REPORT ON EXAMINATION

OF THE

EVEREST INDEMNITY INSURANCE COMPANY

AS OF

DECEMBER 31, 2006

I, Matthew Denn, Insurance Commissioner of the State of Delaware, do hereby certify that the attached REPORT ON EXAMINATION, made as of DECEMBER 31, 2006 of the

EVEREST INDEMNITY INSURANCE COMPANY

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

ATTEST BY: ______________________________

DATE: 25 JUNE 2008

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 2008.

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Insurance Commissioner

REPORT ON EXAMINATION

OF THE

EVEREST INDEMNITY INSURANCE COMPANY

AS OF

December 31, 2006

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

Consideration has duly been 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.

MATTHEW DENN
INSURANCE COMMISSIONER

DATED this 25TH Day of JUNE 2008.

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SALUTATION

Honorable Alfred W. Gross
Chairman – Financial Condition (E)
Committee, NAIC
State Corporation Commission
Bureau of Insurance
P.O. Box 1157
Richmond, VA 23218

Honorable Steven M. Goldman
Secretary, Northeastern Zone (I), NAIC
Commissioner of Insurance
State of New Jersey
Department of Insurance and Banking
20 West State Street, 11th Floor
P.O. Box 325
Trenton, NJ 08625-0325

Honorable Julie Mix McPeak
Secretary, Southeastern Zone (II), NAIC
Office of Insurance
Commonwealth of Kentucky
P.O. Box 517
Frankfort, KY 40602-0517

Honorable Merle D. Scheiber
Secretary, Midwestern Zone (III), NAIC
South Dakota Division of Insurance
Department of Revenue and Regulation
445 East Capitol Avenue
Pierre, SD 57501-3185

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 Matthew P. Denn
Insurance Commissioner
State of Delaware
Department of Insurance
841 Silver Lake Boulevard, Suite 100
Dover, DE 19904

Commissioners:

In compliance with instructions and pursuant to statutory provisions contained in Certificate of Authority Number 07.016 dated September 18, 2007, an examination has been made of the affairs, financial condition and management of

EVEREST INDEMNITY INSURANCE COMPANY

hereinafter referred to as “Company” or “EIIC” incorporated under the laws of the State of Delaware. This examination was conducted at the administrative office of the Company located at 477 Martinsville Road, Liberty Corner, New Jersey. The examination of the Company was its affiliates, Everest National Insurance Company (ENIC) and Mt. McKinley Insurance Company (McKinley). 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 Department of Insurance as of December 31, 2003. This examination of the Company covers the period January 1, 2004, through December 31, 2006, and consisted of a general survey of the Company's business practices and policies; management, any corporate matters incident thereto; a verification and evaluation of assets and a determination of liabilities. Transactions and events subsequent to the latter date 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 regards 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 responsible personnel and/or officials 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
All Assets and Liability Items Not Mentioned

The examination was conducted by the Delaware Department of Insurance in accordance with the Association Plan of Examination Guidelines established by the NAIC. No states participated in the examination.

Workpapers prepared by the Company's external accounting firm, Pricewaterhouse-Coopers, LLP, (PwC) New York, New York, in connection with the 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 Company's overall control risk related to information system controls.

HISTORY

The Company was incorporated on June 17, 1997, under the laws of the State of Delaware and began business on October 30, 1997. At the time of incorporation, the Company was a wholly owned subsidiary of Everest Re, a Delaware insurance company and a subsidiary of Everest Reinsurance Holdings, Inc. (Holdings). During 2000, ultimate ownership of Holdings was transferred to a new entity called Everest Re Group, Ltd., a Bermuda company.

CAPITALIZATION

At December 31, 2006, the Company had 10,000 common shares authorized with a par value of $750 per share, of which all shares were issued and outstanding. The schedule below shows the changes in the Company's capital and surplus from the previous examination to the current examination.

	Common Capital Stock	Gross paid in and contributed surplus	Unassigned Funds (surplus)	Total
December 31, 2003	$7,500,000	$22,500,000	$21,695,283	$51,695,283
Operations (1)				
2004 Operations			2,964,920	2,964,920
2005 Operations			3,226,743	3,226,743
2006 Operations			5,902,608	5,902,608
Dividends to Stockholder			(5,000,000)	(5,000,000)
December 31, 2006	$7,500,000	$22,500,000	$28,789,554	$58,789,554

(1) Operations are defined as: Net income, change in net unrealized capital gains or (losses), change in net deferred income tax, change in nonadmitted assets and change in provision for reinsurance.

Dividends to Stockholder

The Company is subject to statutory and regulatory restrictions imposed by the State of Delaware on insurance companies, which limit the amount of dividends that may be paid to the shareholder. 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 by the Delaware Insurance Commissioner granting a greater amount is obtained (extraordinary dividends). In addition, no dividend may be paid in excess of unassigned surplus.

According to Company records and as reflected in minutes to the Board of Directors' meetings, cash dividends to stockholder of $5,000,000, as reflected above, represent ordinary dividends, declared and paid by the insurer in accordance with 18 Del. C. §5005 (b).

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 consists of at least seven members and is not subject to a maximum.

The Board of Directors is currently comprised of seven members, all of whom were elected by the sole shareholder by written consent in June 2006. Each director holds office until his successor is qualified and elected, or until earlier resignation or removal.

The members of the Board of Directors serving as of December 31, 2006, were as follows:

Director's Name	Principal Business Affiliation
Thomas James Gallagher (Chairman)	Everest Reinsurance Company
Daryl Wayne Bradley	Everest National Insurance Company
Mark DiGaetano	Everest National Insurance Company
Larry Allen Frakes	Everest National Insurance Company
Sanjoy Mukherjee	Everest Reinsurance Company
Eric Martin Simpson	Everest Reinsurance Company
Barry Howland Smith	Everest Reinsurance Company

The Company's bylaws provide for the Board, by resolution or resolutions passed by a majority of the Board, to designate one or more committees, each committee to consist of three or more directors of the corporation. The Board may also designate one or more directors as alternate members of any committee, who may replace any absent or disqualified member at any meeting of the committee. As of December 31, 2006, the Board of Directors had not appointed any committees.

The bylaws of the Company state the officers of the corporation include a Chairman of the Board, a Chief Executive Officer, a President, a Treasurer, a Comptroller, a Secretary (of whom only the Chairman of the Board and Chief Executive Officer need be a director of the corporation), and one or more Vice Presidents, Assistant Treasurers, Assistant Comptroller and Assistant Secretaries, and such other officers, assistant officers or agents (none of whom need be a director) as the Board of Directors from time to time may determine. At December 31, 2006, the Company's principal officers and their respective titles are as follows:

Officer	**Title**
Thomas James Gallagher	Chairman and Chief Executive Officer
Larry Alan Frakes	President
Daryl Wayne Bradley	Executive Vice President
Gary Richard McKinnon	Senior Vice President and Comptroller
Sanjoy Mukherjee	General Counsel and Compliance Officer
Frank Nicholas Lopapa	Treasurer
Mark DiGaetano	Actuary
Steven Simeoni	Senior Vice President - Claims
Heather Johnston Marvell	Secretary

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 a manager 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 under 18 Del. C. §5001(4) “Insurance holding company system”. Holding Company registration statements were properly filed by the Company with the Delaware Insurance Department.

All of the common stock is owned by Everest Re, a Delaware domiciled property and casualty insurer. The ultimate controlling entity of the holding company system is Everest Re Group, Ltd. (Group). Group's stock is traded on the New York Stock Exchange under the symbol "RE". As of December 31, 2006, Group, on a consolidated U.S. Generally Accepted Accounting Principles basis (GAAP), reported approximately $17.1 billion in assets and $5.1 billion in shareholders' equity.

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, 2006:

	Domicile	% Ownership
Everest Re Group, Ltd.	Bermuda	
Everest Re Advisors, Ltd.	Bermuda	100%
Everest Advisors (Ireland), Limited	Ireland	100%
Everest Advisors (UK), Ltd.	United Kingdom	100%
Everest Reinsurance (Bermuda), Ltd.	Bermuda	100%
Everest Global Services, Inc.	Delaware	100%
Everest International Reinsurance, Ltd.	Bermuda	100%
Everest International Holdings, Ltd.	Bermuda	100%
Everest Reinsurance Holdings, Inc.	Delaware	100%
Everest Re Capital Trust	Delaware	100%
Everest Re Capital Trust II	Delaware	100%
Mt. McKinley Insurance Company	Delaware	100%
Mt. McKinley Managers, LLC	New Jersey	100%
Workcare Southeast, Inc.	Alabama	100%
Workcare Southeast of Georgia, Inc.	Georgia	100%
Everest Reinsurance Company	Delaware	100%
Everest National Insurance Company	Delaware	100%
Everest Insurance Company of Canada	Canada	100%
Everest Indemnity Insurance Company	Delaware	100%
Everest Security Insurance Company	Georgia	100%

AGREEMENTS

Service Agreements

Effective July 7, 1997, the Company entered into a service agreement with Everest Re, pursuant to which Everest Re agrees to provide services customarily performed or required in the operation of its business. In return, the Company agrees to pay Everest Re 100% of its costs and expenses incurred in providing these services. Amounts incurred by the Company for services provided by Everest Re under this agreement in 2006 were $21,233. This agreement was replaced with a new service agreement effective January 1, 2008, as detailed in the "Subsequent Events" section of this report.

Effective March 23, 2004, the Company entered into a service agreement with ENIC, pursuant to which each party agrees to provide to the other, services customarily performed or required in the operation of its business. In return, each party agrees to reimburse the other for 100% of its costs and expenses incurred in providing these services. Amounts incurred by the Company for services provided by ENIC under this agreement in 2006 were $2,784,029. This agreement was replaced with a new service agreement effective January 1, 2008, as detailed in the "Subsequent Events" section of this report.

Tax Allocation Agreement

Effective January 1, 2001, the Company entered into a tax allocation agreement with Holdings, along with its affiliates. Holdings, the Company and affiliates constitute an affiliated group within section 1504(a) of the Internal Revenue Code of 1986. Holdings is the common parent and, therefore, eligible to file a consolidated income tax return for United States federal income tax purposes and to pay federal income taxes on a consolidated basis, if necessary. Pursuant to the terms of the tax allocation agreement, no party will be required to pay more in taxes or receive a lesser refund than it would have paid or received if it computed its taxes independently and filed a separate tax return.

Parental Guarantee Agreement

Effective September 30, 2002, the Company entered into a parental guarantee agreement with Everest Re. The agreement, as approved by the Delaware Department of Insurance, states Everest Re guarantees the Company's obligations up to $50 million.

Investment Advisory Agreement

The Company and its affiliates share a common investment manager, Deutsche Investment Management Americas, Inc. (Deutsche). The agreement, effective July 1, 1996, authorizes Deutsche to supervise and direct all investments and to exercise whatever powers the Company may possess with respect to its invested assets. Investment transactions must be in accordance with investment objectives of the Company and subject to restrictions established by the Company, as communicated to Deutsche in writing from time to time. The total investment expenses incurred by the Company for 2006 were approximately $28,000.

Agency Agreement

Effective June 1, 1998, the Company entered into an agency agreement with Mt. McKinley Managers, L.L.C. (Mt. McKinley Managers), a New Jersey domiciled limited liability company. Under the terms of the agreement, Mt. McKinley Managers provides, directly or indirectly, agency management and underwriting services to the Company. Amounts incurred by the Company for services provided by Mt. McKinley Managers under this agreement in 2006 were $374,475.

TERRITORY AND PLAN OF OPERATION

As of December 31, 2006, the Company was licensed to transact multiple property and casualty lines of insurance in the State of Delaware and is eligible to write surplus lines business in 49 states, the District of Columbia and Puerto Rico.

The Company has appointed an affiliate underwriting manager, Mt. McKinley Managers, as its general agent with responsibility for all insurance operations. Mt. McKinley Managers collects premiums and manages claims that the licensed surplus lines brokers produce.

The following summarizes the largest producers:

1. All Risks, Ltd. (All Risks) writes single line general liability in connection with security guards, private investigators and alarm installers and monitors.

2. National Environmental Coverage Corporation (NECC) writes commercial general liability, contractors' pollution liability, site pollution liability, motor vehicle pollution liability, commercial umbrella and excess and liability for environmental contractors and consultants.

3. Oxford Insurance Services Limited (Oxford) writes hard to place risks for Medical Malpractice coverage on a claims made basis. Policies are written with substantial self-insured retentions.

4. Heath Insurance Brokers Inc. (Heath) writes California residential subcontractor business on a non-admitted basis. Eligible subcontractors must be domiciled in California and perform 75% of the work in California. The remainder may be performed in Arizona, Oregon or Washington. No work may be performed in Nevada.

5. C.V. Starr & Co. writes excess liability coverage for risks classified as commercial construction, residential construction, public entity and general liability coverage.

6. Contractors Facility writes direct business with a current emphasis on California Workers compensation risks, for customers who require multi-line and multi-state coverage.

7. Florida Property writes direct business which specializes in windstorm coverage.

8. Cromwell Management Corporation (CMC) writes on a surplus lines basis project specific coverage or wrap-up general liability for residential homebuilders.

9. Gallagher Healthcare Insurance Services Inc. (GHIS) writes medical malpractice on a surplus lines basis. Policies are written with substantial self insured retentions. This is an MGA as defined in section 1802 (3) of the Delaware Insurance Code and was properly disclosed in the 2006 annual statement Notes to the Financial Statements.

The following table details the 2006 direct written premiums by program:

Direct Business	Premium	Percentage
All Risks, Ltd.	$ 83,918,224	29.91%
National Environmental Coverage Corp.	45,241,529	16.13%
Oxford Insurance Services Limited	36,234,660	12.92%
Heath Insurance Brokers Inc.	26,562,122	9.47%
C.V. Starr & Co.	25,091,378	8.94%
Contractors Facility	22,836,750	8.14%
Florida Property	20,334,300	7.25%
Cromwell Management Corporation	10,512,427	3.75%
Gallagher Health Insurance Services	2,885,014	1.03%
All Others	6,941,566	2.46%
Total	$280,557,970	100.00%

The Company, in concert with its affiliates, has employed several Claim Service Providers (CSPs) to manage claims. The CSPs, which have claim payment and reserving authority, manage specific programs for the Company as follows;

CSP	Program
Carl Warren and Company	Contractors Facility, Heath
Gallagher Basset Services	All Risks
Western Litigation Services *	GHIS, Oxford
F.A. Richard	NECC

* Western Litigation Services is an affiliate of GHIS

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, 2006:

Year	Net Written Premium	Net Admitted Assets	Liabilities	Common Stock	Gross paid in and contributed surplus	Unassigned Funds (surplus)	Net Income
2003	$18,859,865	$96,299,691	$44,604,408	$7,500,000	$22,500,000	$21,695,283	$12,494,634
2004	19,574,843	128,697,429	79,037,226	7,500,000	22,500,000	19,660,203	2,338,516
2005	18,188,112	148,003,567	95,116,621	7,500,000	22,500,000	22,886,946	4,075,805
2006	27,214,007	199,262,187	140,472,633	7,500,000	22,500,000	28,789,554	5,595,385

The growth over the examination period has taken the form of the following: 106.9% increase in assets; 214.9% increase in liabilities; 32.7% increase in unassigned funds (surplus). The following factors contributed to the Company's growth:

- The Company reported profitable underwriting results for all of the years under examination.
- Assets have increased due to the timely settlement of inter-company reinsurance.
- The Company ceded approximately 90.6% of its direct business to Everest Re.
- The liabilities increase of over $100 million is partially due to a $32 million increase for amounts withheld on self-insured retention business. Additionally, liabilities have increased $19 million for ceded premium payable due to the timing of settlements of inter-company reinsurance and $27 million for additional loss and LAE reserves.

REINSURANCE

General

For 2006, the Company reported the following distribution of net written premiums:

Direct written premiums	$280,557,970
Ceded premiums:	
Everest Re – 85% Global Quota Share	$171,945,087
Everest Re – Specific Treaties	82,085,725
Transatlantic Reinsurance Company	(686,849)
Total Ceded Premiums	$253,343,963
Net Written Premiums	$27,214,007
Percentage of gross premiums ceded	90.3%

Assumed

The Company did not assume any business during the period under examination.

Ceded

The Company limits its exposure through an 85% global quota share reinsurance agreement with Everest Re. This agreement was properly filed with, and approved by, the Delaware Insurance Department. Under this contract the Company ceded $171.9 million, or 67.9%, of the total 2006 ceded written premiums. Under related agreements, which inure to the benefit of the global quota share reinsurance agreement, Everest Re, in turn, cedes that business to unaffiliated reinsurers under various reinsurance agreements. Everest Re is liable to the Company pursuant to the terms of those agreements. Program-specific quota share and excess of loss reinsurance premiums with Everest Re and outside reinsurers are $82.1 million and $(0.7) million, respectively. The largest net aggregate amount insured in any one risk, excluding workers compensation, was $1.8 million at December 31, 2006.

ACCOUNTS AND RECORDS

The accounts and records reviewed included an evaluation of the Company's operational and organizational controls. The areas evaluated included computer systems, accounting systems, organizational structure, and the processing structure. The Company operates in a computer dominant environment. It was determined that global controls surrounding the EDP environment were found to be sufficient.

It was observed during the review of intercompany transactions that the Company was settling expense charges from an affiliate, Everest Global Services. The Company incurred expenses of $684,879 under this arrangement in 2006, however, a written cost-sharing agreement with this affiliate did not exist. This is a violation of 18 Del. C. §5005(a)(2)(d), which requires that all management agreements, service contracts and cost-sharing arrangements involving a domestic insurer and any person in its holding company system may not be entered into unless the insurer has notified the Commissioner in writing of its intention to enter into such transaction at least 30 days prior thereto. Therefore, it was recommended to management that the Company comply with 18 Del. C. §5005(a)(2)(d). The Company complied with this recommendation effective January 1, 2008, as detailed in the "Subsequent Events" section of this report.

FINANCIAL STATEMENTS

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

Analysis of Assets as of December 31, 2006
Liabilities, Surplus and Other Funds as of December 31, 2006
Underwriting and Investment Exhibit - Statement of Income, 2006
Capital and Surplus Account for the one year period ending December 31, 2006

It should be noted that the various schedules and exhibits may not add to the totals shown due to rounding.

Analysis of Assets
As of December 31, 2006

Assets	Assets	Nonadmitted Assets	Net Admitted Assets	Note
Bonds	$ 62,944,516		$ 62,944,516	(1)
Cash, cash equivalents and short-term investments	48,875,821		48,875,821	(2)
Receivables for securities	60,156		60,156	
Investment income due and accrued	797,174		797,174	
Premiums and agents balances in course of collection	46,049,666	$1,162,284	44,887,382	
Premiums, agents balances and installments, booked but deferred and not yet due	5,741,719	42,442	5,699,277	
Amounts recoverable from reinsurers	8,040,519		8,040,519	
Net deferred tax asset	2,991,147	1,257,296	1,733,851	
Receivables from affiliates	9,733,659		9,733,659	
Aggregate write-ins for other than invested assets	16,489,832		16,489,832	(3)
Totals	$201,724,209	$2,462,022	$199,262,187	

Liabilities, Surplus and Other Funds
As of December 31, 2006

		Note
Losses	$ 26,624,709	(4)
Loss adjustment expenses	10,337,236	(4)
Commissions payable	2,258,035	
Other expenses	200,819	
Federal and foreign income taxes	2,196,449	
Unearned premiums	16,145,117	
Ceded reinsurance premiums payable	42,983,393	
Amounts withheld by company for account of others	32,454,995	(5)
Remittances and items not allocated	202,831	
Payable to affiliates	384,047	
Aggregate write-ins for liabilities	6,685,000	
Total liabilities	$140,472,633	
Common capital stock	$ 7,500,000	
Gross paid in and contributed surplus	22,500,000	
Unassigned funds	28,789,554	
Surplus as regards policyholders	$ 58,789,554	
Total	$199,262,187	

Underwriting and Investment Exhibit: Statement of Income
For the Year Ended December 31, 2006

		Note
Underwriting Income		
Premiums earned	$20,783,801	
Deductions:		
Losses incurred	$ 6,979,050	
Loss expenses incurred	3,654,236	
Other underwriting expenses incurred	3,803,782	
Total underwriting deductions	$14,437,068	
Net underwriting gain (loss)	$ 6,346,733	
Investment Income		
Net investment income earned	$ 4,355,396	
Net realized capital gains (losses)	8,377	
Net investment gain (loss)	$ 4,363,773	
Other Income		
Net gain (loss) from premium balances charged off	$ (82,507)	
Aggregate write-ins for miscellaneous income	(1,031,323)	
Total other income (loss)	$(1,113,831)	
Net income before federal income taxes	$ 9,596,676	
Federal income taxes incurred	4,001,290	
Net income	$ 5,595,385	

Capital and Surplus Account

Surplus as regards policyholders, December 31, 2005	$ 52,886,946
Net income	$ 5,595,385
Change in net unrealized capital gains (losses)	30,857
Change in net deferred income tax	757,860
Change in nonadmitted assets	(481,494)
Change in surplus as regards policyholders for the year	$ 5,902,608
Surplus as regards policyholders, December 31, 2006	$58,789,554

There were no changes proposed to the financials as a result of this examination.

NOTES TO FINANCIAL STATEMENTS

1) Bonds $62,944,516

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:

US Governments	$ 7,888,284
Special Revenue	9,642,126
Public Utilities	2,935,348
Industrial and Miscellaneous	42,478,758
Total	$62,944,516

Bonds are designated by the SVO with the highest quality being "1" and lowest being "6". The Company held bonds rated as 1 or 2 with total values of $61,131,408, bonds rated as 3 with a total value of $1,290,873, bonds rated as 4 with a value of $522,235. Bonds with carrying values of $7,374,250 were on deposit with various states or governmental insurance departments in compliance with insurance laws.

2) Cash, Cash Equivalents and Short-term Investments $48,875,821

The Company had cash on hand of $1,399,279 and short-term investments of $47,476,542. Short-term investments are held in class one money market mutual funds.

3) Aggregate Write-ins for Other Than Invested Assets $16,489,832

This balance consists of the following components: $8,290,317 related to amounts due from affiliate Everest Re under the 85% quota share reinsurance agreement, $6,685,000 related to remittance and items not allocated related to a particular lawsuit, $1,377,738 in deposits with claim service providers and $136,777 in miscellaneous assets. The amount due from affiliate Everest Re under the 85% quota share reinsurance agreement was received in 2007.

4)	Loss Reserves	$26,624,709
	Loss Adjustment Expense Reserves	$10,337,236

Loss and loss adjustment expense (LAE) reserves represent 26.3% of the Company's liabilities as of December 31, 2006. Incurred but not reported loss (IBNR) reserves were 55.3% of total net loss and LAE reserves at year-end 2006.

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 losses and LAE. 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 and net of reinsurance basis 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 reserves were accepted.

5) <u>Amounts Withheld By Company For Account of Others</u> <u>$32,454,995</u>

The Company issued medical professional liability policies to a named insured who then entered into a "Loss Funding Agreement" with the Company. The agreement states, pursuant to the policy, that the insured will retain a limit or deductible ("Obligation"). The insured is required to deposit funds to be used for payment (by the Company) of the insured's obligation pursuant to the terms and conditions of the policy. These funds, along with the agreed upon calculated interest, comprise this liability balance at December 31, 2006.

COMPLIANCE WITH PRIOR EXAMINATION RECOMMENDATIONS

It was observed during the review of intercompany transactions that the Company was settling expense charges from an affiliate, Everest Global Services. Amounts incurred by the Company for services provided by Everest Global Services under this arrangement in 2003 were $402,387. The Company does not have a cost-sharing agreement with this affiliate. This is a violation of 18 <u>Del.</u> <u>C.</u> §5005(a)(2)(d), which requires that all management agreements, service contracts and cost-sharing arrangements involving a domestic insurer and any person in its holding company system may not be entered into unless the insurer has notified the Commissioner in writing of its intention to enter into such transaction at least 30 days prior thereto. Therefore, it was recommended that the Company comply with 18 <u>Del.</u> <u>C.</u> §5005(a)(2)(d). The Company complied with this recommendation effective January 1, 2008, as detailed in the “Subsequent Events” section of this report.

SUMMARY OF RECOMMENDATIONS

There were no examination recommendations.

CONCLUSION

As a result of this examination, the financial condition of Everest Indemnity Insurance Company, as of December 31, 2006, was determined as follows:

Description	12/31/06 Current Examination	12/31/03 Prior Examination	Changes Increase (Decrease)
Assets	$199,262,187	$96,299,691	$102,962,496
Liabilities	140,472,633	44,604,408	95,868,225
Common capital stock	7,500,000	7,500,000	
Gross paid in and contributed capital	22,500,000	22,500,000	
Unassigned funds (surplus)	28,789,554	21,695,283	7,094,271
Total surplus as regards policyholders	$58,789,554	$51,695,283	$ 7,094,271
Totals	$199,262,187	$96,299,691	$102,962,496

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 M Murano Jr.

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

SUBSEQUENT EVENTS

Service Agreement

Effective January 1, 2008, the Company entered into a service agreement with all affiliates of the Everest Re Group, thereby replacing the existing individual service agreements Everest Re and ENIC previously mentioned under the "Agreements" section of this report. Each affiliate agrees to provide administrative, consultative and other support services to the other affiliates as needed. In return, the recipient affiliate agrees to pay the service-providing affiliate 108% (with the exception of ENIC whose reimbursement rate is 100%) of its costs and expenses incurred in providing those services. The new service agreement, which was approved by the Delaware Department of Insurance on January 31, 2008, addresses and allows for payments of convenience.