establishing A&E reserves the Company uses an exposure based, ground up modeling approach for recording reserves separately by account. AMI in its analysis of A&E reserves used a traditional report year paid developmental approach on an aggregate basis to test the reasonableness of Company-carried A&E reserves. Because of where the Company carried A&E reserves fall within AMI's range the CDI will closely monitor the development of the Company's A&E reserves.

It is noted that, as reported in the Company's 2009 Annual Statement, Schedule P – Part 2 – Summary, the Company subsequently (during 2009) absorbed one-year incurred adverse development in net losses and defense and cost containment expenses for prior accident years (i.e. 2008 and prior) of \$94,058,000.

SUMMARY OF COMMENTS AND RECOMMENDATIONS

Current Report of Examination

None

Previous Report of Examination

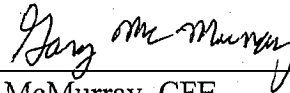
Management Agreements – Service Agreement (Page 13): It was recommended that this agreement be amended to include the Company as a named party to the agreement. During the current period the examiners received documentation from RiverStone Resources LLC confirming that the Company is a party to this agreement.

Accounts and Records (Page 24): The Company in its 2005 Annual Statement incorrectly classified certain outstanding check balances as “drafts outstanding”, rather than as a reduction from “cash”. It was recommended for future filings that the Company follow the classification methodology for cash as presented in the Annual Statement Instructions. At December 31, 2008, the Company correctly classified its outstanding check balances as a reduction from cash.

ACKNOWLEDGEMENT

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

Respectfully submitted,



Gary McMurray, CFE
Examiner-In-Charge
Department of Insurance
State of California