REPORT ON EXAMINATION

OF THE

CRUM & FORSTER INDEMNITY COMPANY

AS OF

DECEMBER 31, 2007

I, Karen Weldin Stewart, Insurance Commissioner of the State of Delaware, do hereby certify that the attached REPORT ON EXAMINATION, made as of December 31, 2007 of the

CRUM & FORSTER INDEMNITY COMPANY

is a true and correct copy of the document filed with this Department.

Attest By: Sonia C. Harris

Date: 25 June 2009

In Witness Whereof, I have hereunto set my hand and affixed the official seal of this Department at the City of Dover, this 25th day of June 2009.

Karen Weldin Stewart, CIR-ML
Insurance Commissioner

REPORT ON EXAMINATION

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CRUM & FORSTER INDEMNITY COMPANY

AS OF

DECEMBER 31, 2007

The above-captioned Report was completed by examiners of the Delaware Department of Insurance.

Consideration has been duly given to the comments, conclusions and recommendations of the examiners regarding the status of the Company as reflected in the Report.

This Report is hereby accepted, adopted and filed as an official record of this Department.

Karen Weldin Stewart, CIR-ML
Insurance Commissioner

Dated this 25th day of June, 2009

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February 20, 2009

SALUTATION

Honorable Alfred W. Gross
Chairman - Financial Condition (E)
Committee, NAIC
State Corporation Committee
Bureau of Insurance
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Richmond, VA 23218

Honorable Joel Ario
Secretary, Northeastern Zone (I), NAIC
Pennsylvania Insurance Department
1326 Strawberry Square
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Honorable James J. Donelson
Secretary, Southeastern Zone (II), NAIC
Louisiana Department of Insurance
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Honorable Merle D. Scheiber
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Honorable Morris Chavez
Secretary, Western Zone (IV), NAIC
Superintendent, New Mexico Public
Regulation Commission, Insurance Division
1120 Paseo de Peralta
Santa Fe, NM 87504-1269

Honorable Karen Weldin Stewart
Insurance Commissioner
State of Delaware
841 Silver Lake Boulevard, Suite 100
Dover, Delaware 19904

Dear Commissioners:

In compliance with instructions and pursuant to statutory provisions contained in Certificate of Authority Number 08.012 dated April 28, 2008, an examination has been made of the affairs, financial condition and management of

CRUM & FORSTER INDEMNITY COMPANY

hereinafter referred to as “Company” or “CFIC”, incorporated under the laws of the State of Delaware. The examination was conducted at the administrative office of the Company located at 305 Madison Avenue, Morristown, New Jersey. Service of process address is 2711

Centerville Road, Suite 400, Wilmington, Delaware 19808. A pooled examination of the Company was conducted concurrently with that of its affiliates, United States Fire Insurance Company (USF), a Delaware Company, The North River Insurance Company (NRIC), a New Jersey Company and Crum and Forster Insurance Company (CFInsco), a New Jersey Company. Separate reports of examination were filed for each company. The report of examination thereon is respectfully submitted.

SCOPE OF EXAMINATION

The last filed examination of the Company was conducted by the Delaware Insurance Department and covered the period January 1, 2002, to December 31, 2004. This examination covered the period January 1, 2005, to December 31, 2007, and consisted of a general survey of the Company's business policies and practices, management, any corporate matters incident thereto, a verification and evaluation of assets and a determination of liabilities. Transactions and events occurring subsequent to December 31, 2007, were reviewed and have been commented upon throughout the examination report to the extent deemed necessary.

This report is presented on an exception basis. It is designed to set forth the facts with regard to any material adverse findings disclosed during the examination. The text will explain changes wherever made. If necessary, comments and recommendations have been made in those areas in need of correction or improvement. In such cases, these matters were thoroughly discussed with the Company's management during the course of the examination.

The examination followed rules established by the National Association of Insurance Commissioners (NAIC) Committee on Financial Condition Examiners Handbook, as adopted by the Delaware Insurance Department under 18 Del. C. §526(a), and generally accepted statutory insurance examination standards.

In addition to items noted in this report, the following topics were reviewed without exception and are included in the workpapers of this examination:

Corporate Records
Fidelity Bond and Other Corporate Insurance
Officers, Employees and Agents Welfare and Pension Plans
Legal Actions
All Assets and Liability Items Not Mentioned

Workpapers prepared by the Company's external accounting firm, PricewaterhouseCoopers LLP (PwC), New York, New York, in connection with their annual audit, were reviewed and relied upon to the extent possible.

INS Services, Inc. was retained by the Delaware Insurance Department to conduct a review of the overall risks related to information system controls.

HISTORY

The Company was incorporated under the laws of New York on December 2, 1987, as Finmar Reinsurance Corporation and commenced business on December 31, 1987. On June 12, 1995, the Company merged with Premier Insurance Company, with Finmar Reinsurance Corporation as the surviving corporation. Effective the same date, Finmar Reinsurance Corporation changed its name to Crum & Forster Indemnity Company.

During 2003, BNM Indemnity Company was incorporated in Delaware as a wholly-owned property and casualty insurance subsidary of Crum & Forster Indemnity Company. Effective December 31, 2003, Crum & Forster Indemnity Company, a New York domiciled company, was merged with and into BNM Indemnity Company. In connection with the merger, BNM Indemnity Company's name was changed to Crum & Forster Indemnity Company and became the wholly- owned subsidiary of Crum & Forster Holding Inc., which is a wholly-owned subsidiary of Crum & Forster Holdings Corp., a Delaware corporation (Holdings).

CAPITALIZATION

At December 31, 2007, the Company had 100,000 common shares authorized with a par value of $35 per share, of which all shares were issued and outstanding. The following schedule shows the changes in the Company's capital and surplus from the previous examination to the current examination.

	Special Surplus Funds (2)	Common Capital Stock	Gross Paid – in and Contributed	Unassigned Surplus	Total
12/31/04	$5,634,508	$3,500,000	$2,750,000	$(2,013,267)	$9,871,241
Operations (1)					
2005 Operations	(367,597)			902,640	535,043
2006 Operations	(35,000)			1,135,091	1,100,091
2007 Operations	(23,000)			1,075,676	1,052,676
12/31/07	**$5,208,911**	**$3,500,000**	**$2,750,000**	**$1,100,140**	**$12,559,051**

(1) Operations is defined as: Net income, net unrealized capital gains or loss, change in net unrealized foreign exchange capital gain or loss, change in net deferred income tax, change in non-admitted assets, change in provision for reinsurance, cumulative effect of changes in accounting principles and aggregate write-ins for gains and losses in surplus.

(2) The change in special surplus is due to retroactive reinsurance that is required to be accounted for as a write-in item under SSAP 62. (See Reinsurance section below and the Notes to the Financial Statements for more information related to these contracts and special surplus.)

DIVIDENDS TO STOCKHOLDER

The Company is subject to statutory and regulatory restrictions imposed by the State of Delaware on insurance companies which limits the amount of cash dividends that may be paid to the stockholders. Under Delaware law, cash dividends may be paid only from realized net profits and realized capital gains. Additionally, the maximum aggregate amount of ordinary dividends that the Company may declare or pay during any twelve-month period is the greater of (1) 10% of its statutory surplus, or (2) net income, not including realized capital gains, each as reported in the prior year's annual statements, unless written approval is obtained from the Delaware Insurance Commissioner granting a greater amount (extraordinary dividends). In addition, no dividend may be paid in excess of unassigned funds.

According to Company records and as reflected in the minutes to the Board of Directors meetings, no dividends were paid to the shareholder during the examination period.

MANAGEMENT AND CONTROL

Pursuant to the General Corporation Law of the State of Delaware, as implemented by the Company's Certificate of Incorporation and bylaws, all corporate powers and its business property and affairs are managed by, or under the direction of, its Board of Directors (Board). The Board shall consist of at least three members and is subject to a maximum of seven members.

The Board at December 31, 2007, was comprised of three members, each elected or appointed in accordance with Company bylaws. Each Director shall hold office until his successor is elected and qualified, or until earlier resignation or removal.

The members of the Board serving as of December 31, 2007, were as follows:

Director's Name	Principal Business Affiliation
Nikolas Antonopoulos, Chairman*	Crum & Forster Holdings Corp.
Joseph Francis Braunstein, Jr.	Crum & Forster Holdings Corp.
Mary Jane Robertson	Crum & Forster Holdings Corp.

*On January 1, 2008, Nikolas Antonopoulos resigned as Director, Chief Executive Officer and Chairman of the Board and was replaced at that time by Douglas M. Libby as Director, Chief Executive Officer and Chairman of the Board.

The Company's bylaws provide for the Board to designate one or more committees. The Executive Committee was dissolved effective March 22, 2005. The Company had no active committees as of December 31, 2007.

The bylaws of the Company state the principal officers of the corporation shall be a Chairman of the Board of Directors, a Chief Executive Officer, a President, a Secretary, a Treasurer, one or more Vice-Presidents, one or more Assistant Secretaries and one or more Assistant Treasurers, one or more Assistant Vice Presidents, and one or more Assistant Secretaries and such other officers as the Board of Directors from time to time may determine.

At December 31, 2007, the Company's principal officers and their respective titles were as follows:

Officer	**Title**
Nikolas Antonopoulos*	Chairman of the Board & CEO
Marc J. Adee	President
Mary Jane Robertson	Executive Vice President, Treasurer & CFO
Felicia L. Garland	Vice President & Secretary
Carl W. Bernsten	Senior Vice President
Donald R. Fischer	Senior Vice President
John J. French	Senior Vice President
David J. Ghezzi	Senior Vice President
Dennis J. Hammer	Senior Vice President & Controller
Robert G. Himmer	Senior Vice President
Paul Kush	Senior Vice President
Kim E. Piersol	Senior Vice President

*Replaced by Douglas M. Libby on January 1, 2008.

The minutes of the meetings of the Stockholder and Board of Directors, which were held during the period of examination, were read and noted. Attendance at meetings, election of Directors and Officers and approval of investment transactions were also noted.

Inspection of Company files indicated that ethics statement/conflict of interest affidavits were distributed, completed and returned by all employees at the Assistant Secretary level or above for the examination period.

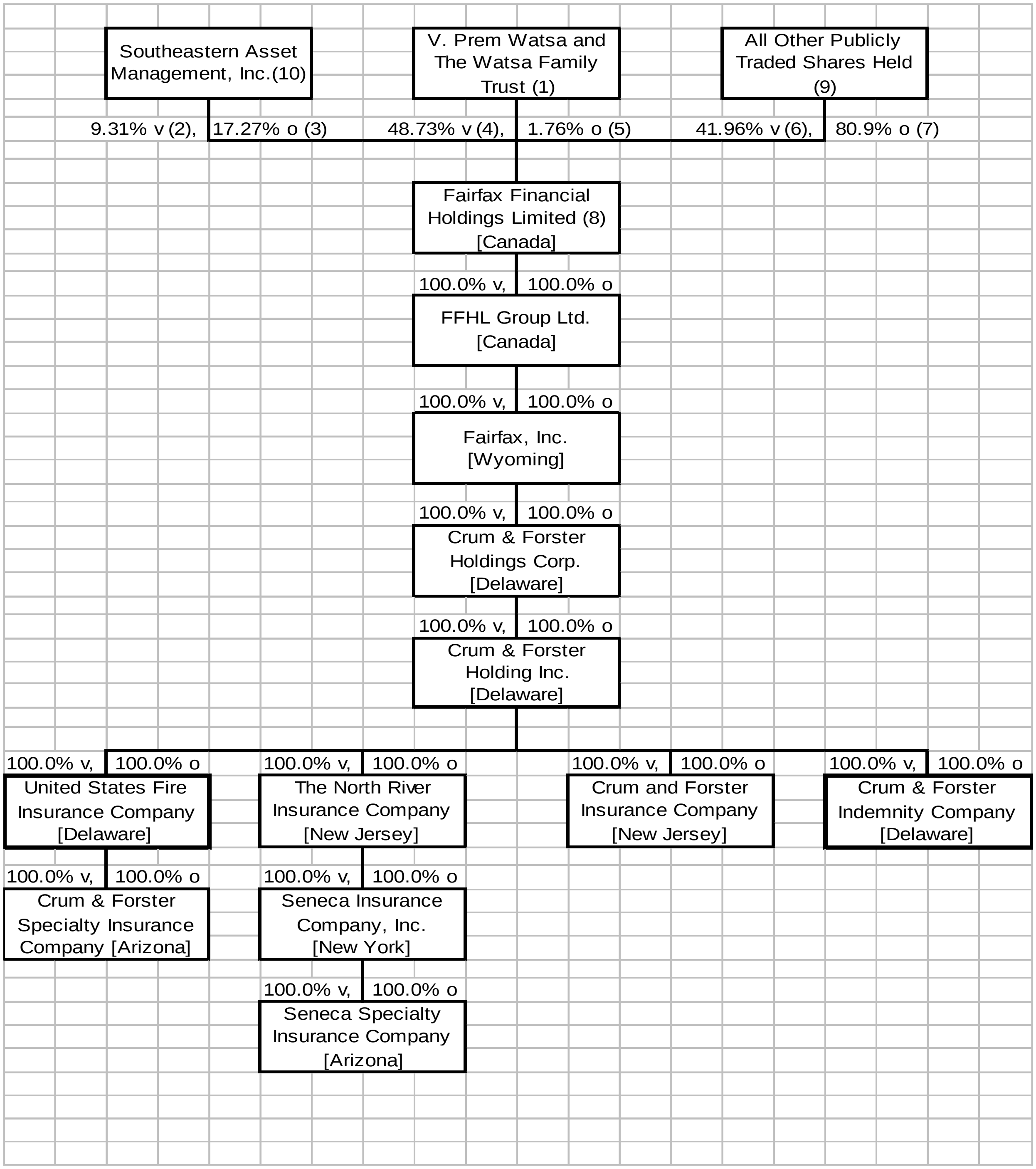
During our review for compliance with 18 Del. C. §4919, it was noted that the Company properly reported changes in directors and principal officers.

INSURANCE HOLDING COMPANY SYSTEM

The Company is a member of an insurance holding company system as defined in 18 Del. C. §5001(4) "Insurance holding company system". The Company's Holding Company Registration Statements were properly filed with the Delaware Insurance Department.

All of the common stock is owned by Crum & Forster Holding Inc., a Delaware holding company. The ultimate controlling entity of the holding company system is Fairfax Financial Holdings Limited (FFH), a Canadian holding company. FFH's stock is traded on the Toronto Stock Exchange under the symbol "FFH". As of December 31, 2007, FFH reported approximately $27.94 billion in assets and $4.26 billion in capital and surplus on a consolidated U.S. GAAP basis.

The following organizational chart, of which the Company is a part, illustrates the identities and relationships between its parent, affiliates and subsidiaries as of December 31, 2007.



The below notes 1 through 10 were discerned through the examination and more fully describe ownership and voting percentages throughout the Holding Company:

v = voting control
o = ownership control
(1) through voting and ownership control, both directly and indirectly, of the following individual and entities: Mr. V. Prem Watsa, 2771489 Canada Limited, 1109519 Ontario Limited, 810679 Ontario Limited and The Sixty Two Investment Company Limited

(2) calculated as 3,015,922 votes (3,015,922 subordinate common shares held) divided by 32,298,020 votes [See note (8)]

(3) calculated as 3,015,922 subordinate common shares held / 16,918,020 total subordinate common shares times $4,121,400,000 / $4,258,000,000 [See note (8)]

(4) calculated as 0.79% through V. Prem Watsa and 47.94% through The Watsa Family Trust and the four entities described in (1). The 0.79% is calculated as 169,835 subordinate voting common shares (169,835 votes) through 810679 Ontario Limited, 83,199 subordinate voting common shares (83,199 votes) held personally by Mr. V. Prem Watsa, and 3,500 subordinate voting common shares (3,500 votes) held through "Prestin" plus, which equals 256,534 votes divided by 32,398,020 total votes. The 47.94% is calculated as 50,620 subordinate voting common shares (50,620 votes) plus 1,548,000 multiple voting common shares (15,480,000 votes) held through The Watsa Family Trust, 1109519 Ontario Limited, 810679 Ontario Limited and The Sixty Two Investment Company, which equals 15,530,620 votes divided by 32,398,020 total votes. [See note (8)]

(5) calculated as 307,154 subordinate common shares held (256,534 plus 50,620 [See (4)]) / 16,918,020 total subordinate voting common shares times $4,121,400,000/ $4,258,000,000 [See note (8)]

(6) 100.0% minus 9.31% (2) minus 48.73% (4)

(7) 100.0% minus 17.27% (3) minus 1.76% (5)

(8) common shares are publicly traded on the Toronto Stock Exchange in Canada and the New York Stock Exchange in the U.S. under the symbol "FFH". The Company has issued at 12/31/07 1,548,000 multiple voting common shares (which carry ten votes per share), 16,918,020 subordinate voting common shares (which carry one vote per share), 3,000,000 non-voting preferred Series A shares and 5,000,000 non-voting preferred Series B shares. Total votes are 32,398,020 consisting of the 15,480,000 votes attributable to the multiple voting common shares and 16,918,020 votes attributable to the subordinate voting common shares. Fairfax's capital account at 12/31/07 totals $4,258,000,000 (U.S.) which consists of common shares totaling $4,121,400,000 (96.8% of the total) and preferred shares totaling $136,600,000 (3.2% of the total)

(9) No entity or individual owns or controls greater than 10% as of 12/31/07, however, as of 3/31/08, MacKenzie Financial Corporation owned 2,190,554 subordinate voting common shares, which represented 6.76% voting control (2,190,554 divided by 32,398,020 total votes) and 12.53% ownership control (2,190,554 divided by 16,918,020 times $4,121,400,000 divided by $4,258,000,000). At 3/31/08, Southeastern Asset Management beneficially owned 2,756,675 subordinate voting common shares [a decrease of 259,247 shares], which represented 8.51% voting control and 15.77% ownership control.

(10) Disclaimer of affiliation filed with the Delaware Insurance Department dated November 22, 2004.

Southeastern Asset Management was identified in the 2007 Holding Company Registration Statement as controlling more than 10% of the voting stock of FFH [reported as owning or controlling 15.9% of the subordinate voting shares of FFH, however, actual voting control was 9.31% and ownership control was 17.27%]. Southeastern Asset Management filed a disclaimer of control and requested exemption under 18 Del. C. §5003(e) (2) regarding control of greater than 10% of the securities of FFH. This filing was approved by the Delaware Insurance Department on November 22, 2004. V. Prem Watsa, who had 48.73% voting control of FFH and 1.76% ownership control of FFH, was identified in the holding company registration statements for the years under examination as the "Chairman" of the ultimate controlling entity, FFH.

During the first quarter 2008, MacKenzie Financial Corporation (MacKenzie), had amassed 6.76% voting control of FFH and 12.53% ownership control of FFH [reported as owning or controlling 13.7% of the subordinate voting shares of FFH]. The Company identified MacKenzie in the 2007 Holding Company Registration Statement as controlling more than 10% of the voting stock of FFH.

AGREEMENTS

Administrative Services Agreement

The Company is a party to an administrative services agreement with USF effective January 1, 1993, (with an amendment dated June 12, 1995). Pursuant to the agreement, USF provides all administrative services such as underwriting, claims handling, reinsurance and premium collections on behalf of the Company. Operating expenses incurred in the performance of services are allocated in accordance with SSAP 70. The Company was charged its respective share of operating expenses.

Tax Allocation Agreement

The Company is a party to a tax allocation agreement with the Parent along with certain of its affiliates effective January 1, 2000. The Parent, the Company and other affiliates constitute an affiliated group and have elected to file a consolidated return under the provisions of §1501 of the Internal Revenue Code of 1986. Pursuant to the tax allocation agreement, no party will be required to either pay more in taxes or receive a lesser payment of a refund than it would have paid or received if it computed its taxes independently and filed a separate tax return. Additionally, the Company has an enforceable right to recoup federal income taxes paid in prior years in the event of future net losses, which it may incur, or to recoup its net losses carried forward as an offset to future net income subject to federal income taxes.

Master Repurchase Agreement

The Company is a party to a master repurchase agreement with FFH effective July 1, 2000. The agreement provides for the repurchase of securities that are transferred to FFH from time to time in order to provide liquidity in the event that the Company is required to pay claims or other corporate obligations, subject to an aggregate limitation for USF and NRIC of $100 million and $5 million for the Company and CFInsco. Pursuant to the agreement, the Company is obligated to repurchase from FFH securities that are transferred for this purpose before the end of each calendar year in which the original purchase took place at a price equal to the amount initially raised from their sale plus the stated interest rate for each security pursuant to the initial sale. During the time that such securities are transferred to FFH, the Company is entitled to receive income payable on such securities. There were no transactions under this agreement during the examination period.

Asset Exchange Agreement

The Company is a party to an asset exchange agreement with USF effective April 25, 2001. The Company sold reinsurance recoverables to USF related to Ridge Reinsurance Limited pursuant to the Springing First Aggregate Excess of Loss Reinsurance Agreement effective December 31, 1992, in exchange for cash and securities received from USF in the amount of

$2,337,500. There were no transactions under this agreement during the examination period. This agreement was terminated December 31, 2007.

Investment Management Agreement

The Company is a party to an investment management and administrative services agreement with Hamblin Watsa Investment Counsel Ltd. (Hamblin Watsa) and the Company's ultimate parent, Fairfax Financial Holdings Limited (FFH), effective October 1, 2002. Pursuant to the agreement, Hamblin Watsa is authorized to supervise and direct all investments of the Company and to exercise whatever powers the Company may possess with respect to its invested assets. Investment transactions will be in accordance with investment objectives of the Company and subject to restrictions established by the Company, as communicated to Hamblin Watsa in writing from time to time. Subject to these limitations, Hamblin Watsa may buy, sell, exchange, convert and otherwise trade in and engage in investment transactions of any nature whatsoever involving any stocks, bonds, commercial paper, money market instruments and other securities and assets when it deems appropriate and without prior consultation with the Company.

TERRITORY AND PLAN OF OPERATION

As of December 31, 2007, the Company was licensed to transact multiple property and casualty lines of insurance in forty-two states and the District of Columbia, an increase of six states since the prior examination.

The Company is a commercial property and casualty insurance company that targets specialty classes of business and niche market opportunities. The Company writes business through independent retail agents/brokers and national/wholesale brokers. The Company's underwriting strategy focuses on applying individual risk selection to business that requires greater underwriting expertise. The Company's principal lines of business include workers' compensation, commercial auto liability, general liability, and fire. Under terms of a pooling agreement, the Company (as Pool member) cedes to USF (the Pool lead) all premiums and losses. The Company then assumes 1% of all pooled business (see Reinsurance section below for more information).

As of January 1, 2006, certain parts of the business of the insurance companies of Fairmont Specialty Group, affiliates of Fairfax, were continued as a new division of Crum & Forster. The Fairmont business consists of standard commercial and personal lines, bail bonds, and accident and health coverages.

For 2007, the Company reported the following distribution of gross premiums written in the annual statement:

Line	Premiums	Percent
Workers' Compensation	$10,582,438	22.99%
Commercial Auto Liability	22,576,642	49.06%
Auto Physical Damage	4,404,575	9.58%
Other Liability – Occurrence	1,999,154	4.34%
Commercial Multiple Peril	3,366,121	7.31%
Fire	1,150,931	2.50%
Homeowners Multiple Peril	736,520	1.60%
Allied Lines	791,220	1.72%
All Other Lines < $500,000 individually	414,923	.90%
Total	$46,022,524	100.00%

REINSURANCE

For 2007, the Company reported the following distribution of net written premiums:

Total Direct Written Premiums		$46,022,524
Assumed premiums affiliated		$10,935,117
Assumed premiums non-affiliated		0
Total Assumed Premiums		$10,935,117
Total Gross Premiums		$56,957,641
Ceded premiums affiliated		$46,363,746
Ceded premiums non-affiliated		820,457
Total Ceded Premiums		$47,184,203
Net Written Premiums		$9,773,438

Percentage Ceded of Gross	82.8%

Assumed

Besides the assumption from the Pool, the Company has no other source of assumed business.

Ceded

The Company is a 1% participant in a Pool with its affiliates USF, NRIC and CFInsco. Effective January 1, 2000, the Company and certain affiliates (Pool Participants) entered into a Reinsurance Participation Agreement (Pooling Agreement) by which premiums, losses, dividends to policyholders and other underwriting expenses of each participant are pooled by means of mutual reinsurance on a fixed percentage basis as follows:

Pool Participants

United States Fire Insurance Company	76%
The North River Insurance Company	22%
Crum and Forster Insurance Company	1%
Crum & Forster Indemnity Company	1%

The Pooling Agreement provides that USF, acting as lead company, assumes from the Pool Participants 100% of their premiums, losses, dividends to policyholders and other underwriting expenses.

The Company purchases reinsurance to limit its exposure to loss from any one claim or occurrence ("per risk reinsurance"), and aggregate loss experience for an accident year that exceeds an amount the Company is willing to accept (corporate aggregate reinsurance). The Company's corporate aggregate reinsurance contracts are the type most commonly referred to as "finite" reinsurance and cover or covered, in varying amounts and on varying terms, accident years 2002 and prior. No such reinsurance has been purchased for subsequent accident years.

Per Risk

As of December 31, 2007, the Company was a party to the following significant reinsurance contracts on a per risk basis:

Line of Business	**Term**	**Layer/ Limit**	**Placement**	**Affiliate Participation**
Property Per Risk				
Property Per Risk XOL 1st Layer	5/1/07 to 7/1/08	$5 million XS $5 million	100%	Wentworth 100%
Property Per Risk XOL 2nd layer	5/1/07 to 7/1/08	$15 million XS $10 million $15 million per occurrence, Certified terror excluded, Reinstatement: 1 Free & 1 Pro rata w/ $45 million maximum	100%	None
Property Catastrophe				
Property Catastrophe 1st Layer (excludes Fairmont business)	5/1/07 to 5/31/08	$100 million XS $100 million Terror excluded, Reinstatement: 1 Pro rata w/ $200 million limit	100%	Wentworth 5%
Property Catastrophe 2nd Layer (California quake only)	5/1/07 to 5/31/08	$100 million XS $200 million Reinstatement: 1 Pro rata w/ $200 million limit	100%	Wentworth 5%
Umbrella Per Risk				
Umbrella Per Risk XOL 1st Layer (excludes Fairmont, admitted only)	10/1/07 to 10/1/08	$5 million XS $5 million Certified terror included, 2 limit occurrence in aggregate	50%	Wentworth 10% Odyssey 50%
Umbrella Per Risk XOL 2nd Layer	10/1/07 to 10/1/08	$15 million XS $10 million Certified terror included, 2 limit occurrence in aggregate	100%	Wentworth 5% Odyssey 5%

Line of Business	Term	Layer/ Limit	Placement	Affiliate Participation
Workers Comp CAT				
Workers Comp XOL 1st layer Catastrophe	4/1/07 to 3/31/08	$50 million XS $50 million Terror, Cert. / Non Cert., Max terror $50 million Reinstatement: 1 @ 100%, Max limit $50 million	100%	Wentworth 5%
Workers Comp XOL 2nd layer Catastrophe	4/1/07 to 3/31/08	$150 million XS $100 million Terror, Cert. / Non Cert., Max terror $50 million Reinstatement: 1 @ 100%	100%	None
Management Protection				
Management Protection Excess Risks Q/S	6/1/07 to 6/1/08	$0 to $5 million 60/40 $5 to $10 million 80/20 No terror exclusion	100%	Wentworth 100%
Management Protection Primary Risks EOL	6/1/07 to 6/1/08	$8 million XS $2 million No terror exclusion	100%	Wentworth 100%
Fidelity Per Risk				
Fidelity Q/S 1st Layer	6/1/06 to current	60% Q/S up to $5 million No terror exclusion	24%	Wentworth 20%
Fidelity XOL	6/1/06 to current	95% of $20 million XS $5 million	95%	Wentworth 20%
Fidelity XOL Fidelity and Crime	4/1/07 to 5/1/08	$3 million XS $25 million, Special acceptance, Claims made	100%	None

Corporate Aggregate

As of December 31, 2007, the Pool Participants are party to a prospective contract covering accident years 2000 and 2002 with an unused limit of $96.3 million, in the event the loss and LAE ratio for accident year 2002 before the effect of the contract exceeds 70%. The subject loss and LAE ratio as valued at December 31, 2007, was 62.6%. No additional premium or funds held interest would be due under these contracts upon usage of the remaining limit. Coverage for accident year 2000 has been exhausted and recovered in full. Accident year 2001 coverage was commuted. The reinsurer, nSpire, is an affiliate and wholly-owned subsidiary of FFH.

The Pool Participants entered into an aggregate casualty stop loss agreement with an unaffiliated reinsurer (Chubb) covering accident year 2000, which provided coverage of $118.5 million and was fully utilized by the Pool Participants at December 31, 2007. This stop loss agreement covered the casualty lines of business. The contract provided 29 loss ratio points of coverage in excess of a loss and ALAE ratio of 66% for covered losses. The contract is on a funds held basis with interest credited at 7.5%. Premiums and losses ceded pursuant to the contract, all of which were ceded prior to 2005, totaled $76.4 million and $118.5 million, respectively. At December 31, 2007, and December 31, 2006, the Pool Participants had reinsurance recoverable balances of $28.7 million and $37.6 million, respectively, and funds held balances of $26.7 million and $33.3 million, respectively, related to this agreement. The Company's ceded losses and premiums represent its 1% share of the pool ceded losses and premiums above. During the first quarter of 2008, this contract was commuted.

Finite

In 1998, in connection with the acquisition of the Company by FFH, the Pool Participants entered into an aggregate stop-loss agreement (Inter-Ocean I) with Inter-Ocean Reinsurance Company, Ltd. (Inter-Ocean), which provided coverage of $367.5 million and has been fully utilized by the Pool Participants. This contract provides coverage for loss reserve development for August 13, 1998, and prior, the date of the acquisition of the Company by Fairfax. The Pool Participants amended the contract in 2001 to provide additional coverage of $19,248,000 which has been fully utilized by the Pool Participants.

In June 2002, the Pool Participants entered into an adverse development contract (Inter-Ocean II), effective September 30, 2001, with Inter-Ocean, a Bermuda reinsurer. The contract provides $100 million of coverage for carried reserves at March 31, 2001, for accident periods August 13, 1998, and prior. Coverage varies for specific classes of losses and is subject to sub-limits. In the fourth quarter of 2006, cessions under this contract were reversed due to favorable loss development of the underlying policies covered by this contract. As a result, the Company reduced the funds held balance to offset amounts due the Company at December 31, 2006, pursuant to the aforementioned commutation provision. At December 31, 2007, the Company had no cumulative ceded losses under this contract and had $32.6 million of net paid premiums prior to 2005. None of the $100 million coverage under this treaty is available for asbestos development. The Company’s ceded losses and premiums represent its 1% share of the pool ceded losses and premiums stated above.

In June 2002, the Pool Participants entered into an adverse development contract, effective September 30, 2001, with North American Specialty Insurance Company, a subsidiary of Swiss Reinsurance America Corporation. The contract provides $400 million of limit in excess of a retention for accident years 2000 and prior, subject to a $200 million sub-limit on 1998 and prior accident years and an asbestos and environmental sub-limit of $100 million. Premiums are currently based on 35% of amounts ceded plus a reinsurer margin of $8 million. The contract contains provisions that would increase the premium rate to as high as 62% under conditions that Company management considers unlikely. The contract is on a funds held basis with interest credited at 7%. At December 31, 2007, the Company had ceded cumulative losses of $369.0 million, which is comprised of $(3.6) million in 2007, $(4.4) million in 2006, $6.0 million in 2005 and $371.0 million prior to 2005 and paid premiums of $152.0 million, which is comprised of $(1.3) million in 2007, $(0.8) million in 2006, $4.1 million in 2005 and $150.0 million prior to 2005, related to this contract. At December 31, 2007, and December 31, 2006, the Pool Participants had reinsurance recoverable balances of $369.0 million and

$372.6 million, respectively, and funds held balances of $218.9 million and $206.4 million, respectively, related to this agreement. The Company's ceded losses and premiums represent its 1% share of the pool ceded losses and premiums above. The coverage remaining on this treaty is $31 million and is available for asbestos development for the Pool Participants.

The arrangements described above with North American Specialty Insurance Company and Inter-Ocean are recorded as retroactive reinsurance, as outlined in SSAP 62 (see Note 10 to Financial Statements for more information).

GROWTH OF COMPANY

The following information was obtained from the Company's filed Annual Statements and covers the period from the prior examination to December 31, 2007, and reflects changes made for the current examination:

Year	Net Written Premiums	Net Admitted Assets	Liabilities	Policyholder Surplus	Net Income
2004	$7,968,181	$33,963,451	$24,092,210	$9,871,241	$(752)
2005	7,452,207	34,447,981	24,041,697	10,406,284	603,811
2006	10,301,020	36,132,032	24,625,657	11,506,375	1,200,187
2007	9,773,438	35,998,886	23,439,835	12,559,051	1,177,747

The growth over the examination period is noted as follows:

- 22.7% increase in net written premiums
- 6.0% increase in net admitted assets
- 2.7% decrease in liabilities
- 27.2% increase in policyholder surplus
- 100.0% increase in net income

The Company reported net income of $1,177,747 for 2007 compared to $(752) for 2004. The increase of $1,178,499 from 2004 to 2007 mainly reflects continued moderate incurred losses, loss expenses and other underwriting expenses incurred coupled with considerable investment income each year.

ACCOUNTS AND RECORDS

The Company's accounts and records are maintained in Morristown, New Jersey, and various branch offices throughout the United States. The Company utilizes MFX Roanoke, Inc., an affiliate, for processing, updating and storing primary records in a mainframe environment. The data centers are located in Ridgefield Park, New Jersey and Roanoke, Virgina.

A high level assessment of internal control structure and process for the Company's accounting and computer systems was discussed with management and reviewed after completion of questionnaires developed by the NAIC and the Delaware Department of Insurance. The discussions and review did not reveal any material deficiencies in the Company's internal control structure.

An external accounting firm audits the statutory-basis financial statements of the Company annually. The Company's external firm reviewed the internal control structure in order to establish the necessary audit procedures required to express an opinion on the financial statements as of December 31, 2007. No significant or qualifying deficiencies were found to exist in the design or operation of the internal control structure.

Based on the examination review of the filed Annual Statement, observations, and subsequent discussions with management, the accounting systems and procedures generally conform to insurance accounting practices and requirements.

FINANCIAL STATEMENTS

The following financial statements as determined by this examination are presented herein:

Analysis of Assets as of December 31, 2007
Liabilities, Surplus and Other Funds as of December 31, 2007
Underwriting and Investment Exhibit - Statement of Income, 2007
Capital and Surplus Account for the one-year period ending December 31, 2007

Analysis of Assets
As of December 31, 2007

	Assets	Non-Admitted Assets	Net Admitted Assets	Note
Bonds	$24,314,573		$24,314,573	(1)
Cash, cash equivalents and short-term investments	7,470,623		7,470,623	
Investment income due and accrued	458,068		458,068	
Uncollected premiums and agents balances in course of collection	630,021	$39,573	590,448	
Premiums, agents balances and installments, booked but deferred and not yet due	719,620	14,267	705,353	
Accrued retrospective premium	632,732	63,919	568,813	
Amounts recoverable from reinsurers	602,310		602,310	
Net deferred tax asset	1,179,171	517,583	661,588	
Guaranty funds receivable on deposit	97,195		97,195	
Electronic data processing equipment	1,789		1,789	
Furniture and equipment	33,028	33,028		
Receivable from affiliates	131,768		131,768	(2)
Aggregate write-ins for other than invested assets	665,623	269,265	396,358	
Totals	$36,936,521	$937,635	$35,998,886	

Liabilities, Surplus and Other Funds
As of December 31, 2007

		Note
Losses	$16,703,954	(3)
Reinsurance payable on paid loss and loss adjustment expenses	26,473	
Loss adjustment expenses	5,830,149	(3)
Commissions payable	56,830	
Other expenses	466,397	
Taxes, licenses and fees	277,633	
Current federal and foreign income taxes payable	1,198	
Unearned premiums	3,943,607	
Dividends declared and unpaid to policyholders	1,373	
Ceded reinsurance premiums payable	73,650	
Funds held by company under reinsurance treaties	2,505,595	
Amounts withheld or retained by company for account of others	415,997	
Provision for reinsurance	181,030	
Aggregate write-ins for liabilities	(7,044,051)	(4)
Total liabilities	$23,439,835	
Aggregate write-ins for special surplus funds	$5,208,911	(5)
Common capital stock	3,500,000	
Gross paid in and contributed surplus	2,750,000	
Unassigned funds	1,100,140	
Surplus as regards policyholders	$12,559,051	
Total liabilities and surplus as regards policyholders	$35,998,886	

Underwriting and Investment Exhibit - Statement of Income
For the Year Ended December 31, 2007

Underwriting Income		Note
Premiums earned	$10,568,496	
Deductions:		
Losses incurred	$5,468,100	
Loss expenses incurred	1,598,212	
Other underwriting expenses incurred	2,870,723	
Total underwriting deductions	$9,937,035	
Net underwriting gain or (loss)	$631,461	
Investment Income		
Net investment income earned	$1,333,001	
Net realized capital gains or (losses)		
Net investment gain or (loss)	$1,333,001	
Other Income		
Aggregate write-ins for miscellaneous income	$(237,443)	
Net income before federal income taxes	$1,727,019	
Federal and foreign income taxes incurred	549,272	
Net Income	$1,177,747	

Capital and Surplus Account

Surplus as regards policyholders, December 31, 2004	$9,871,241
Net income	$2,981,745
Change in unrealized capital gains	
Change in net unrealized foreign exchange	
Change in net deferred income tax	(314,435)
Change in non-admitted assets	44,934
Change in provision for reinsurance	(24,434)
Dividends paid to stockholder	
Change in surplus as regards policyholders for the years	$2,687,810
Surplus as regards policyholders, December 31, 2007	$12,559,051

SCHEDULE OF EXAMINATION ADJUSTMENTS

No adjustments were proposed for this examination.

NOTES TO FINANCIAL STATEMENTS

Note 1 Bonds $24,314,573

Investments in bonds are reported at values (amortized cost) adopted and approved by the Securities Valuation Office (SVO) of the NAIC. Bonds owned by the Company are as follows:

Description	Amount	Percent of Total
US Governments	$23,369,294	96.11%
States and Territories and Possessions	945,279	3.89%
Total	$24,314,573	100.00%

Bonds are designated by the SVO with the highest quality being "1" and lowest being "6". The Company held bonds rated as follows:

SVO Rating	Amount	Percent of Total
1	$24,314,573	100.00%
Total	$24,314,573	100.00%

Bonds with an aggregate carrying value of $9,657,553 were on deposit with various states insurance departments in compliance with applicable insurance laws.

Note 2 Receivable from Affiliates $131,768

This entire balance is due from affiliates under the Reinsurance Pooling Agreement. According to the NAIC Annual Statement Instructions Manual, amounts receivable relating to intercompany reinsurance transactions are specifically excluded from Receivable from Affiliates. On future financial statements, any receivable balances related to the Reinsurance Pooling Agreement will be classified as "Other Amounts Receivable Under Reinsurance Agreements".

Note 3 Loss Reserves $16,703,954
Loss Adjustment Expense Reserves $5,830,149

Loss and loss adjustment expense reserves (LAE) represent 96.1% of the Company's liabilities as of December 31, 2007. Incurred but not reported reserves (IBNR) constituted 48.7% of loss reserves at year-end 2007.

INS Consultants, Inc. (INS) was retained by the Delaware Insurance Department to conduct a review of the Company's reserve methodologies and adequacy. INS evaluated the Company's book of business by line of business for loss and LAE reserves. The conclusions reached by INS are largely based upon information supplied by the Company's staff, which included an in-depth actuarial analysis. The INS reserve analysis was performed on both a gross basis and net of reinsurance and did not address the collectibility of reinsurance recoverables. The INS reserve review found the Company's combined net loss and LAE reserves were adequate to support the business underwritten.

The underlying data was tested through a review of open and paid claim files and actual payments made with no exceptions noted. The aggregated actuarial data provided by the Company was verified and reconciled to Schedule P of the Company's filed Annual Statement.

Loss and LAE reserves are subject to errors of estimation arising from the fact that the ultimate liability for claims evaluated as of the valuation date are dependent on future contingent events which cannot always be anticipated. The possible occurrence of such events, as well as the inherent uncertainty associated with statistical estimates, allows no guarantee that the actual ultimate liabilities will be the same as the reserve levels described in this examination report. As a result of this study, the reported reserves were accepted.

<u>Note 4</u> <u>Aggregate Write-ins for Liabilities</u> <u>$(7,044,051)</u>

The major component of this balance is a retroactive reinsurance reserve ceded balance of $(7,557,480), which is the Company's portion of pooled balances for finite cessions recorded as retroactive reinsurance as outlined in SSAP 62.

<u>Note 5</u> <u>Special Surplus Funds</u> <u>$5,208,911</u>

Amounts ceded under retroactive contracts are recognized as to premiums, other expenses incurred and losses, as a reduction of other expenses incurred and other liabilities. Losses ceded in excess of premiums paid are recorded as restricted surplus until losses in excess of premiums paid are recovered.

COMPLIANCE WITH PRIOR RECOMMENDATIONS

(1) It was noted that the Company's filed Annual Statement for 2004 Schedule Y – Part 1 did not reflect the proper ownership percentages. Subsequent to the examination, the error regarding ownership percentages was corrected. Voting percentages, however, remained undisclosed, and should be disclosed on the holding company organizational chart. It was recommended that the Company properly disclose the holding company voting structure in the filed annual statement. It appears that the Company has correctly included the voting percentages in the 2007 Annual Statement, thereby complying with the prior report recommendation.

CONCLUSION

As a result of this examination, the financial condition of the Company, as of December 31, 2007, was determined as follows:

Description	12/31/07 Current Examination	12/31/04 Prior Examination	Changes Increase (Decrease)
Assets	$35,998,886	$33,963,451	$2,035,435
Liabilities	$23,439,835	$24,092,210	$(652,375)
Special surplus funds	$5,208,911	$5,634,508	$(425,597)
Common capital stock	3,500,000	$3,500,000	0
Gross paid in and contributed capital	2,750,000	2,750,000	0
Unassigned funds (surplus)	1,100,140	(2,013,267)	3,113,407
Total surplus as regards policyholders	$12,559,051	$9,871,241	$2,687,810
Totals	$35,998,886	$33,963,451	$2,035,435

Since the last examination, the Company's assets have increased $2,035,435, liabilities have decreased $652,375, and capital and surplus have increased $2,687,810.

In addition to the undersigned, acknowledgment is made of the assistance provided by the Delaware Insurance Department's consulting actuarial firm, INS Consultants, Inc.

Respectfully submitted,

Joseph Murano Jr.

Joseph Murano Jr., CFE
Examiner-in-Charge
State of Delaware
Northeastern Zone, NAIC

SUBSEQUENT EVENTS

(1) In June 2008, the Company commuted both Inter-Ocean agreements. For Inter-Ocean II, the Pool participants did not receive any funds as a result of the settlement. For Inter-Ocean I, the Pool participants received $302.5 million for the commutation. The Pool participants had carried retroactive reserves of $386 million. The impact to the Company of this transaction was a charge to Other Expenses as a pre-tax recorded loss of $842,480, which represents the Company's 1% share of the total pool expense of $84,248,000.

(2) In June 2008, A.M. Best upgraded the Crum & Forster Group's financial strength rating, which includes the Company, to "A" from "A-".