

REPORT ON EXAMINATION

OF THE

FOLKSAMERICA REINSURANCE COMPANY

AS OF

DECEMBER 31, 2004

DATE OF REPORT

APRIL 11, 2008

EXAMINER

DOUGLAS BARTLETT

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STATE OF NEW YORK
INSURANCE DEPARTMENT
25 BEAVER STREET
NEW YORK, NEW YORK 10004

April 11, 2008

Honorable Eric R. Dinallo
Superintendent of Insurance
Albany, New York 12257

Sir:

Pursuant to the requirements of the New York Insurance Law, and in compliance with the instructions contained in Appointment Number 22427 dated October 24, 2005 attached hereto, I have made an examination into the condition and affairs of Folksamerica Reinsurance Company as of December 31, 2004, and submit the following report thereon.

Wherever the designations "the Company", "FRC", and "Folksamerica" appear herein without qualification, it should be understood to indicate Folksamerica Reinsurance Company.

Wherever the term "Department" appears herein without qualification, it should be understood to mean the New York Insurance Department.

The examination was conducted at the Company's home office located at 1 Liberty Plaza, New York, New York 10006.

1. SCOPE OF EXAMINATION

The previous examination was conducted as of December 31, 2000. This examination covered the four year period from January 1, 2001 through December 31, 2004. Transactions occurring subsequent to this period were reviewed where deemed appropriate by the examiner.

The current examination was organized, planned, and conducted in accordance with guidelines and procedures established in the Financial Condition Examiners Handbook, (Draft as of September 15, 2004) with the application of the risk focused principles and approach contained in the draft. To the extent considered appropriate, work performed by the Company's independent public accountants and the Sarbanes Oxley documentation was considered. A review also made of the following items as called for in the Examiners Handbook of the National Association of Insurance Commissioners ("NAIC"):

- History of Company
- Management and control
- Corporate records
- Territory and plan of operation
- Business in force by states
- Loss experience
- Reinsurance
- Accounts and records
- Financial statements

A review was also made to ascertain what action was taken by the Company with regard to comments and recommendations contained in the prior report on examination.

This report on examination is confined to financial statements and comments on those matters, which involve departures from laws, regulations or rules, or which are deemed to require explanation or description.

2. DESCRIPTION OF COMPANY

Folksamerica Reinsurance Company was incorporated under the laws of the State of New York on September 13, 1979. The Company was licensed and commenced business on January 9, 1980.

The Company is a wholly-owned subsidiary of Folksamerica Holding Company, Inc., (“FHC”) a New York corporation, whose ultimate parent is Mr. John J. Byrne. Mr. Byrne was deemed the ultimate controlling person by this Department by virtue of his ownership of 9.7% of the outstanding shares of the White Mountains Insurance Group Ltd (“WMIG”), a Bermuda corporation and his position as chairman of the executive committee of WMIG. Folksamerica Holding Company, Inc. is an indirect wholly owned subsidiary of White Mountains Re Group, Ltd. (“White Mountains”), a Bermuda based holding company, which in turn is an indirect wholly owned subsidiary of WMIG. At December 31, 2004, the FRC wholly owned Sirius America Insurance Company (“Sirius”) and CF Insurance Company (an inactive shell company).

White Mountains Holdings, Inc., (“WM Holdings”) purchased 100% of newly issued preferred stock of FHC, representing 50% ownership. On August 18, 1998, WM Holdings purchased the remaining 50% of FHC.

In conjunction with the above, on June 19, 1996, FHC and the Company purchased all of the shares of Christiania Insurance Corporation of New York (“Christiania”) for \$88,000,000. FHC then sold 19.37% of these shares to FRC for \$16,984,000. The stock purchase agreement was approved by the Department. On December 31, 1996, the Company entered into a “transfer and assumption agreement” with Christiania. The Company also acquired the stock in Surety Reinsurance Company (“Surety Re”), a 100% owned subsidiary of Christiania. On December 31, 1996, FHC contributed its 80.7% ownership in Christiania to FRC. In May 15, 1997, the Company sold the Christiania to Business Insurance Group, Inc. for \$5,200,000.

On March 13, 1997, the Company contributed \$850,000 to Surety Re to meet the minimum capital requirements of \$2,400,000. Effective January 1, 1997, all of the assets and liabilities of Surety Re, with the exception of \$2,527,104 needed to maintain its licenses, were transferred to the Company under a transfer and assumption agreement. On July, 1998, Surety Re was sold to Lawrenceville Holdings, Inc. for \$280,000.

On June 6, 1997, the Company purchased Great Lakes American Reinsurance Company from Munich Reinsurance Company and renamed it Folksamerica General Insurance Company (“FGIC”). On September 30, 1997, all of the assets and liabilities of FGIC, with the exception of \$7,300,000 needed to maintain its licenses, were transferred to the Company under a transfer and assumption agreement. On March 5, 1998, FGIC was sold to Exel Limited for \$4,193,126 more than the assets and liabilities on the balance sheet at that date.

On June 28, 1999, the Company acquired 100% of the capital stock of USF Re Insurance Company (“USF Re”). On July 1, 1999, all of the assets and liabilities of USF Re with the exception of \$10,000,000 needed to maintain its licenses, were transferred to the Company under a transfer and assumption agreement. On December 30, 1999, USF Re was sold to AXA Reinsurance Company for \$16,099,922.

On March 31, 2000, the Company acquired 100% of the capital stock of PCA Property and Casualty Company (“PCA”) from Humana Inc. On April 1, 2000, all assets and liabilities of PCA with exception of \$5,000,000, needed to maintain its licenses were transferred to the Company under a transfer and assumption agreement.

On May 5, 2000, FHC acquired and subsequently transferred the reinsurance operations of Risk Capital Reinsurance Company to the Company. A transfer and assumption agreement was entered into between the Company and Risk Capital Reinsurance Company. The transaction was structured as a purchase of net assets.

On December 29, 2000, American Centennial Insurance Company (“ACIC”), which was in run-off, was contributed to the Company, becoming a wholly-owned subsidiary.

On September 25, 2001, the Company and FHC acquired 100% of C/F Insurance Company (“C/F”) for \$46.2 million. The Company paid \$21.2 million in cash and FHC issued a four year, \$25 million note payable to the seller. On September 30, 2001, substantially all of the assets and liabilities of C/F were transferred to the Company under a transfer and assumption agreement.

On April 25, 2002, the Company acquired the stocks of Imperial Casualty and Indemnity Company (“ICIC”) for \$4.5 million. On June 30, 2002, all of the assets and liabilities of ICIC were transferred to the Company under a transfer and assumption agreement.

On January 9, 2003, the Company sold 100% of PCA Property and Casualty Insurance Company (“PCA”).

Effective October 1, 2003, the Company acquired renewal rights to the property and casualty treaty reinsurance business of CNA Re, a division of CNA Financial Corporation. Under the agreement, the Company will pay CNA Re a renewal commission on the premiums renewed by the Company over the next two contract renewals.

On December 30, 2003, the Company sold ICIC and on December 31, 2003, the Company sold ACIC to another subsidiary of White Mountains Re.

On April 16, 2004, White Mountain Re completed its acquisition of Sirius Insurance Group from ABB Ltd. In connection with this transaction, the Company acquired 100% of Sirius America Insurance Company (“Sirius America”) for \$93.2 million. The transaction was accounted for under the statutory purchase method at a cost of \$83.7 million.

On November 30, 2004, White Mountain Re completed a significant corporate reorganization. As part of the reorganization, ownership of the Company was transferred to White Mountain Re from Fund American Companies, Inc. (“Fund American”), which remains OneBeacon’s parent.

Capital paid in is \$5,000,000 consisting of 5,000 shares of \$1,000 par value per share common stock. Gross paid in and contributed surplus is \$752,221,695. On September 30, 2001, FHC contributed all assets and liabilities of C/F Insurance Company including a note payable in the amount of \$25 million as surplus paid-in. On December 20, 2001, One Beacon contributed \$400 million in cash to FHC, which in turn contributed the \$400 million to the capital and surplus of FRC. Gross paid in and contributed surplus increased by \$425,000,000 during the examination period, as follows:

<u>Year</u>	<u>Description</u>	<u>Amount</u>
2000	Beginning gross paid in and contributed surplus	\$327,221,695
2001	Surplus contribution	<u>425,000,000</u>
2004	Ending gross paid in and contributed surplus	<u>\$752,221,695</u>

A. Management

Pursuant to the Company's charter and by-laws, management of the Company is vested in a board of directors consisting of not less than thirteen or more than twenty-one members. The board met four times during each calendar year with the exception of 2001, when the board met only two times due to the September 11, 2001 terrorist attacks. At December 31, 2004, the board of directors was comprised of the following fourteen members:

<u>Name and Residence</u>	<u>Principal Business Affiliation</u>
Steven Elliot Fass Colts Neck, NJ	Chairman, President & Chief Executive Officer, White Mountains Insurance Group, Ltd.
Diane Anobile-Tuffey Douglaston, NY	Vice President, White Mountains Advisors
Peter Lewis Hudson Amityville, NY	Senior Vice President, Folksamerica Reinsurance Company
Ronald Charles Stanziale Jr. Middletown, NJ	Chief Financial Officer, Folksamerica Reinsurance Company
Daniel James Wilson Manalapan, NJ	Senior Vice President, Folksamerica Reinsurance Company
Joann Luise DeBlasis Ridgefield, CT	Senior Vice President, Folksamerica Reinsurance Company
Michael Edward Maloney Celebration, FL	Managing Director, White Mountains Re Group, Ltd.
Warren John Trace Manalapan, NJ	Senior Vice President, Folksamerica reinsurance Company
Donald Aaron Emeigh, Jr. Stony Point, NY	Executive Vice President, General Counsel and Secretary, Folksamerica Reinsurance Company
Rafael Antonio Saer Coral Gables, FL	Senior Vice President and Branch Manager, Folksamerica Reinsurance Company
Michael Edward Tyburski Spring Lake, NJ	Managing Director, White Mountains Re Group, Ltd.
Peter Brian Haley Guilford, CT	Senior Vice President, Folksamerica Reinsurance Company

<u>Name and Residence</u>	<u>Principal Business Affiliation</u>
Edward Joseph Stanco Malvern, PA	President & Chief Executive Officer, Folksamerica Reinsurance Company
James Dilling Wickwire, Jr. Redding, CT	Senior Vice President & Chief Actuary, Folksamerica Reinsurance Company

A review of the minutes of the board of directors' meetings held during the examination period indicated that the meetings were generally well attended and each board member has an acceptable record of attendance.

As of December 31, 2004, the principal officers of the Company were as follows:

<u>Name</u>	<u>Title</u>
Edward Joseph Stanco	President and Chief Executive Officer
Donald Aaron Emeigh, Jr.	Secretary & Executive Vice President & General Counsel
Ronald Charles Stanziale, Jr.	Treasurer & Senior Vice President & Chief Financial Officer
Joann Luise DeBlasis	Senior Vice President
John Stanley Game	Senior Vice President
Peter Brian Haley	Senior Vice President
Peter Lewis Hudson	Senior Vice President
Rafael Antonio Saer	Senior Vice President
Ralph Anthony Salamone	Senior Vice President & Controller
Warren John Trace	Senior Vice President
James Dilling Wickwire, Jr.	Senior Vice President & Chief Actuary
Daniel James Wilson	Senior Vice President

B. Territory and Plan of Operation

As of December 31, 2004, the Company was licensed to write business in forty-two states and the District of Columbia. The Company has writings in Canada and in Latin America.

As of the examination date, the Company was authorized to transact the kinds of insurance as defined in the following numbered paragraphs of Section 1113(a) of the New York Insurance Law:

<u>Paragraph</u>	<u>Line of Business</u>
3	Accident & health
4	Fire
5	Miscellaneous property
6	Water damage
7	Burglary and theft
8	Glass
9	Boiler and machinery
10	Elevator
11	Animal
12	Collision
13	Personal injury liability
14	Property damage liability
15	Workers' compensation and employers' liability
16	Fidelity and surety
17	Credit
19	Motor vehicle and aircraft physical damage
20	Marine and inland marine
21	Marine protection and indemnity

The Company is authorized by Section 4102(c) of the New York Insurance Law to write insurance of every kind or description outside of the United States ("U.S.") as well as reinsurance of every kind or description.

The Company may also write such workers' compensation insurance as may be incidental to coverage contemplated under paragraphs 20 and 21 of Section 1113(a) of the New York Insurance Law including insurance described in the Longshoremen's and Harbor Workers' Compensation Act (Public Law No. 803, 69th Congress as amended) and the kinds of insurance and reinsurance as defined in paragraph (c) of Section 4102 of the New York Insurance Law.

Based on the lines of business for which the Company is licensed and the Company's current capital structure, and pursuant to the requirements of Articles 13 and 41 of the New York Insurance Law, the Company is required to maintain a minimum surplus to policyholders in the amount of \$35,000,000.

The Company is primarily a broker market reinsurer writing business on both a treaty and facultative basis. Approximately 95% of the Company's business is written on a treaty basis, with the remainder split between pro-rata and excess of loss basis. The Company writes a small amount of direct business. Less than 2% of the net premiums written are written directly.

C. Reinsurance

Assumed Reinsurance

Assumed reinsurance accounted for 99.6% of the Company's gross premium written at December 31, 2004. During the period covered by this examination, the Company's assumed reinsurance business has increased 160.8%. The Company's assumed reinsurance program consists of both property and casualty business on both a treaty and a facultative basis. Casualty business classes include general liability, professional liability, workers compensation, commercial and personal automobiles, umbrella, marine and aviation and accident and health and comprises 60% of the gross written premium. Property classes of business comprise 40% of the Company's gross written premium. Approximately 95% of its assumed business is treaty (5% facultative) with 55% classified as pro-rata and 45% as excess of loss. Additionally, the Company's participation in various mandated pools is reflected in its assumed reinsurance activity. The Company utilizes reinsurance accounting as defined in the NAIC Accounting Practices and Procedures Manual Statements of Statutory Accounting Principle ("SSAP") No. 62 for all of its assumed reinsurance business.

Ceded Reinsurance

The Company reinsures approximately 85% of its affiliated Esurance Insurance Company and Esurance Property and Casualty affiliates.

The Company has structured its ceded reinsurance program to limit its maximum exposure to any one property risk at \$16.1 million and its maximum exposure to any one casualty risk (workers compensation catastrophe) to \$16.4 million. At December 31, the Company had the following ceded reinsurance program in effect:

Property and Marine

The Company has quota share retrocessional agreements with Olympus Reinsurance Company, Ltd. ("Olympus"), a wholly owned subsidiary of Olympus Re Holdings Inc. Under these agreements the Company cedes 75% of their Property and Marine excess of loss business and 50% of their property and marine quota share business to Olympus. Olympus is an unauthorized reinsurer.

Facultative Surety and Bonding

The Company has three layers of excess of loss reinsurance for its facultative surety and bonding business as follows:

Layer 1	\$2.5 million excess of \$2.5 million
Layer 2	\$5 million excess of \$5 million
Layer 3	\$5 million excess of \$10 million

Common Account Reinsurance

To protect many of their quota share treaties, the company requires the cedant to obtain excess of loss reinsurance agreements that inure to the benefit of the Company. For certain agreements the Company pays its portion of the excess of loss premium directly to the cedant's reinsurer and accounts for it on Schedule F, Part 3 as their ceded reinsurance.

On October 1, 2000, the Company entered into a quota share and aggregate excess of loss reinsurance agreement with Imagine Insurance Company Limited of Barbados ("Imagine") to protect its surplus from adverse development relating to Asbestos and environmental ("A&E") exposures and reserves assumed in certain past acquisitions. The agreement, which covers adverse development up to a limit of \$115 million, includes prospective and retroactive reinsurance. Amounts related to reserves transferred to Imagine for losses incurred as the result of past insurable events have been accounted for as retroactive insurance pursuant to the requirements of Department Regulation 108 and have been set up as a contra-liability in the statutory financial statements. The prospective section of the agreement provides adverse development protection relating to the run-off of the in-force business from prior acquisitions. As of December 31, 2003, the limits of this agreement have been fully utilized. All balances due from Imagine are fully collateralized through funds held, letters of credit and a Regulation 114 Trust.

The examination review of the Imagine reinsurance agreement disclosed that it did not contain the provisions required by Department Regulation 114-Part 126.5.

Part 126.5 of Department Regulation 114 states:

"a) A reinsurance agreement, which is entered into in conjunction with a trust agreement and the establishment of a trust account, must contain provisions that:

(1) require the reinsurer to enter into a trust agreement and to establish a trust account for the benefit of the reinsured, and specifying what recoverables and/or reserves such agreement is to cover;

(2) stipulate that assets deposited in the trust account shall be valued according to their current fair market value, and shall consist only of cash (United States legal tender), certificates of deposit (issued by a United States bank and payable in United States legal tender), and investments of the types specified in paragraphs (1), (2), (3), (8) and (10) of subsection (a) of section 1404 of the New York Insurance Law, provided that such investments are issued by an institution that is not the parent, subsidiary, or affiliate of either the grantor or the beneficiary. The reinsurance agreement may further specify the types of investments to be deposited. Where a trust agreement is entered into in conjunction with a reinsurance agreement covering risks other than life, annuities and accident and health, then such trust agreement may contain the provisions required by this paragraph in lieu of including such provisions in the reinsurance agreement;

(3) require the reinsurer, prior to depositing assets with the trustee, to execute assignments, endorsements in blank, or transfer legal title to the trustee of all shares, obligations or any other assets requiring assignments, in order that the ceding company, or the trustee upon the direction of the ceding company, may whenever necessary negotiate any such assets without consent or signature from the reinsurer or any other entity;

(4) require that all settlements of account between the ceding company and the reinsurer be made in cash or its equivalent; and

(5) stipulate that the reinsurer and the ceding company agree that the assets in the trust account, established pursuant to the provisions of the reinsurance agreement, may be withdrawn by the ceding company at any time, notwithstanding any other provisions in the reinsurance agreement, and shall be utilized and applied by the ceding company or any successor by operation of law of the ceding company, including, without limitation, any liquidator, rehabilitator, receiver or conservator of such company, without diminution because of insolvency on the part of the ceding company or the reinsurer, only for the following purposes:

(i) to reimburse the ceding company for the reinsurer's share of premiums returned to the owners of policies reinsured under the reinsurance agreement on account of cancellations of such policies;

(ii) to reimburse the ceding company for the reinsurer's share of surrenders and benefits or losses paid by the ceding company pursuant to the provisions of the policies reinsured under the reinsurance agreement;

(iii) to fund an account with the ceding company in an amount at least equal to the deduction, for reinsurance ceded, from the ceding company's liabilities for policies ceded under the agreement. Such account shall include, but not be limited to, amounts for policy reserves, reserves for claims and losses incurred (including losses incurred but not reported), loss adjustment expenses, and unearned premiums; and

(iv) to pay any other amounts the ceding company claims are due under the reinsurance agreement.

(b) The reinsurance agreement may contain provisions that:

(1) give the reinsurer the right to seek approval from the ceding company to withdraw from the aforementioned trust account all or any part of the assets contained therein and transfer such assets to the reinsurer, provided:

(i) the reinsurer shall, at the time of such withdrawal, replace the withdrawn assets with other qualified assets having a market value equal to the market value of the assets withdrawn so as to maintain at all times the deposit in the required amount; or

(ii) after such withdrawals and transfer, the market value of the trust account is no less than 102 percent of the required amount.

The ceding company shall be the sole judge as to the application of this provision, but shall not unreasonably or arbitrarily withhold its approval;

(2) provide for:

(i) the return of any amount withdrawn in excess of the actual amounts required for subparagraphs (a)(5)(i)- (iii) of this section, or in the case of subparagraph (a)(5)(iv), any amounts that are subsequently determined not to be due; and

(ii) interest payments, at a rate not in excess of the prime rate of interest, on the amounts held pursuant to subparagraph (a)(5)(iii) of this section; and

(3) permit the award, by any arbitration panel or court of competent jurisdiction, of:

(i) interest at a rate different from that provided in subparagraph (2)(ii) of this subdivision;

(ii) court or arbitration costs,

(iii) attorney's fees, and

(iv) any other reasonable expenses.”

It is recommended that the Company amend the Imagine reinsurance agreement to comply with Department Regulation 114.

It was noted that the Olympus trust agreement did not contain Part 126.3(f)(4) of Department Regulation 114.

Part 126.3(f)(4) of Department Regulation 114 states:

“(f) The trust agreement must provide for the trustee to:

(4) notify the grantor and the beneficiary, within 10 days, of any deposits to or withdrawals from the trust account;”

It is recommended that the Company amend the Olympus trust agreement to comply with Department Regulation 114.

A review of the reinsurance program disclosed that 81.4% of the Company's cessions were made to unauthorized reinsurers. It is the Company's policy to obtain the appropriate collateral for its cessions to unauthorized reinsurers. Letters of credit and trust accounts obtained by the Company to take credit for cessions to unauthorized reinsurers were reviewed for compliance with Department Regulations 133 and 114, respectively. One of the letters of credit was not presentable or payable at an office of the confirming bank in the United States. In addition this letter of credit did not contain all of the required clauses and conditions of Regulation 133. It is recommended that the Company comply with Department Regulation 133 and include all the required conditions of Part 79.2 in its letters of credit. It is also recommended that the Company be named as beneficiary in all its letters of credit.

All significant ceded reinsurance agreements in effect as of the examination date were reviewed and found to contain the required clauses, including an insolvency clause meeting the requirements of Section 1308 of the New York Insurance Law.

The reinsurance treaties with Olympus included special termination provisions. These provisions allow the reinsurer to terminate the treaty should the Company go into liquidation or have a receiver appointed upon 15 days prior notice, "which may include notice of cancellation of all liabilities on cessions in force, with the return of the unearned premium portfolio less commission allowed thereon."

The inclusion of such special termination provisions violates Section 1308 of the New York Insurance Law by allowing the reinsurer to avoid the requirements of Section (a)(2)(A)(i) which states in part:

"no credit shall be allowed, as an admitted asset or deduction from liability, to any ceding Insurer, for reinsurance ceded,...unless: the reinsurance shall be payable by the assuming insurer on the basis of the liability of the ceding insurer under the contracts reinsured without diminution because of the insolvency of the ceding reinsurer..."

It is recommended that the Company comply with Section 1308 of the New York Insurance Law and remove all special termination provisions relating to the financial condition of the Company from future reinsurance contracts.

Examination review of the Schedule F data reported by the Company in its filed annual statement was found to accurately reflect its reinsurance transactions. Additionally, management has represented that all material ceded reinsurance agreements transfer both underwriting and timing risk as set forth in SSAP No. 62. Representations were supported by appropriate risk transfer analyses and an attestation from the Company's Chief Executive Officer pursuant to Department Circular Letter No. 8 (2005). The Company could not locate the risk transfer analysis for two aggregate excess of loss ratio agreements with London Life and Casualty Reinsurance for accident years 1999 and 2000 and the risk transfer analysis for the single period accident year aggregate loss ratio reinsurance agreement with London Life and General Reinsurance Company Limited for accident year 2001. Additionally, examination review indicated that the Company was not a party to any finite reinsurance agreements. All ceded reinsurance agreements were accounted for utilizing reinsurance accounting as set forth in of SSAP No. 62.

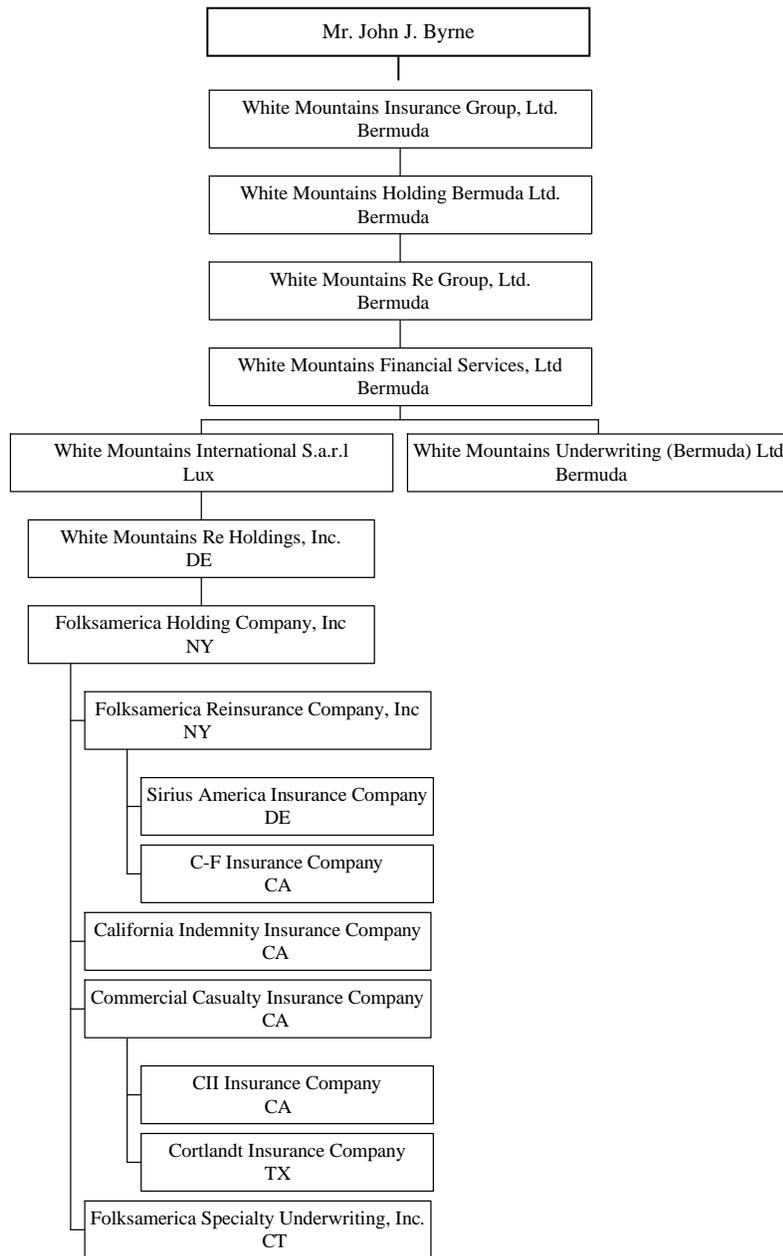
During the period covered by this examination, the company commuted various reinsurance agreements where it is was a ceding reinsurer. These commutations resulted in a loss of \$1.3 million to the Company's surplus position.

D. Holding Company System

The Company is a member of the White Mountains Re Group, Ltd. The Company is a wholly-owned subsidiary of Folksamerica Holding Company a New York corporation, which is ultimately controlled by White Mountains Insurance Group, Ltd.

A review of the holding company registration statements filed with this Department indicated that such filings were complete and were filed in a timely manner pursuant to Article 15 of the New York Insurance Law and Department Regulation 52.

The following is an abridged chart of the holding company system at December 31, 2004:



At December 31, 2004, the Company was party to the following agreements with other members of its holding company system:

Investment Management Agreement

The Company is a party to an investment management agreement with One Beacon Asset Management Inc. (“OBAM”); which changed its name to White Mountain Advisors LLC (“WMA”), whereby OBAM would manage on a continuous basis the investment account of the Company according to the Company’s investment guidelines.

Tax Allocation Agreement

On December 31, 2001, the Company entered into a tax allocation agreement with its then ultimate U.S. parent company Funds American Enterprises Holdings, Inc., and its affiliates. On December 1, 2004, the Company filed an amended tax allocation agreement with the Department to recognize the internal reorganization of the White Mountains Holding Company System. The amended agreement states that the Company is to file a consolidated tax return with its ultimate U.S. parent company, White Mountains Re Holdings Inc., and its affiliates. Under the terms of the agreement, all parties to the agreement agree to allocate and settle among themselves, in an equitable manner, their consolidated federal income tax liability.

The amended agreement was submitted to the Department more than 30 days after its implementation. Department Circular Letter No. 33 (1979) states in part:

“notification to this Department should be given within 30 days of any amendment to or termination of a tax allocation agreement.”

It is recommended that the Company fully comply with Department Circular Letter No. 33 (1979) and file any amendment to its tax allocation agreement thirty days prior to its implementation.

Expense Allocation Agreement

The Company is a party to an expense allocation agreement with Folksamerica Holding Company, Inc. (“Holding”), Fester, Fothergill & Hartung, Ltd., and Folksamerica General Insurance Company (“General”), collectively called the Companies effective January 1, 1997. Under the terms of the agreement, The Company would provide and make available to the Companies the services of certain of its personnel, office space and the use of equipment and other services and personnel for the conduct of business. The agreement was amended on June 29, 1999, to delete USF Re and add PCA. The agreement was also amended on January 27, 1998, to add California Indemnity Insurance Company, Commercial Casualty Insurance Company, and Sierra Insurance Company.

Relationship with Olympus Reinsurance Company, Ltd.

Olympus Reinsurance Company, Ltd. (“Olympus”) was incorporated under the laws of Bermuda on December 3, 2001, to respond to the favorable underwriting and pricing environment in the reinsurance market. Olympus commenced operations on January 1, 2002. During the years ended December 31, 2004, 2003 and 2002, Olympus derived 86%, 90% and 99%, respectively of its written premium from Folksamerica Reinsurance Company (see elsewhere in this report under the caption “Reinsurance”). During the years ended December 31, 2003 and 2004, Olympus derived 8% and 9%, respectively, of its premium from business recommended by White Mountains Underwriters, a wholly owned subsidiary of WMIG.

At December 31, 2004, Joseph Steinberg, a director of WMIG, was Chairman of Olympus Holdings (the parent company of Olympus) and was president of Leucadia. Leucadia owns approximately 19% of the common shares of Olympus. Investment funds managed by Franklin Mutual Advisors LLC, which own approximately 19% of the common shares of WMIG, owns approximately 13% of Olympus Holdings. Bruce Berkowitz is a director of WMIG and is Founder and Managing Member of Fairholme Capital Management, LLC, a registered investment adviser. Through Fairholme Capital Management, Mr. Berkowitz controls approximately 11% of the common shares of Olympus Holdings Company. John Gillespie, a director and executive officer of WMIG, through investment arrangements including Prospector, controls approximately .1% of the common shares of Olympus Holdings. Other directors and executive officers of WMIG consisting of Jack Bryne, John Cavoors, Steven Fass and Arthur Zankel) own approximately 3% of the common shares of Olympus Holdings.

In the second quarter of 2006, as a result of newly reported claims on off-shore energy and marine exposures, the Company set its gross loss and loss adjustment expenses (“LAE”) reserves as of June 30, 2006 for off-shore and marine exposures for hurricanes Katrina and Rita at full contract limits. The Company also increased reserves on other exposures affected by hurricanes Katrina, Rita and Wilma (see elsewhere in this report under the caption “Subsequent Events”). Under the terms of the Company’s 2005 quota share reinsurance treaties with Olympus, \$139 million of these losses, net of reinstatement premiums, from hurricanes Katrina, Rita and Wilma recorded in the second quarter were ceded to Olympus, essentially exhausting the surplus of Olympus. On June 16, 2006, Folksamerica Holding Company, Inc. entered into an indemnity agreement with Olympus under which Folksamerica Holding Company agreed to reimburse Olympus for up to \$137 million of these losses, which have been recorded as loss and LAE expense during the second quarter of 2006.

Section 1501(a)(1) and (2) of the New York Insurance Law state:

“Definitions; determinations. (a) In this article, unless the context shall otherwise require:

(1) "Person" means an individual, partnership, firm, association, corporation, joint-stock company, trust, any similar entity or any combination of the foregoing acting in concert.

(2) "Control", including the terms "controlling", "controlled by" and "under common control with", means the possession direct or indirect of the power to direct or cause the direction of the management and policies of a person, whether through the ownership of voting securities, by contract (except a commercial contract for goods or non-management services) or otherwise; but no person shall be deemed to control another person solely by reason of his being an officer or director of such other person. Subject to subsection (c) hereof, control shall be presumed to exist if any person directly or indirectly owns, controls or holds with the power to vote ten percent or more of the voting securities of any other person.”

Section 1501(a)(5) and (6) of the New York Insurance Law state:

“(5) "Controlled person" means any person other than a controlled insurer, who is controlled directly or indirectly by a holding company.”

“(6) "Holding company system" means a holding company together with its controlled insurers and controlled persons.

Olympus is a related party based upon the concept of control defined by Section 1501(a) of the New York Insurance Law.

Section 1505(d)(2) states:

“(d) The following transactions between a domestic controlled insurer and any person in its holding company system may not be entered into unless the insurer has notified the superintendent in writing of its intention to enter into any such transaction at least thirty days prior thereto, or such shorter period as he may permit, and he has not disapproved it within such period:...(2) reinsurance treaties or agreements....”

It is therefore recommended that the Company notify the Department in writing of its intention to enter into certain transactions, such as reinsurance treaties or agreements, with Olympus at least thirty days prior to the transaction pursuant to the requirements of Section 1505(d) of the New York Insurance Law.

E. Significant Operating Ratios

The following ratios have been computed as of December 31, 2004, based upon the results of this examination:

Net premiums written to surplus as regards policyholders	150%
Liabilities to liquid assets (cash and invested assets less investments in affiliates)	94%
Premiums in course of collection to surplus as regards policyholders	4%

All of the above ratios fall within the benchmark ranges set forth in the Insurance Regulatory Information System of the National Association of Insurance Commissioners.

The underwriting ratios presented below are on an earned/incurred basis and encompass the four year period covered by this examination:

	<u>Amounts</u>	<u>Ratios</u>
Losses and loss adjustment expenses incurred	\$2,333,224,447	82.73%
Other underwriting expenses incurred	871,638,811	30.91
Net underwriting loss	<u>(384,511,451)</u>	<u>(13.63)</u>
Premiums earned	<u>\$2,820,351,807</u>	<u>100.00%</u>

F. Accounts and Records

(i) Federal Income Tax Recoverable

The Company offset some of its current (\$11.1 million) federal income taxes payable with federal income taxes recoverable (\$1.3 million) from 2002 and prior.

Department Circular Letter No. 15(1975) states, in part:

“A refund due from the Treasury should be collectible within a brief period after the statement date, in order to be considered as an admitted asset. A balance due as a result of participation in a consolidated tax return should be paid over promptly by the parent. An open account or a promissory note from the parent would not be an admissible asset, and may violate the provisions of Section 85 [now Section 1407] of the New York Insurance Law”

It is recommended that the Company comply with Department Circular Letter No. 15 (1975) and only admit refunds due from the United States Treasury that will be collectible within a brief period after the statement date.

A similar recommendation was made in the prior report on examination.

(ii) Intercompany Receivables

The Companies intercompany balance consisted of a debit balance of \$9,034,838 and a credit balance of \$9,184,338 from various affiliates which is presented net in the filed annual statement as a liability of \$149,500. It is recommended that the company separate the debit and credit balances of the various affiliates and only offset those due to and from the same legal entity.

It was noted that a receivable from Folksamerica Holding Company (“FHC”) in the amount of \$7,666,682 include intercompany balances dating back to 1994.

Department Circular Letter No. 15(1975) states, in part:

“1. Inter-company balances.
Any such receivable over 90 days should be deducted as not admitted assets.”

It is recommended that the Company age the receivable balance and not-admit those balances greater than 90 days past due.

The Company is a party to an expense allocation agreement with its parent company FHC and other members of the holding company. Article 7 of said agreement states, in part:

"All billings between the parties shall be settled within 15 days following presentation of the billing for the last month of each quarter. "

The Company is in violation of Section 1505(d)(3) of the New York Insurance Law by failing to follow its filed service agreement regarding the settlement of its intercompany billings within 15 days following presentation of the billings for the last month of each such quarter.

3. FINANCIAL STATEMENTS

A Balance Sheet

The following shows the assets, liabilities and surplus as regards policyholders as of December 31, 2004 as determined by this examination and as reported by the Company:

Assets

<u>Assets</u>	<u>Examination</u>		<u>Company</u>		<u>Surplus Increase (Decrease)</u>
	<u>Assets</u>	<u>Assets Not Admitted</u>	<u>Net Admitted Assets</u>	<u>Net Admitted Assets</u>	
Bonds	\$1,588,869,150	\$ 0	\$1,588,869,150	\$1,588,869,150	
Preferred stocks	11,239,185	0	11,239,185	11,239,185	
Common stocks	242,639,090	0	242,639,090	242,639,090	
Cash, cash equivalents and short-term investments	139,871,521	0	139,871,521	139,871,521	
Other invested assets	93,191,146	0	93,191,146	93,191,146	
Receivable for securities	136,331	0	136,331	136,331	
Investment income due and accrued	13,913,321	0	13,913,321	13,913,321	
Uncollected premiums and agents' balances in the course of collection	27,246,939	0	27,246,939	27,246,939	
Deferred premiums, agents' balances and installments booked but deferred and not yet due	305,736,621	0	305,736,621	305,736,621	
Accrued retrospective premiums	10,086,897	0	10,086,897	10,086,897	
Amounts recoverable from reinsurers	33,229,275	0	33,229,275	33,229,275	
Funds held by or deposited with reinsured companies	218,919,981	0	218,919,981	218,919,981	
Net deferred tax asset	64,270,918	21,978,922	42,291,996	42,291,996	
Electronic data processing equipment and software	2,921,539	373,143	2,548,396	2,548,396	
Furniture and equipment, including health care delivery assets	256,447	256,447			
Goodwill	12,827,472	12,827,472	0	0	
Organization costs	800,000	800,000	0	0	
Leasehold improvements	2,565,805	2,565,805	0	0	
Accounts receivable	5,242,684	23,992	5,218,692	5,218,692	
Promissory note	5,429	0	5,429	5,429	
Security deposit	70,000	0	70,000	70,000	
Other taxes	11,130	0	11,130	11,130	
Accounts Receivable – loss portfolio transfer	10,813,910	0	10,813,910	10,813,910	
Prepaid expense	<u>249,374</u>	<u>249,374</u>	<u>0</u>	<u>0</u>	
Total assets	<u>\$2,785,114,165</u>	<u>\$39,075,155</u>	<u>\$2,746,039,010</u>	<u>\$2,746,039,010</u>	<u>\$0</u>

<u>Liabilities, surplus and other funds</u>			Surplus Increase (Decrease)
<u>Liabilities</u>	<u>Examination</u>	<u>Company</u>	
Losses and loss adjustment expenses	\$1,689,331,124	\$1,432,331,124	\$(257,000,000)
Commissions payable, contingent commissions and other similar charges	9,112,619	9,112,619	
Other expenses (excluding taxes, licenses and fees)	20,055,006	20,055,006	
Taxes, licenses and fees (excluding federal and foreign income taxes)	562,711	562,711	
Current federal and foreign income taxes	9,859,712	9,859,712	
Unearned premiums	292,752,215	292,752,215	
Ceded reinsurance premiums payable (net of ceding commissions)	117,796,046	117,796,046	
Funds held by company under reinsurance treaties	146,841,151	146,841,151	
Amounts withheld or retained by company for account of others	206,895	206,895	
Provision for reinsurance	6,647,171	6,647,171	
Payable to parent, subsidiaries and affiliates	149,500	149,500	
Payable for securities	6,366,780	6,366,780	
Loss portfolio transfer reserve ceded	(217,680,000)	(217,680,000)	
Accounts payable other	<u>3,634,460</u>	<u>3,634,460</u>	
Total liabilities	<u>\$2,085,635,391</u>	<u>\$1,828,635,391</u>	<u>\$(257,000,000)</u>
 <u>Surplus and Other Funds</u>			
Common capital stock	\$ 5,000,000	\$ 5,000,000	
Surplus Gain from Retroactive Reinsurance	69,183,000	69,183,000	
Gross paid in and contributed surplus	752,221,695	752,221,695	
Unassigned funds (surplus)	<u>(166,001,076)</u>	<u>90,998,924</u>	<u>\$(257,000,000)</u>
Surplus as regards policyholders	<u>\$660,403,619</u>	<u>\$917,403,619</u>	<u>\$(257,000,000)</u>
 Total liabilities, surplus and other funds	 <u>\$2,746,039,010</u>	 <u>\$2,746,039,010</u>	

NOTE: The Internal Revenue Service has completed its audits of the Company's consolidated federal income tax returns through tax year 2002. All material adjustments, if any, made subsequent to the date of examination and arising from said audits, are reflected in the financial statements included in this report. The Internal Revenue Service has not yet begun to audit tax returns covering tax years 2003 and 2004. The examiner is unaware of any potential exposure of the Company to any tax assessment and no liability has been established herein relative to such contingency.

B. Underwriting and Investment Exhibit

Surplus as regards policyholders increased \$227,746,391 during the four year examination period January 1, 2001 through December 31, 2004, detailed as follows:

Underwriting Income

Premiums earned		\$2,820,351,807
Deductions:		
Losses incurred	\$2,126,209,359	
Loss adjustment expenses incurred	207,015,088	
Other underwriting expenses incurred	<u>871,638,811</u>	
Total underwriting deductions		<u>3,204,863,258</u>
Net underwriting gain or (loss)		\$(384,511,451)

Investment Income

Net investment income earned	\$197,960,933	
Net realized capital gain	<u>78,993,228</u>	
Net investment gain or (loss)		276,954,161

Other Income

Net gain or (loss) from agents' or premium balances charged off	\$558,975	
Finance and service charges not included in premiums	0	
Aggregate write-ins for miscellaneous income	<u>24,628,253</u>	
Total other income		<u>25,187,228</u>
Net income before dividends to policyholders and before federal And foreign income taxes		\$(82,370,062)
Dividends to policyholders		<u>0</u>
Net income after dividends to policyholders but before federal and foreign income taxes		\$(82,370,062)
Federal and foreign income taxes incurred		<u>57,786,095</u>
Net Income		<u>\$(140,156,157)</u>

Capital and Surplus Account

Surplus as regards policyholders per report on examination as of December 31, 2000			\$361,657,231
	Gains in <u>Surplus</u>	Losses in <u>Surplus</u>	
Net income		\$140,156,157	
Net unrealized capital gains or (losses)	\$3,058,844		
Change in net unrealized foreign exchange capital gain (loss)	7,797,308		
Change in net deferred income tax	9,046,163		
Change in non-admitted assets		5,129,857	
Change in provision for reinsurance		2,051,570	
Cumulative effect of changes in accounting principles	76,406,659		
Surplus adjustments paid in	425,000,000		
Dividends to stockholders		89,000,000	
Aggregate write-ins for gains and losses in surplus	<u>13,775,000</u>	<u> </u>	
Total gains and losses	<u>\$535,083,974</u>	<u>\$236,337,584</u>	
Net increase (decrease) in surplus			<u>298,746,388</u>
Surplus as regards policyholders per report on examination as of December 31, 2004			<u>\$660,403,619</u>

4. LOSSES AND LOSS ADJUSTMENT EXPENSES

The examination liability for the captioned items of \$1,689,331,124 is \$257,000,000 more than the amount reported by the Company as of December 31, 2004. The examination analysis was conducted in accordance with generally accepted actuarial principles and practices and was based on statistical information contained in the Companies internal records and in its filed annual statements.

5. SUBSEQUENT EVENTS**(i) Katrina, Rita and Wilma Hurricane Losses**

The 2005 Management Discussion and Analysis (“MD&A”) stated that the Company experienced a pre-tax loss of \$256.7 million from hurricanes Katrina, Rita and Wilma net of reinstatements and reinsurance which added a total of thirty-one points to the 2005 combined ratio. In addition, the Company recorded an extra \$57.3 million of additional development which contributed seven points to the 2005 loss ratio. During 2005, Folksamerica Holdings Inc. contributed \$250,000,000 to the capital of the Company.

The MD&A stated that, for the year 2005, the Company ceded to Olympus 75% of its non-casualty excess of loss treaties, 50% of property proportional business and up to 75% of its White Mountain submitted business. The Company receives an override commission from Olympus. For 2005, the Company ceded \$428.0 million in earned premium, \$781.3 million of incurred losses, \$114.1 million of acquisition expenses and \$26.1 million of override commissions, net of \$6.9 million brokerage fees to White Mountain Group. For 2006, the MD&A states the company modified its terms with Olympus. The Company cedes 35% of its 2006 underwriting year short-tail excess of loss to Olympus and the newly formed Helicon Reinsurance Co. Ltd. ("Helicon"). Olympus and Helicon share the 35% based upon the relative capital base. The year 2005 and prior underwriting year business continue to run-off with Olympus. The Company has fully collateralized all of its recoverables related to the prior years and 2005 underwriting year. The MD&A stated that in 2005, the Company entered into a 10% quota share with an affiliate Sirius International Insurance Company. The MD&A also noted that \$57.3 million unfavorable development for the year 2004 was mainly due to the detailed ground-up study of asbestos completed by the Company in the year 2005.

The examiner notes that the Company reflected an increase of Loss and LAE of \$131 million in the September 30, 2005 -third quarter statement. The Company reported a deficiency of \$51 million (\$27 million case plus \$24 million incurred but not reported ("IBNR")) on its third quarter 2005 run-off which, according to the MD&A was mostly A&E reserves.

(ii) AM Best downgrade of Olympus Re

On September 16, 2006, AM Best downgraded Olympus Re as follows:

"Bermuda insurance group White Mountains is also believed to be working with investors to recapitalize Olympus Re, an insurer it formed in late 2001 principally to provide quota-share reinsurance to the group's reinsurance units. Olympus saw most, if not all, its \$600 million in capital wiped away by storm losses incurred by White Mountains' reinsurance companies Folksamerica and Sirius last year and this year. The reinsurance recoverables are collateralized, according to company records."

Olympus Re is the primary reinsurer of Folksamerica. (75% quota share of all property and marine excess and 50% quota share of all property pro rata) Folksamerica ceded \$451 million in premiums to Olympus during the year 2004 (of total ceded premium of \$491 million). In 2004, the recoverables are fully funded as follows:

Reinsurance Recoveries	<u>\$384,973</u>
Letters of Credit	22,136
Ceded Balances Payable	107,909
Other (Trust Agreement)	<u>294,758</u>
Total funds available	<u>\$424,803</u>

At December 2005, Olympus had assets of \$1.2 billion, liabilities of \$1.16 billion and capital of \$21 million. The “recapitalized” Olympus had assets of \$1.28 billion, liabilities of \$1.16 billion and capital of \$185 million.

(iii) AM Best Downgrade of Folksamerica Re

On June 16, 2006, the Company revised loss estimates noting that new claims information for the offshore energy exposures prompted management to reserve all energy contracts to full policy limits. The gross loss estimates increased reserves by \$203 million. That action pushed A.M. Best to downgrade Folksamerica to "A-minus". AM Best was upset that they had reaffirmed Folks America Re rating of A+ on June 13, 2006, just three days prior based upon discussions with management.

Under the terms of the Olympus treaty, Folks America ceded \$143 million of those losses to Olympus Re. The additional development would leave Olympus with capital of \$42 million.

Standard and Poors (“S&P”) noted that an indemnification agreement entered on June 19, 2006, provides that White Mountain will reimburse up to \$137 million of the losses ceded to Olympus Re.

(iv) Current Capacity

Both S&P and AM Best expressed concern over the Company’s long term ability to handle another catastrophe:

AM Best states:

“A.M. Best remains concerned with management's overall risk management capability and the future viability of its current reinsurance structures should material catastrophe-related property losses continue to ensue”

Standard and Poor’s states:

“The rating actions reflect Standard & Poor's concerns about the enterprise level risk management and risk mitigation capabilities of WTM (White Mountain Group) and its operating subsidiaries.”

Effective January 1, 2006 Sirius International no longer cedes any of its business to Olympus and Folksamerica renewed its quota share reinsurance with Olympus on modified terms. Under its revised arrangements, for an override commission on premiums ceded, Folksamerica will cede up to 35% of its 2006 underwriting year short-tailed excess of loss business, mainly property and marine, to Olympus and a newly-formed reinsurer, Helicon Reinsurance Company, Ltd. (“Helicon”). Olympus and Helicon share, pro rata approximately 56% and 44%, in this up to 35% cession based on their relative capital bases. The year 2005 and prior underwriting risk will continue to run-off with Olympus and it is expected that the majority of the risk exposures will expire by the end of the second quarter of 2006.

(v) Helicon Reinsurance Company, Ltd.

Helicon Re Holdings, LLC (“Helicon Re”) is a specialty reinsurer focused on the property excess and marine excess reinsurance market. Based in Bermuda, Helicon Re originates its policies through a partnership with Folksamerica. Through this partnership, Helicon Re participates in renewals and new business opportunities in the property excess of loss reinsurance market, all of which will be underwritten by White Mountains. Additionally, Helicon Re doesn’t have exposure to legacy liabilities from policies written in less favorable environments or which have exposure to past catastrophes such as hurricanes Katrina, Rita and Wilma.

(vi) Other Catastrophe Coverage for the year 2006

During the first quarter of 2006, Folksamerica purchased a series of second event industry loss warranty covers (“ILW”) for a total cost of \$19 million. This reinsurance has a total limit of \$150 million from multiple retrocessionnaires. The ILW was purchased to protect Folksamerica’s balance sheet from the adverse impact of the occurrence of two significant natural peril catastrophe events in the United States during 2006 (“Loss Events”). Coverage is not dependent on the order in which the Loss Events occur, and Folksamerica can only recover losses that it incurs as a result of the Loss Events.

(vii) Indemnity Agreement between Folksamerica Holding Company, Inc. and Olympus

On June 16, 2006, Folksamerica Holding Company, Inc. entered into an indemnity agreement with Olympus under which Folksamerica Holding Company agreed to reimburse Olympus for up to

\$137 million of these losses, which have been recorded as loss and LAE expense during the second quarter of 2006.

(viii) Sale of Sirius American Insurance Company

On March 27, 2006 the Company sold its subsidiary, Sirius American Insurance Company to parent, Folksamerica Holding Company, Inc.

6. COMPLIANCE WITH PRIOR REPORT ON EXAMINATION

The prior report on examination contained three recommendations as follows (page numbers refer to the prior report):

<u>ITEM</u>	<u>PAGE NO.</u>
<p>A. <u>Accounts and Records</u></p> <p>It was recommended that the Company take proper care when completing the annual statement and that all the states in which the Company is licensed are properly reported.</p> <p>The Company has complied with this recommendation.</p>	<p>15</p>
<p>B. <u>Federal Income Tax Recoverable</u></p> <p>It was recommended that the Company comply with Circular Letter 15 (1975) and only admit refunds due from the United States Treasury that will be collectible within a brief period after the statement date.</p> <p>The Company has not complied with this recommendation. A similar comment is made in this report.</p>	<p>20</p>
<p>C. <u>Receivable from Parents, Subsidiaries and Affiliates</u></p> <p>It was recommended that the Company comply with Circular Letter 15 (1975) and only admit inter-company receivables which are under 90 days past due.</p> <p>The Company has not complied with this recommendation. A similar comment is made in this report.</p>	<p>20</p>

7. SUMMARY OF COMMENTS AND RECOMMENDATIONS

<u>ITEM</u>	<u>PAGE NO.</u>
A. <u>Reinsurance</u>	
(i) <u>Trust Agreements</u>	
It is recommended that the Company amend the Imagine reinsurance agreement to comply with Department Regulation 114.	12
It is recommended that the Company amend the Olympus Trust agreement to comply with Department Regulation 114.	13
(ii) <u>Letters of Credit</u>	
It is recommended that the Company comply with Department Regulation 133 and include all the required conditions of Part 79.2 in its letters of credit.	13
It is recommended that the Company be named as beneficiary in all its letters of credit.	13
(iii) <u>Special Termination Provision</u>	
It is recommended that the Company comply with Section 1308 of the New York Insurance Law and remove all special termination provisions relating to the financial condition of the Company from future reinsurance contracts.	13
B. <u>Holding Company</u>	
(i) <u>Tax Allocation Agreement</u>	
It is recommendation that the Company fully comply with Department Circular Letter No. 33 (1979) and file any amendments to its tax allocation agreement thirty days prior to its implementation.	16
(ii) <u>Relationship with Olympus Reinsurance Company, LTD</u>	
Comment that Olympus is a related party based upon the concept of control defined by Section 1501(a) of the New York Insurance Law.	18
It is recommended that the Company notify the Department in writing of its intention to enter into certain transactions, such as reinsurance treaties or agreements, with Olympus at least thirty days prior to the transaction pursuant to the requirements of Section 1505(d) of the New York Insurance Law.	19

ITEMPAGE NO.C. Accounts and records(i) Federal Income Tax Recoverable

It is recommended that the Company comply with Circular Letter No. 15 (1975) and only admit refunds due from the United States Treasury that will be collectible within a brief period after the statement date. 20

(ii) Intercompany Receivables

It is recommended that the company separate the debit and credit balances of the various affiliates and only offset those due to and from the same legal entity. 20

It is recommended that the Company age the receivable balance and not-admit those balances greater than 90 days past due. 20

The Company is in violation of Section 1505(d)(3) of the New York Insurance Law by failing to follow its filed service agreement regarding the settlement of its intercompany billings within 15 days following presentation of the billings for the last month of each such quarter. 21

Appointment No 22427

STATE OF NEW YORK
INSURANCE DEPARTMENT

I, HOWARD MILLS, Superintendent of Insurance of the State of New York,
pursuant to the provisions of the Insurance Law, do hereby appoint:

Douglas Bartlett

as proper person to examine into the affairs of the

FOLKSAMERICA REINSURANCE COMPANY

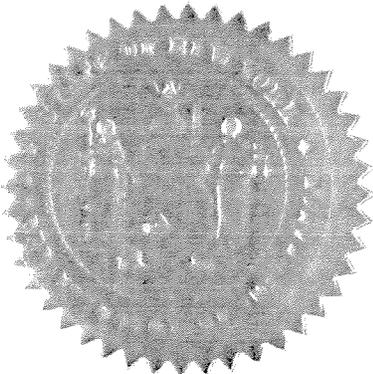
and to make a report to me in writing of the condition of the said

Company

with such other information as he shall deem requisite.

*In Witness Whereof, I have hereunto subscribed by the
name and affixed the official Seal of this Department, at
the City of New York,*

this 24th day of October, 2005



A handwritten signature in cursive script, appearing to read "Howard Mills", written over a horizontal line.

HOWARD MILLS
Superintendent of Insurance