REPORT ON EXAMINATION

OF THE

NOVA CASUALTY COMPANY

AS OF

DECEMBER 31, 2007

DATE OF REPORT	MAY 15, 2009
EXAMINER	LEON TAMBUE

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

May 15, 2009

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 22775, dated June 13, 2008 attached hereto, I have made an examination into the condition and affairs of Nova Casualty Company as of December 31, 2007, and submit the following report thereon.

Wherever the designations "the Company", or "NOVA" appear herein without qualification, they should be understood to indicate NOVA Casualty Company. "NAGI" refers to NOVA American Group, Inc., NOVA Casualty Company's parent.

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 726 Exchange Street, Buffalo, NY 14210.

1. SCOPE OF EXAMINATION

The Department has performed an association examination of NOVA Casualty Company. The previous examination was conducted as of December 31, 2002. This examination covered the five-year period from January 1, 2003 through December 31, 2007. Transactions occurring subsequent to this period were reviewed where deemed appropriate by the examiner.

This examination was conducted in accordance with the National Association of Insurance Commissioners ("NAIC") Financial Condition Examiners Handbook, which requires that we plan and perform the examination to evaluate the financial condition and identify prospective risks of the Company by obtaining information about the Company including corporate governance, identifying and assessing inherent risks within the Company and evaluating system controls and procedures used to mitigate those risks. An examination also includes assessing the principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation, management's compliance with Statutory Accounting Principles and annual statement instructions when applicable to domestic state regulations.

All accounts and activities of the Company were considered in accordance with the risk-focused examination process. This examination also included a review and evaluation of the Company's own control environment assessment. The examiners also relied upon audit work performed by the Company's independent certified public accountants ("CPA") when appropriate.

This examination report includes a summary of significant findings for the following items as called for in the Financial Condition Examiners Handbook of the NAIC:

Significant subsequent events
Company history
Corporate records
Management and control
Fidelity bonds and other insurance
Pensions, stock ownership and insurance plans
Territory and plan of operation
Growth of Company
Loss experience
Reinsurance
Accounts and records
Statutory deposits
Financial statements
Summary of recommendations

2. DESCRIPTION OF COMPANY

The Company was incorporated under the laws of the State of New York on September 13, 1979, as the First Security Corporation and became licensed to transact insurance business effective July 18, 1980. On December 30, 1988, the present name, NOVA Casualty Company, was adopted.

On May 3, 2005, Sterling Capital Partners, LLC, Sterling Capital Partners, L.P. and Sterling Capital Partners II, L.P. (herein collectively referred to as “Sterling”) filed with the Department an application for the acquisition of control of the Company pursuant to Section 1506 of the New York Insurance Law. The application provided that Sterling would acquire 100% ownership of the Company’s parent, NAGI, through AIX Holdings, Inc., a Delaware corporation. AIX Holdings, Inc. would thereby become the ultimate parent of the Company. The application was approved on June 28, 2005 and the proposed capital transaction closed on June 29, 2005. On that date, NAGI contributed $34.7 million to the Company consisting of $1,699,500 through the purchase of an additional 5,665 shares of the Company’s $300 par value per share common stock, plus $33,000,500 of paid in and contributed surplus.

In 2006, the Company formed a subsidiary, AIX Specialty Insurance Company (“ASIC”), a Delaware corporation, for the primary purpose of serving as an excess and surplus lines carrier for the Company. The Company purchased all 5,000,000 authorized shares of ASIC’s $1.00 par value per share common stock and contributed an additional $10,568,776 of paid in and contributed surplus. In 2007, the Company made an additional surplus contribution to ASIC in the amount of $5,000,000.

Capital paid in at December 31, 2007 was $4,200,000 consisting of 14,000 shares of common stock at $300 par value per share. Gross paid in and contributed surplus was $53,871,445. In 2004, the Company issued a floating rate surplus note of $4.0 million to ICONS, Ltd with a maturity date of May 24, 2034. The Company may redeem the note on or after May 31, 2009. Through December 31, 2007, surplus note interest of $1,180,658 has been approved by the Department and paid by the Company. Gross paid in and contributed surplus increased by $43,000,500 during the examination period as follows:

Year	Description		Amount
January 1, 2003	Beginning gross paid in and contributed surplus		$10,870,945
2005	Surplus contribution	$33,000,500	
2007	Surplus contribution	10,000,000	
	Total surplus contributions		43,000,500
December 31, 2007	Ending gross paid in and contributed surplus		$53,871,445

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 members. The board met at least four times during each calendar year. At December 31, 2007, the board of directors was comprised of the following members:

Name and Residence	Principal Business Affiliation
Harsha Acharya East Amherst, NY	Vice Chairman (Emeritus), NOVA Casualty Company
Richard D. Federico Burr Ridge, IL	Managing Director, Sterling Partners
Ronald A. Ganiats Avon, CT	Senior Vice President, NOVA Casualty Company
Mark A. Green * Canton, CT	Senior Vice President/Chief Risk Officer, N.A. Holdings, Inc.
Gordon R. Gross Amherst, NY	Senior Partner, Gross, Shuman, Brizdle & Gilfillan, P.C.
Christopher C. Hoover * Hamburg, NY	Senior Vice President/Chief Financial Officer, NOVA Casualty Company
William N. Hudson Williamsville, NY	President, Hudson Advisor Services, Inc.
Ronald C. Mairano Simsbury, CT	Senior Vice President/Chief Operating Officer AIX, Inc.
Stephen M. Mulready Wethersfield, CT	President/Chief Executive Officer, N.A. Holdings, Inc.
Paul A. Palmer Brooklyn, NY	Chief Executive Officer, Capital Credits Holdings
Craig M. Rappaport Orchard Park, NY	Senior Vice President/Chief Operating Officer, NOVA Casualty Company
Russell J. Renvyle W. Granby, CT	Senior Vice President/Chief Underwriting Officer, N.A. Holdings, Inc.
Robert D. Schultz W. Simsbury, CT	President, AIX, Inc.

*Subsequently resigned from position. In 2009, Marita Zuraitis became President of the 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, 2007, the principal officers of the Company were as follows:

Name	Title
Stephen M. Mulready *	President & Chief Executive Officer
Craig M. Rappaport	Senior Vice President & Assist. Secretary
Christopher C. Hoover*	Senior Vice President, Chief Financial Officer & Treasurer

*Subsequently resigned from position.

B. Territory and Plan of Operation

As of December 31, 2007, the Company was licensed to write business in all fifty states and the District of Columbia. This is a significant increase from 2002 where the Company was licensed in only twenty-three states and the District of Columbia.

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:

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

The Company is also authorized to transact such workers' compensation insurance as may be incidental to coverages contemplated under paragraph 20 of Section 1113(a) of the New York Insurance Law, including insurances described in the Longshoremen's and Harbor Workers' Compensation Act (Public law No. 803, 69th Congress, as amended; 33 USC Section 901 et seq. as amended).

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 $4,200,000.

The Company's largest premium writings, for the period under examination, were in the State of New York and the State of Florida. The following schedule shows the direct premiums written by the Company in the states of New York and Florida as well as in total:

Calendar Year	New York	Florida	Total United States	Percentage of New York State Premiums Written in United States
2003	$15,807,113	$23,281,230	$58,719,003	26.92%
2004	$16,659,002	$21,480,761	$54,925,970	30.33%
2005	$16,277,153	$20,198,000	$52,604,134	30.94%
2006	$24,315,073	$22,836,456	$65,128,620	37.33%
2007	$25,349,876	$22,647,174	$83,736,531	30.27%

As indicated in Section 2, description of the Company, NOVA was acquired by AIX Holdings Inc. ("AHI") in 2005. The new management intended to use the Company as a platform to introduce a specialty program business. The Company describes the program business as books of homogeneous business in underserved markets.

The Company markets workers' compensation, general liability, property, auto liability, and surety coverage through programs established by service organizations in the same line of business or same geographic location. The Company acquires this business through various general agents, referred to as program managers. The general business plan is that NOVA enters into a risk-sharing arrangement with the program managers. Generally speaking, this is accomplished through the program managers reinsuring a percentage of the business.

AHI has retained most of NOVA’s traditional (“heritage”) business. They have exited the Company’s traditional motorcycle business and put the contract bond business into runoff. In 2007, the program business constituted $44,803,987 of the Company’s $83,736,531 in direct written premium. In 2008, the program business constituted $96,817,143 of NOVA’s $131,994,056 in direct written premiums. The introduction of the program business has fueled a major growth in the Company’s premium writings as reflected in the chart below:

Calendar Year	Direct Premiums Written
2003	$ 58,719,003
2004	$ 54,925,970
2005	$ 52,604,134
2006	$ 65,128,619
2007	$ 83,736,531
2008	$131,994,056

The growth of the program business is most significantly reflected in the Company’s workers’ compensation line, which had no written premiums in 2005, $8,391,766 in direct written premiums in 2006, $20,720,609 in direct written premiums in 2007, and $39,022,770 in direct written premiums in 2008.

At December 31, 2007, the Company maintained branch offices for marketing and underwriting purposes in Miami, Florida ,Atlanta, Georgia and Roseville, California.

C. Reinsurance

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 the NAIC Accounting Practices and Procedures Manual and NAIC Statement of Statutory Accounting Principles (“SSAP”) No. 62. Representations were supported by appropriate risk transfer analyses and an attestation from the Company's chief executive officer pursuant to the NAIC Annual Statement Instructions. 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 paragraphs 25 and 26 of SSAP No. 62.

The company commuted a ceded reinsurance agreement with XL Reinsurance America in March 2007. The Company received a $3,773,732 pooled share, which was recognized as a reduction of losses and loss adjustment expenses paid (thereby reducing losses and loss adjustment expenses incurred) in the current year. The Company also increased its loss and loss adjustment expense reserves by the same amount, (thereby increasing loss and loss adjustment expense incurred) to recognize the effect of releasing XL Reinsurance America from its obligations under the treaty. The net effect of the commutation was to increase pre-tax income by $35,240. The commutation was not with an insolvent or impaired insurer and is not subject to Part 128 of Department Regulation 141.

1. <u>Assumed Reinsurance</u>

Assumed reinsurance accounted for less than 2.5 % of the Company's gross premium written at December 31, 2007. The bulk of the assumed business was in the commercial multiple peril line.

2. <u>Reinsurance Pooling Agreement</u>

The Company is a party to a pooling agreement with AIX Specialty Insurance Company ("ASIC"), an authorized subsidiary of the Company. The pooling agreement became effective as of January 1, 2007 and was non-disapproved by the Department in December, 2006.

The agreement provided for an initial loss portfolio transfer wherein the Company transferred assets over to ASIC equal to the net liabilities assumed by ASIC as of December 31, 2006. In addition, effective January 1, 2007, NOVA transferred non-invested assets, such as premiums receivable as of December 31, 2006 in order to reflect the quota share percentage on non-invested assets provided in the agreement for both companies.

The agreement provides for ASIC to cede 100% of its net liabilities to NOVA. The agreement further provides that NOVA, after it accepts the cession from ASIC, will cede 28.8% of its net liabilities to ASIC.

3. <u>Ceded Reinsurance Program</u>

The company's reinsurance program is structured to provide coverage for both its traditional book of business ("heritage business") and its program business ("specialty business"). The Company has structured its broad-based ceded reinsurance program to limit its maximum exposure on its heritage business to $200,000 on property and casualty risks and $350,000 on surety risks.

NOVA's maximum net exposure, to any one risk other than workers' compensation, in its program specific reinsurance for 2007 is $550,000. A summary of the Company's ceded reinsurance program for 2007 is as follows:

Type of Coverage	Cession
Property –2 layers-covering heritage business	$800,000 in excess of $200,000 per risk.
Property –covering heritage and specified program businesses	$2,500,000 in excess of $1,000,000 per loss per risk.
Property –covering heritage and specified program businesses	$7,000,000 in excess of $3,000,000 per loss per risk. The agreement applies to all risks with original insured value exceeding $3,000,000 except as excluded by the Company.
Casualty –2 layers	$1,000,000 in excess of $200,000 per policy per occurrence.
Corporate Coverage-various workers' compensation program businesses	$10,000,000 in excess of $1,000,000 per loss occurrence 75% of $10,000,000 x/s $10,000,000 per loss occurrence.
Combination basket retention – (occurrence involves any combination of property and casualty)	$200,000 in excess of $200,000 per loss occurrence.
Surety	$1,650,000 in excess of $350,000 ultimate net loss per principal.
Commercial Umbrella	Quota share-Company cedes 95% up to $1million; 100% over $1,000,000.
Equipment Breakdown	100% quota share coverage.
Commercial Multi-Peril Property – Breed Hill Program	$22,500,000 in excess of $2,500,000 per risk.

In addition, the Company has various reinsurance treaties in place covering specific program businesses. Furthermore, the company obtains facultative reinsurance coverage where appropriate.

The Company's retention for property and casualty remained at $200,000 through the last two years of the examination period. This was an increase from $150,000 at the close of the previous examination period. The Company uses several types of reinsurance including treaty, facultative and quota share.

4. Review of Reinsurance Contracts

The examiner reviewed a sample of the ceded contracts in effect during the examination period. These contracts were reviewed for required and standard clauses. It was noted that the contracts that were reviewed were found to contain the required clauses, including an insolvency clause meeting the requirements of Section 1308 of the New York Insurance Law.

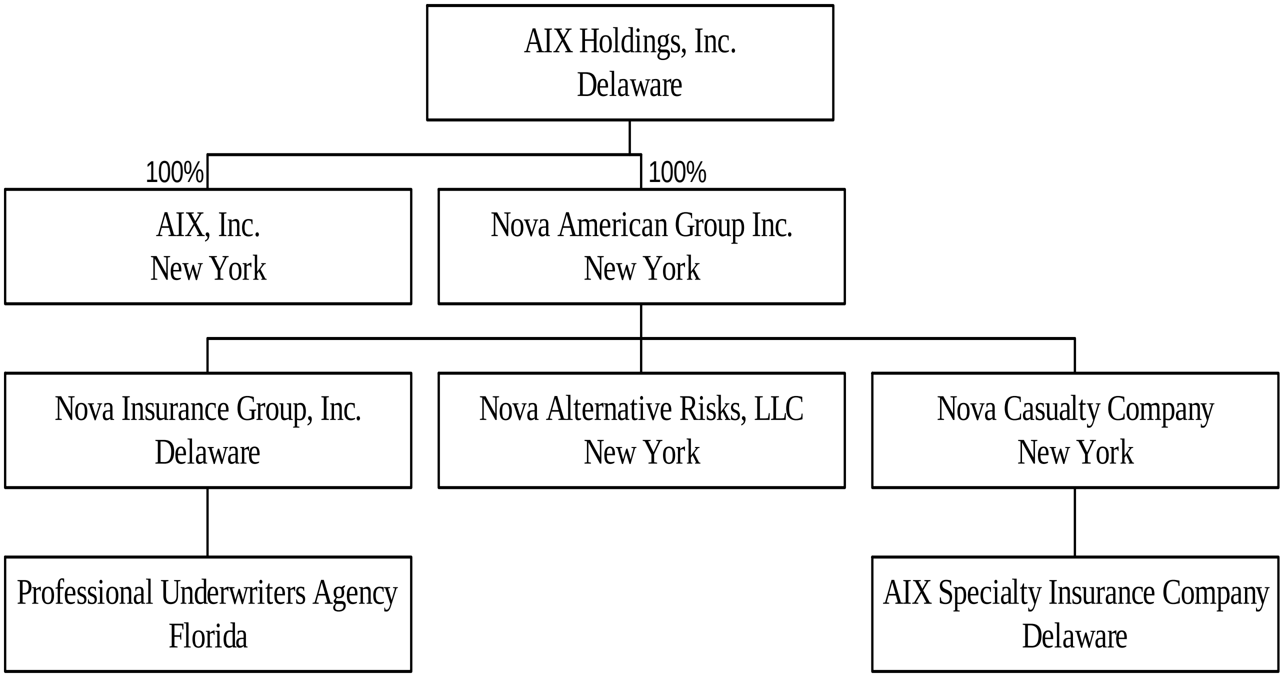
The Company ceded to authorized and unauthorized reinsurers during the period under examination. It is the Company's policy to obtain the appropriate collateral for its cessions to unauthorized reinsurers. Letters of credit were obtained by the Company to take credit for cessions to unauthorized reinsurers in compliance with Department Regulation 133. No exceptions were noted.

D. Holding Company System

The Company is a wholly-owned subsidiary of NOVA American Group, Inc. (“NAGI”), a privately owned company incorporated in the state of New York, which in turn is owned by AIX Holdings, Inc. (“AHI”), a Delaware corporation. As of the examination date, AHI beneficially owned 100% of NAGI’s outstanding common stock. AHI is the ultimate controlling person.

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 a chart of the holding company system at December 31, 2007:



At the examination date, the Company owned directly or indirectly 100% of the stock of AIX Specialty Insurance Company, a company incorporated in the State of Delaware, which was jointly examined with the Company.

At December 31, 2007, the Company was party to the following agreements with other members of its holding company system:

1. General Agency Agreement with NOVA American Group, Inc.

   The Company has a general agency agreement with its parent company, Brokers Market place, also known as NOVA American Group, Inc ("NAGI"). Under this agreement the Company authorizes NAGI, as "general agent", to receive and accept proposals for insurance covering such classes of risks as the Company may authorize to be insured and to collect, receive and receipt for premiums. All subsequent addenda to the agreement were approved without exception.

2. Service Agreement with NOVA American Group, Inc.

   The Company has a service agreement with its parent company, NAGI. Under this agreement, NAGI agrees to underwrite proposals for insurance, as directed by the Company, to collect, receive and receipt of premiums, to order such motor vehicle reports ("MVR"), surveys and underwriting reports necessary to prudently and properly accept such underwriting proposals on behalf of the Company. All subsequent addenda to the agreement were approved without exception.

3. Expense Sharing Agreements with Affiliates

a. NOVA American Group, Inc.

The Company had an expense sharing agreement with its parent company, NAGI. Under this agreement NAGI agrees to pay any expenses incurred by NAGI in connection with the solicitation and procurement of business to be placed with the Company, including but not limited to reports, surveys and underwriting reports, advertising, travel, postage, telephone, auditing, printing and data processing. The agreement was terminated in 2006.

b. Alternative Insurance Xchange Inc.

The Company is a party to an expense sharing agreement with its affiliate, Alternative Insurance Xchange Inc., ("AIX"). Under this agreement, AIX may request that the employees of the Company provide services to AIX and the Company may request same. The party receiving the service provided agrees to reimburse the other party for the pro-rata portion of the weekly salary or annual salary of such employee, including fringe benefit costs. This agreement became effective on November 1, 2005 and was approved by the Department on November 4, 2005.

c. AIX Holdings, Inc.

The Company is a party to an expense sharing agreement with its ultimate parent, AIX Holdings, Inc. ("AHI"). Under this agreement, AHI may request that the employees of the Company provide services to AHI and the Company may request same. The party receiving the service provided agrees to reimburse the other party for the pro-rata portion of the weekly salary or annual salary of such employee, including fringe benefit costs. This agreement became effective on November 1, 2005 and was approved by the Department on November 4, 2005.

d. Professional Underwriters Agency, Inc.

The Company is a party to an expense sharing agreement with its affiliate, Professional Underwriters Agency, Inc., ("PUA"). Under this agreement, PUA may request that the employees of the Company provide claims paying services to PUA. The party receiving the service provided agrees to reimburse the other party for the pro-rata portion of the weekly salary or annual salary of such employee, including fringe benefit costs. This agreement became effective on May 1, 2005 and was approved by the Department on April 21, 2005.

4. Sublease Agreement with NOVA American Group, Inc.

The Company had a sublease agreement with its parent company, First Security Corporation, also known as NOVA American Group, Inc. Under this sublease agreement, the Company agreed to pay rent to NAGI for the use of the leased premises for office purposes. This sublease agreement was subject to lease agreement between Buffalo Enterprise Development Corporation ("BDEC") and NAGI. The Department approved all amendments to this sublease agreement without exception. This agreement terminated in 2006.

5. General Agency Contingent Commission with NOVA American Group, Inc.

   The Company has a general contingent commission agreement with its parent company, NOVA American Group, Inc., ("NAGI"). Under this agreement, the Company agrees to allow the general agent a contingent profit commission on the business written through the general agent as shown by the records of the Company during each calendar year. This agreement became effective on December 21, 1982. The Department approved all amendments to this agreement without exception.

6. Amended and Restated Consolidated Tax Agreement

   This agreement was entered into on December 28, 2005. It provides for the Company to file a consolidated federal tax income tax return with its ultimate parent AIX Holdings, Inc., its direct parent NAGI, and affiliates AIX Inc., NOVA Insurance Group, and the Professional Underwriters Agency. An addendum to the agreement, dated December 31, 2005, added the Company's subsidiary ASIC to the agreement. The agreement was approved by the Department in December, 2005.

7. Management and Expense Agreement with AIX Specialty Insurance Company

   The Company is a party to a management and expense agreement with its subsidiary, AIX Specialty Insurance Company. Under this agreement, the Company agrees to perform services for the administration of all contracts and policies of insurance and reinsurance written by or for ASIC. The Company agrees to assume full responsibility for the management, use, and disposition of ASIC's non-investment type assets. The Department approved this agreement on December 20, 2006 and the agreement became effective as of January 1, 2007.

8. Reinsurance Pooling Agreement with AIX Specialty Insurance Company

   The Company is a party to a pooling agreement with AIX Specialty Insurance Company ("ASIC"), an authorized subsidiary of the Company, as of the examination period. This pooling agreement was approved by the Department. (See reinsurance section for further details).

9. Program Management Agreement with AIX, Inc.

   The Company is a party to a program management agreement with its affiliate, Alternative Insurance Xchange Inc., ("AIX"). Under this agreement, AIX agrees to perform functions related to marketing, underwriting, binding, policy issuance and premium collection of all business written pursuant to this agreement in compliance with underwriting guidelines and rules, regulations, instructions, guidelines and procedures promulgated by the Company. This agreement became effective on November 20, 2006 and was approved by the Department on November 9, 2006.

10. General Agency Agreement with Professional Underwriters Agency

    The Company is a party to a general agency agreement with its affiliate, Professional Underwriters Agency, Inc., ("PUA"). Under this agreement, the Company appoints PUA as managing general agent in the state of Florida to receive and transmit to the Company proposals for insurance covering such classes of risks as the Company may authorize to be insured and to collect, to receive and receipt for premiums, and to pay claims on insurance covered by this agreement. This agreement became effective on January 1, 2005 and was approved by the Department on February 16, 2005.

For the examination period the Company reported transactional activity for the general agency agreements with NAGI and Professional Underwriters Agency, the management and expense sharing agreement with ASIC, the pooling agreement with ASIC, and the amended and restated consolidated tax agreement.

E. Significant Operating Ratios

The following ratios have been computed as of December 31, 2007, based upon the results of this examination:

Net premiums written to surplus as regards policyholders	21.6%
Liabilities to liquid assets (cash and invested assets less investments in affiliates)	75.5%
Premiums in course of collection to surplus as regards policyholders	9.6%

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.

It should be noted that the net written premium to surplus ratio is distorted due to the fact that the amount of net premiums written was significantly reduced as a result of accounting entries made in 2007 to recognize the effect of the pooling agreement with ASIC in its first year of existence. The ratio, without the distortion, would also have been within the benchmark range.

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

	Amounts	Ratios
Losses and loss adjustment expenses incurred	$99,585,475	59.27%
Other underwriting expenses incurred	71,068,913	42.30
Net underwriting loss	(2,640,087)	(1.57)
Premiums earned	$168,014,301	100.00%

F. Accounts and Records

i. Investment

The review of the Company's investment guidelines or policies indicated that these guidelines or policies must be submitted for approval by the Company's board of directors. The Company did not provide evidence indicating that the board of directors approved the investment guidelines or policies used during the period under examination.

It is recommended that the Company submit its investment guidelines or policies for approval by the board of directors in accordance with the requirements of the Company's investment guidelines and good management practice.

Subsequent to the examination period the Company's investment guidelines were approved by the board of directors.

ii. Loss and Premium Data

The Company was unable to provide detailed transactional data supporting the direct written premiums, gross paid losses, and case reserves reported in the 2007 annual statement. The Company was able to provide this information for its heritage business but not for the program business that was introduced during the examination period. The Company explained that data for each program is managed by separate program managers. Each data set is provided to the Company in different formats.

In order to expedite the examination the examiner limited the data requests to select periods for selected programs. It took the Company a great deal of time to provide this more limited data request. This led to a considerable delay in completing the examination.

It is recommended that the Company develop an integrated system for the loss and premium data for its program business in order that it can readily produce transactional data.

The Company stated, in a letter to the Department, that they subsequently developed and implemented systems that can readily produce loss and premium transaction data related to the program business

3. FINANCIAL STATEMENTS

A Balance Sheet

The following shows the assets, liabilities and surplus as regards policyholders as determined by this examination as of December 31, 2007. This statement is the same as the balance sheet filed by the Company:

Assets	Assets	Assets Not Admitted	Net Admitted Assets
Bonds	$75,990,048	$ 0	$75,990,048
Preferred stocks	1,156,813	0	1,156,813
Common stocks	22,009,476	0	22,009,476
Cash, cash equivalents and short-term investments	4,612,641	0	4,612,641
Other invested assets	1,589,907	0	1,589,907
Investment income due and accrued	768,786	0	768,786
Uncollected premiums and agents' balances in the course of collection	6,776,749	453,680	6,323,069
Deferred premiums, agents' balances and installments booked but deferred and not yet due	11,706,440	0	11,706,440
Amounts recoverable from reinsurers	2,147,229	0	2,147,229
Funds held by or deposited with reinsured companies	682,661	0	682,661
Net deferred tax asset	3,249,940	1,080,987	2,168,953
Guaranty funds receivable or on deposit	50,484	0	50,484
Electronic data processing equipment and software	2,713,695	2,009,940	703,755
Furniture and equipment, including health care delivery assets	143,541	143,541	0
Receivables from parent, subsidiaries and affiliates	9,702,215	0	9,702,215
Aggregate write-ins for other than invested assets	913,958	582,216	331,742
Total assets	$144,214,583	$4,270,364	$139,944,219

Liabilities, Surplus and Other Funds

Liabilities		
Losses		$32,619,270
Loss adjustment expenses		6,066,700
Commissions payable, contingent commissions and other similar charges		95,959
Other expenses (excluding taxes, licenses and fees)		2,057,867
Taxes, licenses and fees (excluding federal and foreign income taxes)		869,575
Current federal and foreign income taxes		529,000
Unearned premiums		15,998,448
Advance premium		25,523
Ceded reinsurance premiums payable (net of ceding commissions)		14,257,104
Funds held by company under reinsurance treaties		118,121
Amounts withheld or retained by company for account of others		1,664,092
Payable for securities		5,185
Aggregate write-ins for liabilities		77,661
Total liabilities		$74,384,505
Common capital stock	$ 4,200,000	
Surplus notes	4,000,000	
Gross paid in and contributed surplus	53,871,445	
Unassigned funds (surplus)	3,488,269	
Surplus as regards policyholders		65,559,714
Totals liabilities and surplus and other funds		$139,944,219

NOTE: The Internal Revenue Service has examined the consolidated income tax returns of the Company through tax year 1991. Audits for subsequent tax years have yet to commence. 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 $56,319,294 during the 5-year examination period January 1, 2003 through December 31, 2007, detailed as follows:

Statement of Income

Premiums earned		$168,014,301
Deductions:		
Losses incurred	$73,924,422	
Loss adjustment expenses incurred	25,661,053	
Other underwriting expenses incurred	71,068,913	
Total underwriting deductions		170,654,388
Net underwriting gain or (loss)		$ (2,640,087)
Investment Income		
Net investment income earned	$10,991,443	
Net realized capital gain	953,783	
Net investment gain or (loss)		11,945,226
Other Income		
Net gain or (loss) from agents' or premium balances charged off	$ (835,520)	
Finance and service charges not included in premiums	5,197,231	
Aggregate write-ins for miscellaneous income	755,653	
Total other income		5,117,364
Net income before federal and foreign income taxes		$ 14,422,503
Federal and foreign income taxes incurred		3,005,263
Net income		$ 11,417,240

C. Capital and Surplus Account

	Gains in Surplus	Losses in Surplus	
Surplus as regards policyholders per report on examination as of December 31, 2002			$ 9,240,420
Net income	$11,417,240		
Net unrealized capital gains or (losses)	1,378,438		
Change in net deferred income tax	1,087,933		
Change in non-admitted assets		$2,764,317	
Change in surplus notes	4,000,000		
Capital changes paid in	1,699,500		
Surplus adjustments paid in	43,000,500		
Dividends to stockholders	0	3,500,000	
Total gains and losses	$62,583,611	$6,264,317	
Net increase (decrease) in surplus			56,319,294
Surplus as regards policyholders per report on examination as of December 31, 2007			$65,559,714

4. LOSSES AND LOSS ADJUSTMENT EXPENSES

The examination liability for the captioned items of $38,685,970 is the same as reported by the Company in its filed annual statement as of December 31, 2007.

The examination analysis of the loss and loss adjustment expense reserves was conducted in accordance with generally accepted actuarial principles and was based on statistical information contained in the Company’s internal records and in its filed annual statements.

5. MARKET CONDUCT ACTIVITIES

In the course of this examination, a review was made of the manner in which the Company conducts its business and fulfills its contractual obligations to policyholders and claimants. The review was general in nature and is not to be construed to encompass the more precise scope of a market conduct investigation, which is the responsibility of the Market Conduct Unit of the Property Bureau of this Department.

The general review was directed at practices of the Company in the claims and complaint handling.

The examination of claims and complaint log for the period under examination indicated the company recorded all complaints that were filed with the Department. This review indicated the Company did not appoint a Consumer Service Officer or representative pursuant to Part 216.4(c) of Department Regulation No. 64 and Department Circular Letter No. 11 (1978) for handling complaints.

It is recommended that the Company appoint a Consumer Service Officer or Representative pursuant to Part 216.4(c) of Department Regulation No. 64 and Department Circular Letter No. 11 (1978).

Subsequent to the examination the Company appointed a consumer services officer.

Furthermore, the Company did not prepare a report from the complaint log for its key officers and the president of the Company pursuant to Department Circular Letter No. 11 (1978).

It is further recommended that the Company prepare quarterly reports from the complaint log for key officers and the president of the Company pursuant to Department Circular Letter No. 11 (1978).

6. SUBSEQUENT EVENTS

There were significant events that have taken place subsequent to the examination period. These are as follows:

1. In November, 2008, Hanover Insurance Group acquired AIX Holdings, Inc. and this became the Company's new ultimate parent. The Hanover Insurance Group is a publicly traded company trading under the symbol "THG".

2. Effective January 1, 2009, the pooling agreement between NOVA and its subsidiary ASIC was terminated by mutual consent.

3. Effective January 1, 2009, NOVA entered into a 100% intercompany reinsurance agreement with the Hanover Insurance Group.

4. In May, 2009, the Company received a $25,000,000 capital contribution, in cash, from its direct parent NAGI.

7. COMPLIANCE WITH PRIOR REPORT ON EXAMINATION

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

ITEM		PAGE NO.
A.	Management	
i.	It was recommended that the Company comply with its by-laws by having the Company's secretary attend all board and shareholder meetings.	5
	The Company has complied with this recommendation.	
B.	Reinsurance	
	It was recommended that the Company ensure that the offset clauses included in all reinsurance contracts to which it is a party which allow for broad rights of offset include the following language:	11
	"In the event of the insolvency of either party to this agreement then offsets shall only be allowed to the extent permitted by the provisions of section 7427 of the New York Insurance Law."	
	The Company has complied with this recommendation.	
C.	Holding Company System	
i.	It was recommended that the Company file the reports required by Regulation 52-A.	15
	The Company has complied with this recommendation.	
ii.	It was recommended that the general agency contingent commission agreement include required language per Regulation 52-A.	15
	The Company has complied with this recommendation.	
D.	Abandoned Property Law	
	It was recommended that the Company remit all abandoned property in accordance with Section 1316 of the New York Abandoned Property Law.	20
	The Company has complied with this recommendation.	

ITEM		PAGE NO.
E.	Accounts and Records	
i.	Allocation of Expenses	
	It was recommended that the Company abide by the requirements of Department Regulation 30 in allocating and reporting its operating expenses by functions.	20
	The Company has complied with this recommendation.	
ii.	Agents Balances	
	It was recommended that the Company only offset its agents' commission payable with 90-days overdue agents' balances from the same underlying policy, in accordance with SSAP No. 6.	21
	The Company has complied with this recommendation.	

8. SUMMARY OF COMMENTS AND RECOMMENDATIONS

ITEM		PAGE NO.
A.	Accounts and Records	
	Investments	
i.	It is recommended that the Company submit its investment guidelines or policies for approval by the board of directors in accordance with the requirements of its investment guidelines and good management practice.	15
	Subsequent to the examination period the Company's investment guidelines were approved by the board of directors.	
ii.	Losses and Premium Data	
	It is recommended that the Company develop an integrated system for the loss and premium data for its program business in order that it can readily produce transactional data.	15
	The Company stated, in a letter to the Department, that they subsequently developed and implemented systems that can readily produce loss and premium transaction data related to the program business.	

Respectfully submitted,

____
Leon Tambue
Senior Insurance Examiner

STATE OF NEW YORK)
)SS:
)
COUNTY OF NEW YORK)

LEON TAMBUE, being duly sworn, deposes and says that the foregoing report, subscribed by him, is true to the best of his knowledge and belief.

____
Leon Tambue

Subscribed and sworn to before me

this__________ day of ___________________, 2009.

Appointment No. 22775

STATE OF NEW YORK
INSURANCE DEPARTMENT

I, Eric R. Dinallo, *Superintendent of Insurance of the State of New York, pursuant to the provisions of the Insurance Law, do hereby appoint:*

Leon Tambue

as proper person to examine into the affairs of the

NOVA CASUALTY 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 13 *day of* June, *2008*

ERIC R. DINALLO
Superintendent of Insurance