REPORT ON EXAMINATION

OF THE

FOLKSAMERICA REINSURANCE COMPANY

AS OF

DECEMBER 31, 2000

DATE OF REPORT	FEBRUARY 20, 2003
EXAMINER	ISAAC ZAMDAS

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GEORGE E. PATAKI
Governor

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

GREGORY V. SERIO
Superintendent of Insurance

February 20, 2003

Honorable Gregory V. Serio
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 the Appointment No. 21702, dated February 16, 2001, attached hereto, I have made an examination into the condition and affairs of the Folksamerica Reinsurance Company as of December 31, 2000, and respectfully submit the following report thereon.

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

Wherever the designation "Company" appears herein without qualification, it should be understood to indicate the Folksamerica Reinsurance Company.

Wherever the designation "Department" appears herein without qualification, it should be understand to indicate the New York Insurance Department.

1. SCOPE OF EXAMINATION

The prior examination was conducted as of December 31, 1996. This examination covered the four year period from January 1, 1997 through December 31, 2000. It was limited in its scope to a review or audit of only those balance sheet items considered by this Department to require analysis, verification or description, including: invested assets, inter-company balances, loss and loss adjustment expense reserves and the provision for reinsurance. The examination included a review of income, disbursements and company records deemed necessary to accomplish such analysis or verification and utilized, to the extent considered appropriate, work performed by the Company's independent certified public accountants.

A review or audit was also made of the following items as called for in the Examiners Handbook if the National Association of Insurance Commissioners:

History of Company
Management and control
Corporate records
Fidelity bond and other insurance
Territory and plan of operation
Growth of Company
Business in force by states
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 ("FRC") was incorporated under the laws of the State of New York on September 13, 1979. It was licensed and began business on January 9, 1980. The Company's paid in capital of $5,000,000 consists of 5000 shares of common stock at $1,000 par value per share. All authorized shares are issued and outstanding.

The Company's capital and gross paid-in and contributed surplus were $5,000,000 and $327,221,695, respectively as of December 31, 2000.

The Company is a wholly-owned subsidiary of Folksamerica Holding Company, Inc., 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 10.6% of the outstanding shares of the White Mountains Insurance Group, Ltd. ("WMIG"), a Bermuda corporation.

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 General 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. Under this agreement, all of the assets and liabilities of Christiania were assumed by the Company with the exception of $7.2 million dollars in cash and securities needed to maintain Christiania's licenses. Also transferred to the Company at this time was 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 more than the assets and liabilities on the balance sheet at that date.

The Company acquired the stock of Surety Reinsurance Company on December 31, 1996 as part of the transfer and assumption agreement of Christiania. On March 13, 1997, FRC 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 FRC under a transfer and assumption agreement. On July 14, 1998, Surety Re was sold to Lawrenceville Holdings, Inc. for $280,000 more than the assets and liabilities on the balance sheet at that date.

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 FRC 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, FRC 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 FRC under a transfer and assumption agreement. On December 30, 1999, USF Re was sold to AXA Reinsurance Company for $16,099,922 more than the assets and liabilities on the balance sheet on that date.

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 the exception of $5,000,000 needed to maintain its licenses, were transferred to FRC under a transfer and assumption agreement.

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

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

A. Management

Pursuant to the Company's charter and by-laws, management is vested in a board of directors consisting of not less than thirteen members nor more than twenty-one members. As of the examination date, the board of directors was comprised of thirteen members.

The thirteen members of the board of directors of the Company serving as of December 31, 2000 were as follows:

Names and Residence	Principal Business Affiliation
Helen Dell Brooklyn, NY	Senior Vice President, Folksamerica Reinsurance Company
Donald Aaron Emeigh, Jr. Stony Point, NY	Senior Vice President, General Counsel & Secretary, Folksamerica Reinsurance Company
Steven Elliott Fass Colts Neck, NJ	Chairman, President and Chief Executive Officer, Folksamerica Reinsurance Company
Peter Brian Haley Guilford, CT	Senior Vice President, Folksamerica Reinsurance Company
Elliott Marc Kroll Bedford, NY	Director, Folksamerica Reinsurance Company
Sol Kroll Bedford, NY	Director, Folksamerica Reinsurance Company
Paul Anthony Laderach Valley Cottage, NY	Director, Folksamerica Reinsurance Company
Robert Francis McGoldrick Butler, NJ	Executive Vice President, Folksamerica Reinsurance Company
Ronald Charles Stanziale, Jr. Middletown, NJ	Senior Vice President, Folksamerica Reinsurance Company
Warren John Trace Princeton, NJ	Senior Vice President, Folksamerica Reinsurance Company
Michael Edward Tyburski Glen Rock, NJ	Executive Vice President, Treasurer & Chief Financial Officer, Folksamerica Reinsurance Company
James Dilling Wickwire, Jr. Redding, CT	Senior Vice President & Chief Actuary, Folksamerica Reinsurance Company
Daniel James Wilson Manalapan, NJ	Senior Vice President, Folksamerica Reinsurance Company

A review of the minutes of the directors' meetings revealed that eighteen board meetings were held during the examination period. All meetings were well attended.

The following were the principal officers of the Company on December 31, 2000:

Name	Title
Steven Elliot Fass	Chairman, President and Chief Executive Officer
Michael Edward Tyburski	Executive Vice President, Treasurer and Chief Financial Officer
Robert Francis McGoldrick	Executive Vice President
Ralph Anthony Salamone	Vice President and Controller
Donald Aaron Emeigh, Jr.	Senior Vice President, General Counsel and Secretary
James Dilling Wickwire, Jr.	Senior Vice President and Chief Actuary
Joann Luise DeBlasis	Senior Vice President
Helen Dell	Senior Vice President
David William Forrest	Senior Vice President
Brian Patrick Gulbransen	Senior Vice President
Peter Brian Haley	Senior Vice President
Peter Lewis Hudson	Senior Vice President
Mary Kathleen Masenga	Senior Vice President
Ronald Charles Stanziale, Jr.	Senior Vice President
Warren John Trace	Senior Vice President
James Meredith Willis	Senior Vice President
Daniel James Wilson	Senior Vice President

B. Territory and Plan of Operation

As of December 31, 2000, the Company was authorized to transact business in forty-one states and the District of Columbia. The Company has writings in Canada and in Latin America. The following schedule shows the direct premiums written by the Company in New York State and country wide for the calendar years during the examination period, and the percentages which the New York premiums bear to the countrywide premiums:

DIRECT PREMIUMS WRITTEN (000s)

Calendar Year	New York State	Total United States	Percentage of New York State Premiums Written to Total United States
1997	$267,176	$8,778,106	3.04%
1998	151,050	6,271,548	2.41
1999	38,429	2,192,533	1.75
2000	142,591	6,247,355	2.28
Total	$599,246	$2,348,542	2.55%

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

Paragraph	Line of Insurance
3	Accident and health
4	Fire
5	Miscellaneous property damage
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
20	Marine
21	Marine protection and indemnity

The Company may also write such workers' compensation insurance as may be incidental to coverages contemplated under paragraphs 20 and 21 of Section 1113(a) including insurances 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 upon 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, Folksamerica Reinsurance 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 66% of the Company's domestic treaty business is written on a pro rata basis, with the remainder split between catastrophe and per risk excess. The Company writes a small amount of direct business. Less then 2% of the net premiums written are written directly.

C. <u>Reinsurance</u>

The Company operates as a treaty and facultative reinsurer which underwrites domestic multiple line property and casualty reinsurance. Two thirds of the Company's domestic treaty business is produced by three reinsurance brokers. The property facultative business is written through the Company's office in New York and through regional offices in Los Angeles, California, Coral Gables, Florida, and Toronto, Canada.

The Schedule F data as contained in the Company's annual statements filed for the years within the examination period was found to accurately reflect its reinsurance transactions.

The examiner reviewed all ceded reinsurance contracts in effect during the examination period. These contracts all contained the required standard clauses, including the insolvency clauses meeting requirements of Section 1308 of the New York Insurance Law.

At the examination date, FRC had the following reinsurance program in effect:

All Branches

Type of Treaty	Coverage
Property Catastrophe 2 layers	$35,000,000 excess of $5,000,000 each occurrence.
Stop Loss	Maximum $45,000,000 excess 72% net earned premiums on all retained business.

New York Branch

Workers' Compensation Catastrophe	$25,000,000 excess of $1,000,000 each accident, each occurrence.
Fidelity/Surety and Credit Excess 2 layers	$3,000,000 excess of $500,000 any one principal.
Property Catastrophe Quota Share	5% of $4,000,000 any one program.
Facultative Companion Line Variable Quota Share	50% Quota share up to a maximum of $1,000,000 each and every certificate, not to exceed $1,000,000 per risk.
Property Facultative Per Risk	$1,250,000 excess of $750,000 each risk; $3,750,000 any one occurrence.
Casualty Facultative Excess	$1,000,000 excess of $1,000,000 each risk 50% placed.

Type of Treaty	Coverage
Coral Gables Branch	
Surety and Bonds Excess of Loss 2 Layers	$200,000 excess of $500,000 each loss per bond.
Facultative and Treaty Surety and Bonds Surplus	5 lines $1,000,000 per bond to maximum of $5,000,000 per contractor/principal- Facultative 2 lines $1,000,000 per bond to maximum of $2,000,000 per contractor/principal-Treaty.
Marine Excess of Loss 2 layers	$1,500,000 excess of $250,000.
Non-Marine Risk Excess of Loss	$1,000,000 excess of $500,000.
Toronto Branch	
Property Catastrophe Excess of Loss 2 layers	Canadian $5,000,000 excess of Canadian $2,000,000.

A review of the reinsurance program disclosed that the 79% of the Company's cessions were made to unauthorized reinsurers. Reinsurance premiums ceded increased from $48,609,000 in 1999 to $240,378,000 in 2000. Of the $240,378,000 in premiums ceded, $111,134,000 or 46% was ceded to an unauthorized reinsurer.

On October 1, 2000, the Company entered into a quota share and aggregate excess of loss reinsurance agreement with Imagine Insurance Company Limited. The treaty had two sections, A and B.

Section A is a retroactive treaty that provides coverage for business originally written by Risk Capital Reinsurance Company after September 30, 2000. It also provides for $65,000,000 of adverse loss reserve development above the loss and unearned premium reserves as of September 30, 2000, plus any additional written premium from the 2000 and prior underwriting years. The cover attaches at

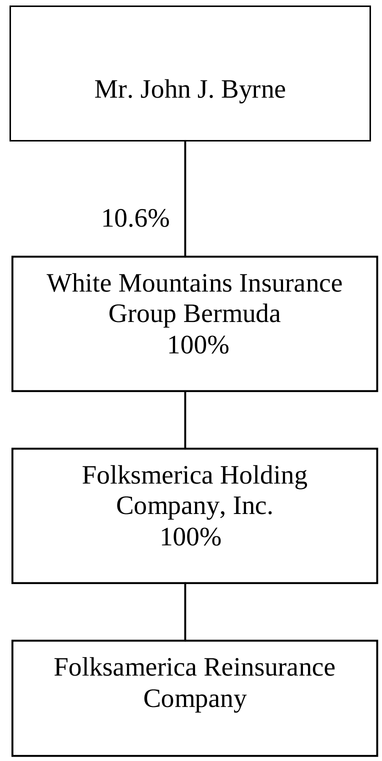
$155,000,000, and as of December 31, 2000, provides $305,100,000 of coverage, inclusive of the $65,000,000 of adverse development.

Section B of the treaty provides adverse loss reserve development reinsurance coverage above the carried reserve of the discontinued business of USF Reinsurance Company and the carried loss reserve for asbestos, pollution and other mass tort health hazards as of December 31, 2000. The cover attaches at $45,000,000 and provides $135,000,000 of coverage.

D. Holding Company System

The Company is a member of a holding company system and files a holding company registration statements pursuant to Section 1503 of the New York Insurance Law and Department Regulation No. 52. A review of the registration statements filed for the years under review indicated compliance with the requirements of Department Regulation No. 52.

The following is an abbreviated chart of the holding company system. The detailed organization chart is appended.



The Company is a party to numerous agreements with affiliated entities. A description of the principal agreements follows:

Expense Allocation Agreement

The Company is a party to an expense allocation agreement with Folksamerica Holding Company ("FHC"), whereby FHC provides essentially all space, services and personnel necessary for the conduct of its business.

Tax Allocation Agreement

The Company is party to a consolidated federal tax return with FolksAmerica Holding Company Inc. 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.

E. Significant Operating Ratios

The following ratios have been computed as of December 31, 2000, based upon the results of this examination:

Net premiums written during 2000 to surplus as regards policyholders	.92 to 1
Liabilities to liquid assets (cash and invested assets less investments in affiliates)	101.6%
Premiums in course of collection to surplus as regards policyholders	16.7%

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:

	Amounts	Ratios
Losses incurred	$771,393,021	77.2%
Loss adjustment expenses incurred	84,600,278	8.4
Other underwriting expenses incurred	353,949,360	35.4
New underwriting (loss)	(210,392,445)	(21.0)
Premiums earned	$999,550,214	100.0%

F. Abandoned Property Law

The Company has complied with the provisions of Sections 1315 and 1316 of the New York Abandoned Property Law by filing the required statements with the State Comptroller's Office for the years under examination.

G. Accounts and Records

Schedule T for the year 2000, reports that the Company is not licensed in the state of Massachusetts. However, the Company is licensed in Massachusetts. It is recommended that the Company take proper care when completing the annual statement and verify that all the states in which it is licensed are properly listed.

3. FINANCIAL STATEMENTS

A. Balance Sheet

The following shows the assets, liabilities and surplus as determined by this examination as of December 31, 2000:

Assets	Ledger Assets	Non-Ledger Assets	Assets Not Admitted	Admitted Assets Per Examination	Admitted Assets per Company	Surplus Increase (Decrease)
Bonds	$944,772,184	$	$	$944,772,184	$944,772,184	
Preferred Stock	23,341,430	(20,300)		23,321,130	23,321,130	
Common Stocks	146,958,793	12,949,867		159,908,660	159,908,660	
Mortgage Loans on real estate – first liens	105,955			105,955	105,955	
Cash on hand and on deposit	223,737,335			223,737,335	223,737,335	
Short-term investments	74,198,015			74,198,015	74,198,015	
Other invested assets	57,628,727	5,835,421		63,464,148	63,464,148	
Agents' balances in course of collection	79,702,535		5,164,582	74,537,953	74,537,953	
Agents' balances booked but deferred	107,202,888		(3,757,456)	110,960,344	110,960,344	
Agents' balances accrued retrospective premiums	12,068,825		293,424	11,775,401	11,775,401	
Funds held by or deposited with reinsured companies	47,712,210			47,712,210	47,712,210	
Reinsurance recoverable on loss and loss adjustment expense payments	47,307,118			47,307,118	47,307,118	
Federal income tax recoverable	29,774,681		19,374,681	10,400,000	29,774,681	(19,374,681)
Electronic data processing equipment	256,945		35,607	221,338	221,338	
Interest dividends and real estate income due and accrued	16,017,085			16,017,085	16,017,085	
Receivable from parent, subsidiaries and affiliates	7,496,946		1,996,946	5,500,000	7,496,946	(1,996,946)
Equipment furniture and supplies	7,629		7,629			
Leasehold improvements	1,049,334		1,049,334			
Security deposits	(1,430,000)			(1,430,000)	(1,430,000)	
Goodwill	8,171,073		8,171,073			
Organization Costs	2,400,000		2,400,000			
Prepaid Expenses	171,167		171,167			
Other Taxes	188,515		188,515			
Accounts Receivable	39,295		39,313	(18)	(18)	
Promissory Note	5,429		5,429			
Accounts Receivable Loss Portfolio Transfer	14,903,730		14,903,730			
Total assets	$1,843,787,844	$18,764,988	$13,574,673	$1,828,607,531	$1,848,978,159	$(20,370,627)

Liabilities	Examination	Company	Surplus increase (decrease)
Losses	$928,320,891	$866,420,891	$(61,900,000)
Reinsurance payable on loss and loss adjustment expenses	90,642,311	90,642,311	
Loss adjustment expenses	54,714,300	54,714,300	
Other expenses	10,806,169	10,806,169	
Taxes, licenses and fees	1,265,078	1,265,078	
Unearned premiums	93,939,170	93,939,170	
Funds held by company under reinsurance treaties	418,518,196	418,518,196	
Amounts with by company for account of others	629,828	629,828	
Provision for reinsurance	4,595,600	4,595,600	
Net adjustments in assets and liabilities due to foreign exchange rates	1,504,186	1,504,186	
Payable for securities	245,717	245,717	
Loss portfolio transfer reserve	126,117,961	126,117,961	
Loss portfolio transfer reserve ceded	270,600,000	270,600,000	
Accounts payable-loss portfolio transfer	3,250,525	3,250,525	
Accounts payable-other	2,730,367	2,730,367	
Total liabilities	$1,466,950,299	$1,405,050,299	$(61,900,000)
Surplus			
Surplus gain from Retroactive Insurance	$20,600,000	$20,600,000	$
Common capital stock	5,000,000	5,000,000	
Gross paid in and contributed capital	327,221,695	327,221,695	
Unassigned funds	8,835,536	91,106,162	(82,270,627)
Surplus as regards policyholders	$361,657,230	$443,927,857	$(82,270,627)
Total liabilities and surplus	$1,828,607,531	$1,848,978,156	

NOTE: The Internal Revenue Service has completed its audits of the Company's consolidated federal income tax returns filed on behalf of the Company through tax year 1998. 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 audits for the years 1999 and 2000 have yet to commence. Except for any impact which might result from the examination changes contained in this report, the examiner is unaware of any potential exposure of the Company to any further tax assessment and no liability has been established herein relative to such contingency.

B. Underwriting and Investment Exhibit

Surplus as regards policyholders increased by $138,479,273 during the four year examination period January 1, 1997 through December 31, 2000, detailed as follows:

Statement of Income

Underwriting Income		
Premiums earned		$999,550,214
Deductions:		
Losses incurred	$771,393,021	
Loss adjustment expenses incurred	84,600,278	
Other underwriting expenses incurred	353,949,360	
Total underwriting deductions		1,209,942,659
Net underwriting (loss)		$(210,392,445)
Investment Income		
Net investment income earned	$196,258,010	
Net realized capital gains	72,815,017	
Net investment gain		269,073,027
Other Income		
Net agents' balances charged off	$(116,891)	
Miscellaneous other income	5,789,577	
Total other income		5,672,686
Net income before federal and foreign income taxes Federal and foreign income taxes incurred		$ 64,353,268
Dividends to policyholders		5,612
Net income before federal and foreign income taxes and after dividends to policyholders		$64,358,880
Federal and foreign income taxes incurred		29,315,315
Net income		$ 35,043,565

Capital and Surplus Account

Surplus as regards policyholders, December 31, 1996 per report on examination			$223,177,958
	Gains in Surplus	Losses in Surplus	
Net Income	$35,043,565	$	
Net unrealized capital losses	15,376,977		
Change in non-admitted assets		32,715,620	
Change in provision for reinsurance		3,553,530	
Gain on foreign exchange		845,452	
Surplus adjustments paid in	165,041,968		
Dividends to stockholders		64,000,000	
Transfer and assumption	24,131,365		
Total gains and losses	$239,593,875	$101,114,602	
Net increase in surplus			138,479,273
Surplus as regards policyholders December 31, 2000, per report on examination			$361,657,231

4. FEDERAL INCOME TAXES RECOVERABLE

The examination admitted asset of $10,400,000 is $19,374,861 less than the $29,774,681 reported by the Company in its December 31, 2000 filed annual statement. Department Circular Letter 15 (1975) states that a refund due from the United States Treasury should be collectible within a brief period after the statement date, in order to be considered an admitted asset.

A review of the federal income taxes recoverable at December 31, 2000, indicated that only $10,400,000 of the reported amount was currently collectible. Therefore, the remaining $19,374,681 has been not admitted pursuant to the provisions of Circular Letter 15 (1975).

It is 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.

5. RECEIVABLE FROM PARENTS, SUBSIDIARIES AND AFFILIATES

The examination admitted asset of $5,500,000 is $1,996,946 less than the $7,496,946 reported by the Company in its December 31, 2000 filed annual statement. The Company has receivables of $1,996,946 that is over 90 days past due from its parent and affiliates at December 31, 2000. Circular Letter 15 (1975) states that all inter-company balances over 90 days past due should be not-admitted. The examination not-admitted amount of $1,996,946 represents receivables due from the Company's parent, which were more than 90 days past due at December 31, 2000.

It is again recommended that the Company comply with Circular Letter 15 (1975) and only admit inter-company receivables, which are under 90 days past due.

6. LOSSES AND LOSS ADJUSTMENT EXPENSES

The examination liability of $983,035,191 is $61,900,000 more the amount reported by the Company as of the examination date. This increase does not reflect the Company's benefits derived from the Imagine treaty. Benefits from the treaty were not recognized due to the fact that they were not being fully funded at December 31, 2000.

The deficiency in reserves of $61,900,000 was determined using the Company's actuarial review. The examination analysis was conducted in accordance with generally accepted actuarial principles and practices and was based on statistical information contained in the Company's internal records and in its filed annual statements.

It should be noted that the Company has booked a large portion of the deficiency in subsequent annual statements.

7. SUBSEQUENT EVENTS

Subsequent to the examination date, on December 21, 2001, Folksamerica Holdings Inc., contributed $400,000,000 to the Company. The Company reported a surplus to policyholders of $804,780,799 at December 31, 2001.

8. COMPLIANCE WITH PRIOR REPORT ON EXAMINATION

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

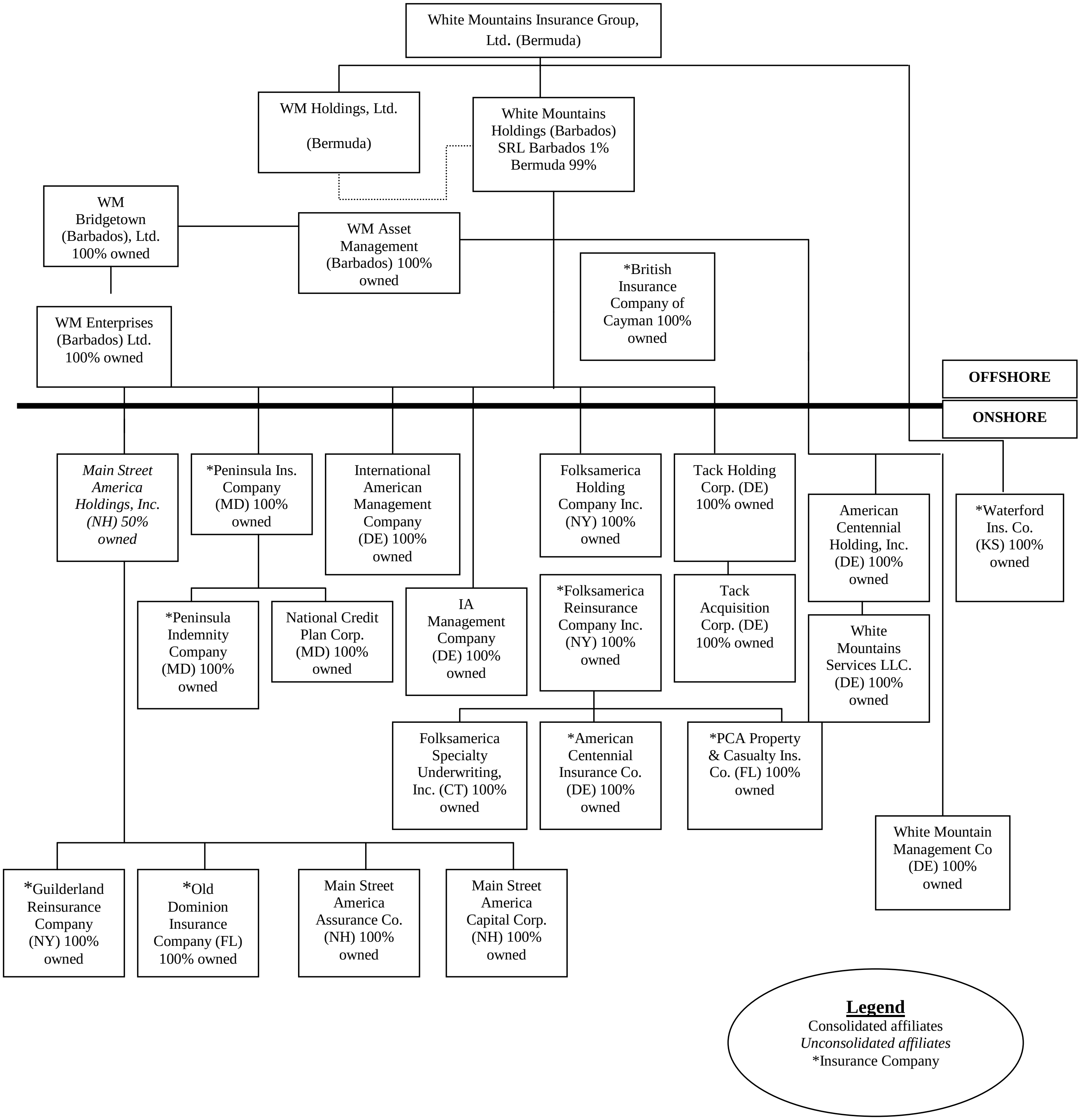
ITEM		PAGE NO.
A.	Management	
	It is recommended that board members who are unable or unwilling to attend meetings consistently should resign or be replaced.	5
	The Company has complied with this recommendation.	
B.	Reinsurance	
	It is recommended that the Company maintain and update copies of reinsurance agreements as well as execute signature pages in a timely manner.	10
	The Company has complied with this recommendation.	

ITEM		PAGE NO.
C.	Holding Company System	
	It is recommended that the Company either comply with the expense allocation agreement submitted to the Department or change it to accurately reflect the current expense arrangement.	12
	It is recommended that the Company comply with Section 1217 of the New York Insurance Law and keep itemized vouchers to support all expense disbursements of one hundred dollars or more.	13
	It is recommended that the Company amend its tax allocation agreement to include Christiania General Insurance Corporation and Surety Reinsurance Company.	13
	The Company has complied with these recommendations.	
D.	Accounts and Records	
	It is recommended that the Company obtain proper custodial agreements that meet with Department guidelines for all investment accounts.	15
	The Company has complied with this recommendation.	
	It is recommended that the Company comply with Circular Letter 15 (1975) and only admit inter-company receivables which are under 90 days past due.	15
	A similar comment is contained in the current report on examination	
	It is recommended that the Company take proper care when completing the annual statement and verify that all unauthorized insurers are properly listed.	15
	The Company has complied with this recommendation.	
	It is recommended that the Company comply with Department Regulation 13 and maintain a complete file of letters of credit.	15
	The Company has complied with this recommendation.	
	It is recommended that the Company comply with Department Regulation 30 and classify expenses appropriately.	15
	The Company has complied with this recommendation.	

9. SUMMARY OF COMMENTS AND RECOMMENDATIONS

ITEM		PAGE NO.
A.	Accounts and Records	
	It is 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.	15
B.	Federal Income Tax Recoverable	
	It is recommended that the Company comply with Circular Letter 15 (1975) and only admit refunds due from the United StatesTreasury that will be collectible within a brief period after the statement date.	20
C.	Receivable from Parents Subsidiaries and Affiliates	
	It is again recommended that the Company comply with Circular Letter 15 (1975) and only admit inter-company receivables which are under 90 days past due.	20

Appendix 1 – Organizational Chart



Respectfully submitted,

___________/S/____________
Isaac Zamdas
Associate Insurance Examiner

STATE OF NEW YORK)
)SS.
)
COUNTY OF NEW YORK)

ISAAC ZAMDAS, being duly sworn, deposes and says that the foregoing report submitted by him is true to the best of his knowledge and belief.

_______/S/___________
Isaac Zamdas

Subscribed and sworn to before me
This ______day of _______________2003.

Appointment No. 21702

STATE OF NEW YORK
INSURANCE DEPARTMENT

I, GREGORY V. SERIO, *First Deputy Superintendent of Insurance of the State of New York, pursuant to the provisions of the Insurance Law, do hereby appoint:*

Isaac Zamdas

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 16th *day of February, 2001*

GREGORY V. SERIO
First Deputy Superintendent of Insurance