REPORT ON EXAMINATION

OF THE

HERMITAGE INSURANCE COMPANY

AS OF

DECEMBER 31, 2007

DATE OF REPORT	DECEMBER 1, 2008
EXAMINER	JOSEPH REVERS

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

December 1, 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 22762 dated April 15, 2008 attached hereto, I have made an examination into the condition and affairs of Hermitage Insurance Company as of December 31, 2007, and submit the following report thereon.

Wherever the designations “the Company” or “Hermitage” appear herein without qualification, it should be understood to indicate Hermitage Insurance 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 administrative offices located at 1311 Mamaroneck Ave, Suite 135, White Plains, New York 10605.

1. SCOPE OF EXAMINATION

The Department has performed a single-state examination of Hermitage Insurance 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. The examiners also relied upon audit work performed by the Company's independent public accountants 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
Territory and plan of operation
Growth of Company
Loss experience
Reinsurance
Accounts and records
Financial statements
Summary of recommendations

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

Hermitage Insurance Company was incorporated under the laws of the State of New York in 1984 and commenced writing business in 1985.

Hermitage was a wholly owned subsidiary of Queensway Financial Holdings, Ltd. from 1995 to March 18, 2005. On March 18, 2005, the Department approved the acquisition of Hermitage and its subsidiaries by Brookfield Asset Management.

In December 1997, Hermitage acquired Kodiak Insurance Company, a property and casualty insurance company domiciled in New Jersey. On December 1, 2000, Hermitage acquired Vantage Data Corporation ("Vantage"), a computer operation services company and on June 6, 2006, the Company sold Vantage.

As of December 31, 2007, the Company was a wholly-owned subsidiary of Hermitage Holdings, Limited which is a wholly owned subsidiary of Brookfield Asset Management Inc., each of which are incorporated in Canada. The ultimate parent of Hermitage Insurance Company is Partners, Limited, Ontario Canada.

At December 31, 2007, capital paid in was $6,101,040 consisting of 1,095 shares of common stock at $2,832 par value per share and 385 shares of convertible preferred at $7,792.21 par value per share. Gross paid in and contributed surplus was $17,453,959. Gross paid in and contributed surplus increased by $7,000,000 during the examination period, as follows:

Year	Description		Amount
2003	Beginning gross paid in and contributed surplus		$10,453,959
2005	Surplus contribution	$7,000,000	
	Total Surplus Contributions		7,000,000
2007	Ending gross paid in and contributed surplus		$17,453,959

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 nor more than seventeen members. The board met four times during each calendar year. At December 31, 2007, the board of directors was comprised of the following thirteen members:

Name and Residence	Principal Business Affiliation
Barry Blattman Armonk, NY	Managing Partner, Brookfield Asset Management
David Boyle Larchmont, NY	Senior Vice President, Brookfield Asset Management
Kevin Cash Unionville, Ontario	Vice President Finance, Brookfield Funds
Erina Connors Guilford, CT	Owner, Agency Intermediaries, Ltd.
Gordon Hoyt Queensbury, NY	Retired Chief Executive Officer, Hermitage Insurance Company
John Khajadourian Toronto, Ontario	Vice President, Brookfield Asset Management
David Koegal Atlantic Beach, NY	Actuary/Underwriter, Imagine Re
James A. Lambert Larchmont, NY	President, Hermitage Insurance Company
Phillip Lambert Ramsey, NJ	Chief Operating Officer, Hermitage Insurance Company
George Myhal Etobicoke, Ontario	President, Brookfield Asset Management
Carol Popp Ridgefield, CT	Secretary, Hermitage Insurance Company
Bruce Robertson Toronto, Ontario	Senior Executive, Brookfield Asset Management
Myron S. Ross Greenlawn, NY	Owner, Ross & Ross, Certified Public Accountants

A review of the minutes of the board of directors' meetings held during the examination period indicated that the meetings were generally well attended with the exception of David Boyle, Barry Blattman and George Myhal, each of whom attended less than 50% of the meetings for which they were eligible to attend.

Members of the board have a fiduciary responsibility and must evince an ongoing interest in the affairs of the insurer. It is essential that board members attend meetings consistently and set forth their views on relevant matters so that the board may reach appropriate decisions. Individuals who fail to attend at least one-half of the regular meetings do not fulfill such criteria**.** It is recommended that board members who are unable or unwilling to attend meetings consistently should resign or be replaced.

The review of the conflict of interest statements for the years under examination revealed that a few directors, officers and/or key employees did not sign the statements. It is recommended that the Company have all its directors and officers sign conflict of interest statements on a yearly basis.

As of December 31, 2007, the principal officers of the Company were as follows:

Name	Title
James Lambert	President
Carol Popp	Secretary
Brett Turner	Treasurer

B. Territory and Plan of Operation

As of December 31, 2007, the Company was licensed to write business in the states of Georgia, New Jersey, New York, Pennsylvania and Rhode Island. Hermitage also operates as a surplus lines writer in twenty-nine 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
4	Fire
5	Miscellaneous property
6	Water damage
7	Burglary and theft
8	Glass
9	Boiler and machinery

Paragraph	Line of Business
10	Elevator
11	Animal
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 may also write such workers' compensation insurance as may be incidental to coverages contemplated under paragraphs 20 and 21 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). Additionally, the Company is licensed to conduct the business of special risk insurance pursuant to Article 63 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 $3,300,000.

Hermitage markets its business through over ninety contracted wholesale brokers, who in turn obtain business from retail brokers. The Company services its brokers from its main office located in White Plains, NY and two additional regional offices located in Hartford, CT and Atlanta, GA. The Company specializes in habitational risks, products and miscellaneous professional liability insurance, property insurance for small commercial buildings and properties under rehabilitation. Commercial multiple-peril business represents almost half of Hermitage's net writings with the next largest portion being other liability, followed by products liability.

The following schedule shows the direct premiums written by the Company both in total and in New York for the period under examination:

Calendar Year	New York State	Total Direct Premium	Premiums Written in New York State as a percentage of Total Direct Premium
2003	$21,680,262	$55,700,415	38.92%
2004	$21,555,512	$52,530,763	41.03%
2005	$17,403,628	$42,519,647	40.93%
2006	$19,331,241	$50,338,825	38.40%
2007	$30,520,049	$65,642,779	46.49%

C. Reinsurance

Assumed

Assumed reinsurance accounted for 6% of the Company's gross premium written during calendar year 2007. The Company entered into an interim quota share reinsurance agreement with an unaffiliated company dated December 20, 2007 and with an effective date of September 30, 2007. Pursuant to the terms of the agreement, the Company provided reinsurance for any policies written (with the exception of automobile warranty business) by the ceding company after the effective date and before the termination date of December 31, 2007. The Company utilized reinsurance accounting as defined in NAIC Accounting Practices and Procedures Manual Statements of Statutory Accounting Principles ("SSAP") No. 62 for its assumed reinsurance business.

Ceded

The company has structured its ceded reinsurance program to limit its maximum exposure to any one risk as follows:

Type of Treaty	Cession
Property Multiple Line Excess of Loss	
First layer 100% authorized	$650,000 excess of $350,000 each risk, each loss occurrence.
Second layer 100% authorized	$2,000,000 excess of $1,000,000 each risk, each loss occurrence.
Casualty Multiple Line Excess of Loss	
First layer 100% authorized	$650,000 excess of $350,000 each risk, each loss occurrence.
Second layer 100% authorized	$1,000,000 excess of $1,000,000 each risk, each loss occurrence.

Type of Treaty	Cession
Clash Cover 100% authorized	$3,000,000 excess of $2,000,000 each loss occurrence.
Property Catastrophe First layer 100% authorized	$3,000,000 excess of $3,000,000 each loss occurrence.
Second layer 100% authorized	$9,000,000 excess of $6,000,000 each loss occurrence.

All 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.

Examination review of the Schedule F data reported by the Company in its 2007 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 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 paragraph 8 of SSAP No. 62.

The property catastrophe contracts reinsured both Hermitage Insurance Company and Kodiak Insurance Company and were signed by all participants. Coverage under the catastrophe treaties applies separately to each company.

During the period under examination, the Company ceded no business to affiliated companies. The Company’s retention increased from $200,000 to $350,000 during the period under review, and its limits increased by $8,000,000 compared with the prior examination period. All reinsurance was ceded to one reinsurer that is authorized in New York.

In addition to its excess of loss reinsurance program, the Company also obtained facultative reinsurance coverage. In general, the Company obtains facultative reinsurance for property risks above $3,000,000 and casualty risks above $2,000,000. Facultative cessions represented 6.7% of the Company’s total premiums ceded in 2007.

D. Holding Company System

The Company is a wholly-owned subsidiary of Hermitage Holdings, Inc., an insurance holding company domiciled in the State of New York, which is ultimately controlled by Partners Limited, Ontario, Canada.

A review of the holding company registration statements filed with this Department indicated that such filings were complete and were filed 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 December 31, 2007, the Company was party to the following agreements with other members of its holding company system:

Expense Sharing Agreement

Effective January 1, 1998, the Company entered into an expense sharing agreement with Kodiak Insurance Company ("Kodiak") and Vantage Data Corporation ("Vantage"). On June 6, 2006, Hermitage sold Vantage; however, the Company did not submit a revised expense sharing agreement to the Department until October 7, 2008**.** It is recommended that the Company submit amendments to its inter-company agreements to the Department in a timely manner.

Investment Management Agreement

Effective January 1, 2006, the Company entered into an investment management agreement with Hyperion Capital Management, Inc. ("Hyperion"). Pursuant to the terms of the agreement Hyperion has full authority to supervise and direct the investment of the Company's assets in accordance with the Company's written investment restrictions and guidelines. The agreement was filed with this Department pursuant to Section 1505(d)(3) of the New York Insurance Law**.**

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	.76:1
Liabilities to liquid assets (cash and invested assets less investments in affiliates)	66%
Premiums in course of collection to surplus as regards policyholders	11%

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 five-year period covered by this examination:

	Amounts	Ratios
Losses and loss adjustment expenses incurred	$91,654,370	43.36%
Other underwriting expenses incurred	88,544,904	41.89
Net underwriting loss	31,177,672	14.75
Premiums earned	$211,376,946	100.00%

F. Accounts and Records

i. Schedule D Part 1

Upon review of the Schedule D Part 1 contained in the Company's 2007 annual statement, it was noted that the maturity dates for some of the Company's investments were different from the maturity dates confirmed by the custodial bank. It is recommended that the Company take better care in the preparation of its Schedule D Part 1 of its filed annual statements.

ii. Custodian Agreement

The review of the custodial agreement dated October 28, 2005 between Hermitage Insurance Company and its custodian bank revealed that certain required provisions were either not found in the custodial agreement, or not worded in accordance with NAIC guidelines. It is recommended that the Company amend its custodial agreement to comply with Part 1 - Section IV- J of the NAIC Financial Examiners Handbook.

3. FINANCIAL STATEMENTS

A. Balance Sheet

The following shows the assets, liabilities and surplus as regards policyholders as of December 31, 2007 as determined by this examination and as reported by the Company:

Assets	Assets	Assets Not Admitted	Net Admitted Assets
Bonds	$129,551,651	$ 0	$129,551,651
Common stocks	18,345,007		18,345,007
Cash, cash equivalents and short-term investments	14,295,834		14,295,834
Receivable for securities	32,796		32,796
Investment income due and accrued	1,295,399		1,295,399
Uncollected premiums and agents' balances in the course of collection	11,383,048	2,687,489	8,695,559
Deferred premiums, agents' balances and installments booked but deferred and not yet due	67,405		67,405
Amounts recoverable from reinsurers	443,639		443,639
Net deferred tax asset	5,499,607	3,519,147	1,980,460
Electronic data processing equipment and software	1,228,913	1,228,913	0
Furniture and equipment, including health care delivery assets	58,207	58,207	0
Receivables from parent, subsidiaries and affiliates	90,500		90,500
Prepaid expenses	15,060	15,060	0
Security deposits	87,340	87,340	0
Leasehold improvements	10,632	10,632	0
Total assets	$182,405,038	$7,606,788	$174,798,250

Liabilities, Surplus and Other Funds

Liabilities

Losses		$ 39,394,040
Reinsurance payable on paid losses and loss adjustment expenses		7,337
Loss adjustment expenses		12,700,485
Commissions payable, contingent commissions and other similar charges		1,132,130
Other expenses (excluding taxes, licenses and fees)		2,733,227
Taxes, licenses and fees (excluding federal and foreign income taxes)		803,528
Current federal and foreign income taxes		230,000
Unearned premiums		27,493,427
Ceded reinsurance premiums payable (net of ceding commissions)		8,333,466
Payable to parent, subsidiaries and affiliates		5,100,000
Total liabilities		$ 97,927,640
Surplus and other funds		
Common capital stock	$3,101,040	
Preferred capital stock	3,000,000	
Gross paid in and contributed surplus	17,453,959	
Unassigned funds (surplus)	53,315,611	
Surplus as regards policyholders		76,870,610
Total liabilities, surplus and other funds		$174,798,250

NOTE: The Internal Revenue Service has not yet begun to audit tax returns covering tax years 2003 through 2007. 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 $58,951,226 during the five-year examination period January 1, 2003 through December 31, 2007, detailed as follows:

Underwriting Income		
Premiums earned		$211,376,946
Deductions:		
Losses incurred	$64,167,091	
Loss adjustment expenses incurred	27,487,279	
Other underwriting expenses incurred	88,544,904	
Total underwriting deductions		180,199,274
Net underwriting gain or (loss)		$ 31,177,672
Investment Income		
Net investment income earned	$21,552,216	
Net realized capital gain	1,032,248	
Net investment gain or (loss)		22,584,464
Other Income		
Net gain or (loss) from agents' or premium balances charged off	$ 6,496	
Aggregate write-ins for miscellaneous income	(9,298)	
Total other income		(2,802)
Net income before federal and foreign income taxes		$ 53,759,334
Federal and foreign income taxes incurred		298,063
Net income		$ 53,461,271

C. Capital and Surplus Accounts

	Gains in Surplus	Losses in Surplus	
Surplus as regards policyholders per report on examination as of December 31, 2002			$17,919,384
Net income	$53,461,271		
Net unrealized capital gains or (losses)	4,791,647		
Change in net unrealized foreign exchange capital gain (loss)	958,343		
Change in net deferred income tax	1,068,733		
Change in nonadmitted assets		$2,991,126	
Change in provision for reinsurance		265,642	
Surplus paid in	7,000,000		
Dividends to stockholders		5,072,000	
Total gains and losses	$67,279,994	$8,328,768	
Net increase (decrease) in surplus			58,951,226
Surplus as regards policyholders per report on examination as of December 31, 2007			$76,870,610

4. LOSSES AND LOSS ADJUSTMENT EXPENSES

The examination liability for the captioned items of $52,094,525 is the same as reported by the Company as of December 31, 2007. 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.

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 following areas:

A. Producer licensing
B. Claims handling

No problem areas were encountered.

6. COMPLIANCE WITH PRIOR REPORT ON EXAMINATION

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

ITEM			PAGE NO.
A.	Management		
	The Company has been advised to comply with Section 1201(a)(5)(B)(v) of the New York Insurance Law as well as its by-laws relative to the number of directors required on its board.		5
	The Company has complied with this recommendation.		
B.	Reinsurance		
i.	It is recommended that the Company continue to require that all future reinsurance contracts contain a provision that the arbitration shall be governed by New York Law.		8
	The Company has complied with this recommendation.		
ii.	It is recommended that the Company take the necessary steps to ensure that all reinsurance agreements are signed by all participants in a timely manner.		9
	The Company has complied with this recommendation.		
C.	Holding Company System		
	It is recommended that the Company keep a signed copy of its electronic data processing service agreement with Vantage at the Company's premises and have it readily available upon request by the Department.		12
	The Company has complied with this recommendation.		
D.	Electronic Data Processing Equipment ("EDP") and Software		
	It is recommended that the Company comply with Section 1301(a)(18) of the New York Insurance Law when reporting EDP equipment and software as admitted assets.		19
	The Company has complied with this recommendation.		

7. SUMMARY OF COMMENTS AND RECOMMENDATIONS

ITEM			PAGE NO.
A.		Management	
	i.	It is recommended that board members who are unable or unwilling to attend meetings consistently should resign or be replaced.	5
	ii.	It is recommended that the Company have all its directors and officers sign conflict of interest statements on a yearly basis.	5
B.		Holding Company System	
		It is recommended that the Company submit amendments to its inter-company agreements to the Department in a timely manner.	10
C.		Accounts and Records	
	i.	It is recommended that the Company take better care in the preparation of its Schedule D Part 1 of its filed annual statements.	11
	ii.	It is recommended that the Company amend its custodial agreement to comply with Part 1 - Section IV- J of the NAIC Financial Examiners Handbook.	11

Respectfully submitted,

/s/
Joseph Revers, CFE
Senior Insurance Examiner

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

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

/s/
Joseph Revers

Subscribed and sworn to before me

this__________ day of ____________________, 2009.

Appointment No. 22762

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:*

Joseph Revers

as proper person to examine into the affairs of the

HERMITAGE INSURANCE 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 15th *day of* April, *2008*

ERIC R. DINALLO
Superintendent of Insurance