

REPORT ON EXAMINATION
OF THE
NAXOS INSURANCE COMPANY
AS OF
DECEMBER 31, 2007

Karen Weldin Stewart, CIR-ML
Commissioner



Delaware Department of Insurance

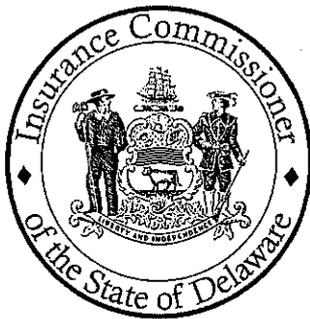
I, Karen Weldin Stewart, Insurance Commissioner of the State of Delaware, do hereby certify that the attached REPORT ON EXAMINATION, made as of December 31, 2007 of the

Naxos Insurance Company

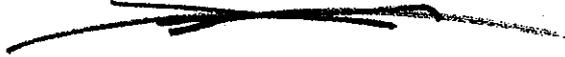
is a true and correct copy of the document filed with this Department.

Attest By: Sonia C. Harris

Date: 22 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 22nd day of June 2009.



Karen Weldin Stewart, CIR-ML
Insurance Commissioner

Karen Weldin Stewart, CIR-ML
Commissioner



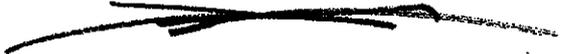
Delaware Department of Insurance

REPORT ON EXAMINATION
OF THE
NAXOS INSURANCE 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 22nd day of June, 2009

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April 16, 2009

Honorable Karen Weldin Stewart, CIR-ML
Insurance Commissioner
State of Delaware
841 Silver Lake Blvd.
Dover, DE 19904

Honorable Alfred W. Gross
Chairman, Financial Condition
Committee, NAIC
State Corporation Commission
P. O. Box 1157
Richmond, VA 23218

Honorable Eleanor Kitzman
Secretary Southeastern Zone
Department of Insurance
State of South Carolina
300 Arbor Lake Drive, Suite 1200
Columbia, SC 29223

Dear Commissioners:

In compliance with instructions and pursuant to statutory provisions contained in Certificate of Authority Number 08-037, an examination has been made of the affairs, financial condition and management of

NAXOS INSURANCE COMPANY

hereinafter referred to as "Company" incorporated under the laws of the State of Delaware. The examination was conducted at the administrative office of the Company located at 120 West 45th Street, New York, New York. The examination of the Company was conducted concurrently with that of its parent, Delos Insurance Company. Separate reports of examination were filed for each Company.

The report of examination thereon is respectfully submitted.

SCOPE OF EXAMINATION

The Company was incorporated December 7, 2006 and its Certificate of Authority was issued April 12, 2007. As such, there have been no prior examinations conducted. This examination covered the period from December 7, 2006 through 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 subsequent to the latter date were reviewed to the extent deemed necessary.

The format of this report is designed to explain the procedures employed on the examination and 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 general procedure of 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 Delaware Insurance Code Section 526, and generally accepted statutory insurance examination standards.

In addition to items noted in this report, the following topics were reviewed and are included in the workpapers of this examination:

Fidelity Bonds
Agent and Employee Welfare
NAIC Ratios
Legal actions
Regulatory agency correspondence
All asset and liability items not mentioned

The examination was conducted in accordance with the Association Plan of Examination guidelines established by the NAIC. No other states participated in the examination.

In planning and conducting the examination, consideration was given to the concepts of materiality and risk, and examination efforts were directed accordingly. The workpapers of the Company's public accountant prepared in support of the Company's annual audit were reviewed, and utilized to the extent deemed appropriate and practical.

HISTORY

The Company was incorporated in the State of Delaware on December 7, 2006 as Naxos Insurance Company. Its Certificate of Authority was effective as of April 12, 2007 but the Company did not write its first policy until March 29, 2008.

The Company is a wholly owned subsidiary of Delos Insurance Company (Delos), which is ultimately owned by Lightyear Delos Acquisition Corp. The Company's business plan calls for Naxos to write excess and surplus lines. The Company will follow Delos' lead in using established program administrators to write its direct business and established claims managers to administer its claims process.

CAPITALIZATION

As of December 31, 2007, the Company's authorized capital was \$2,600,000 consisting of 26,000 issued and outstanding shares of common stock at a par value of \$100 per share. The following occurred in the capital and surplus accounts since the Company's organization.

	<u>Common Capital Stock</u>	<u>Gross Paid-in and Contributed Surplus</u>	<u>Unassigned Surplus</u>	<u>Total</u>
April 12, 2007 (1)	\$ 2,600,000	\$ 17,400,000	\$ 0	\$ 20,000,000
Operations 2007 (2)			(93,166)	(93,166)
December 31, 2007	<u>\$ 2,600,000</u>	<u>\$ 17,400,000</u>	<u>\$ (93,166)</u>	<u>\$ 19,906,834</u>

(1) Delos Insurance Company made a total capital contribution (including the \$2.6 million paid for Capital Stock) to Naxos Insurance Company, in the amount of \$20,000,000.

(2) The operations of the Company are made up of (1) the net income of the Company and (2) change in net unrealized capital gains or (losses) less capital gains tax.

DIVIDENDS TO STOCKHOLDER

As of December 31, 2007, the Company did not authorize, declare or pay any dividends.

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.

Shareholders

In accordance with Article II, Section 2 of its bylaws the annual shareholders meeting shall be held each year on a date to be determined by resolution of the Board of Directors.

Board of Directors

In accordance with Article III, Section 2 of the bylaws, the initial number of directors shall be three (3). The number of directors can be changed from time to time allowing for no less than three (3) and no more than nine (9).

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

<u>Director's Name</u>	<u>Principal Business Affiliation</u>
Dr. Detlef Steiner, Chairman of the Board	Lightyear Delos Acquisition Corp.
William Francis Davis	Delos Insurance Company
Grace Ann Meek	Delos Insurance Company

Committees

Article III, Section 7 of the bylaws provided that the board designate one or more committees, each committee consisting of one or more directors of the corporation. As of December 31, 2007 the Board of Directors had not appointed any committees.

Officers

In accordance with Article IV, Section 1 of its bylaws provided that the officers of the Company to be a chairman of the board, a president, a treasurer, a secretary and such vice presidents, assistant treasurers, assistant secretaries or other officers and agents as may be elected or appointed by the Board of Directors.

As of December 31, 2007 the Company's principal officers and their respective titles are as follows:

Naxos Insurance Company

<u>Officer</u>	<u>Title</u>
Dr. Detlef Steiner	Chairman of the Board
William Francis Davis	President and Chief Executive Officer
Bryan Triplett McCully	Senior Vice President and Secretary
Grace Ann Meek	Senior Vice President and Chief Business Officer
Mary Elizabeth Sbaschnig	Senior Vice President and Chief Administrative Officer

Conflict of Interest

The Company maintains a formal written conflict of interest policy, under which officers and directors are required to complete and sign a conflict of interest statement each year. The signed conflict of interest statements were reviewed and no conflicts of interests were noted.

Corporate Records

The Company's corporate records were reviewed for the period under examination. The original Certificate of Incorporation dated December 7, 2006 was amended January 8, 2007 to replace Article III of the original Certificate of Incorporation. This amendment eliminated the Company's authority to engage in activities authorized under the provisions of Title 18, Sections 903, 905, and 906(a)(3)). No amendments were made to the bylaws.

AGREEMENTS

Related Parties

Income Tax Allocation Agreement

Effective August 2, 2006, Delos Insurance Company entered into a tax sharing and allocation agreement with Lightyear Delos Acquisition Corp. (Lightyear Acquisition), the

Naxos Insurance Company

Company's ultimate parent. Effective May 1, 2007, Naxos Insurance Company was included as a party and a member of the "Affiliated Group" as defined in the agreement. The purpose of the agreement was to establish fair and equitable reimbursement obligations that Lightyear Acquisition and affiliated group members have with respect to each other arising out of the filing of a consolidated federal income tax return and to establish the federal income tax liability of the affiliated group in accordance with the IRS Code, Section 1552. This agreement was amended January 1, 2008.

Management Services Agreement

Effective April 1, 2007, the Company entered into a management services agreement with Delos Insurance Company (Delos), its parent. The services provided by Delos include but are not limited to these services; Delos is to engage in marketing activities on behalf of Naxos and to recommend program managers to administer business written and to recommend third party administrators (claim managers) to handle servicing of claims on behalf of Naxos, Delos will access and review the books of program managers and claim managers, prepare and file all reports, statements, documents, or notices as required by law for Naxos, and assist in the maintenance of corporate books and records of Naxos. Delos' compensation for providing these services is a percentage of unallocated expenses for the current year.

Other Non-Affiliates

Investment Management Agreement

The Company entered into an investment agreement with White Mountains Advisors LLC effective March 20, 2007. The agreement calls for White Mountains Advisors LLC to manage on

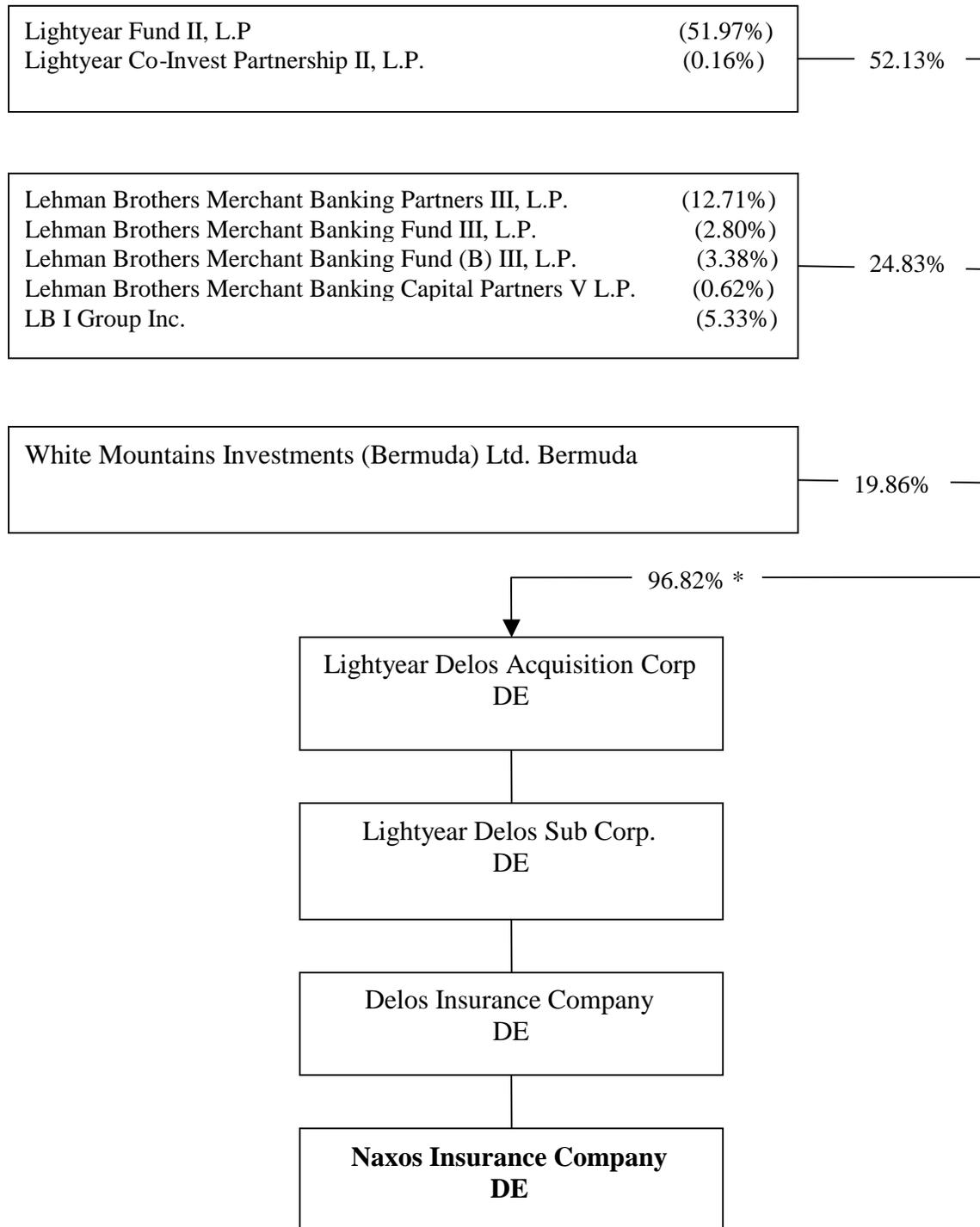
a continuous basis the Company's investment account in accordance with the investment objectives communicated in writing by Company management and written guidelines.

INSURANCE HOLDING COMPANY SYSTEM

The Company is a member of an Insurance Holding Company System under the ultimate parent company, Lightyear Delos Acquisition Corp. Lightyear Delos Acquisition Corp. is owned 52.1% by Lightyear Fund II, L.P., a Delaware limited partnership, 24.8% by Lehman Brothers Merchant Banking Partners III L.P, a Delaware limited partnership, and 19.9% by White Mountains Investment (Bermuda) Ltd., a Bermuda company. For the year ended 2007, Lightyear Delos Acquisition Corp. consolidated financial statements showed assets of \$752.7 million and stockholders' equity of \$191.5 million.

The following is an organizational chart in which Naxos Insurance Company identifies the relationships between its parent, affiliates and subsidiaries as of December 31, 2007.

Naxos Insurance Company



* The remaining 3.18% is owned by individuals
Ownership is 100% unless otherwise indicated

TERRITORY AND PLAN OF OPERATION

Territory

As of December 31, 2007, the Company was licensed to transact business in 22 states. The Company did not write any business in 2007.

Plan of Operation

The Company was structured to be the carrier of excess and surplus lines whereas its parent, Delos was structured to be the admitted carrier. Once the Company begins operations it will utilize Delos' developed program administrators (PAs) and Third Party Administrators (TPAs) to underwrite and settle claims under management approved guidelines. As noted above, the Company had not written any business as of December 31, 2007 and had not entered into any PA or TPA agreements as of that date.

REINSURANCE

For the year ended 2007, the Company neither wrote or assumed business.

Effective July 1, 2007, the Company entered into a Quota Share Agreement with Delos, its immediate parent, to cede 90% of the Company's net retained liabilities under policies. The Company was to be paid a one percent ceding commission plus acquisition cost. Since the Company did not write business during the examination period, this agreement had no financial effect on the Company. The ceding commission to be paid to the Company was amended to three percent effective July 1, 2008.

As noted in TERRITORY AND PLAN OF OPERATION, the Company will rely on numerous program administrators to write all of its business. The Company will follow its parent,

Delos Insurance Company, whereby most of the program administrators will have either a quota share, facultative, and/or excess of loss reinsurance agreement to cede a percentage of the business written by that program administrator for the Company.

GROWTH OF COMPANY

As noted in HISTORY above, the Company was not incorporated until December 7, 2006, did not receive its Certificate of Authority until April 12, 2007 and did not begin writing business until 2008. Therefore, no comparative financial data was available to analyze.

ACCOUNTS AND RECORDS

The accounts and records reviewed included an evaluation of the Company's operation and organization controls. The areas evaluated included computer systems, accounting systems, organization structure and the processing structure. The Company operates in a computer dominated environment. The company uses "Great Plains" software for the general ledger application. The Great Plains software consists of multiple modules including accounts payable and general ledger Integration Management as well as other financial reports including a trial balance report that is utilized by the Company. The Company utilizes SICSnt (storebrand International Contracts System) to capture all insurance related transactions for direct, reinsurance and ceded business.

An external accounting firm audits the statutory financial statement of the Company annually. The Company's external firm reviewed its internal control structure in order to establish the necessary audit procedures required to express an opinion. No significant or qualifying

deficiencies were found to exist in the design or operation of the Company's internal control structure.

Based on the examination review of the filed Annual Statement, observations and subsequent discussions with management, the accounting systems and procedures were found to conform to insurance accounting practices and requirements. The Company received a total of \$20 million paid in capital contributions which included a \$2.6 million paid in capital contribution for 26,000 shares of common stock from its parent, Delos Insurance Company.

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, which includes the Capital and Surplus Account for the one-year period ending December 31, 2007

Analysis of Assets

As of December 31, 2007

	<u>Assets</u>	<u>Non-Admitted Assets</u>	<u>Admitted Assets</u>	<u>Notes</u>
Bonds	\$ 17,147,024		\$ 17,147,024	1
Cash	2,895,501		2,895,501	
Receivable for securities	4,583		4,583	
Subtotal cash and invested assets	<u>\$ 20,047,108</u>		<u>\$ 20,047,108</u>	
Investment income due and accrued	\$ 141,977		\$ 141,977	
Current federal and foreign income taxes recoverable	101,324		101,324	
Totals	<u><u>\$ 20,290,409</u></u>		<u><u>\$ 20,290,409</u></u>	

Liabilities, Surplus and Other Funds

As of December 31, 2007

		<u>Notes</u>
Losses		\$
Reinsurance payable on paid loss and loss adjustment expenses		
Loss adjustment expenses		
Other expenses		20,000
Net deferred tax liability		944
Payable to parent, subsidiaries and affiliates		<u>362,631</u>
<i>Total Liabilities</i>		<u><u>\$ 383,575</u></u>
Capital stock		\$ 2,600,000
Gross paid in and contributed surplus	\$ 17,400,000	
Unassigned funds (surplus)	<u>(93,166)</u>	
Surplus		<u>17,306,834</u>
Surplus as regards policyholders		<u>\$ 19,906,834</u>
Total		<u><u>\$ 20,290,409</u></u>

Underwriting and Investment Exhibit: Statement of Income

As of December 31, 2007

Underwriting Income		
Premiums earned		\$ _____
Deductions		
Losses Incurred		\$
Loss expenses incurred		\$
Other underwriting expenses incurred		\$ 894,435
Total underwriting deductions		<u>\$ 894,435</u>
Net underwriting gain or (loss)		<u>\$ (894,435)</u>
Investment Income		
Net investment income earned		\$ 685,662
Net realized capital gains or (losses)		40,784
Net investment gain or (loss)		<u>\$ 726,446</u>
Other Income		
Net gain or (loss) from agents' or premium balances charged off		\$
Finance and service charges not included in premiums		_____
Total other income		<u>\$</u>
Net income before dividends to policyholders and before federal income taxes		\$ (167,989)
Federal income taxes incurred		(73,070)
Net income		<u>\$ (94,919)</u>
Capital and surplus account		
Capital and surplus, December 31, 2006		\$ _____
Gains and (losses) in surplus		
Net income		\$ (94,919)
Change in net unrealized capital gains or (losses) less capital gains tax		1,753
Capital changes paid In		2,600,000
Surplus Paid In		17,400,000
Dividends to stockholders		_____
Change in surplus as regards policyholders for the year		<u>\$ 19,906,834</u>
Surplus as regards policyholders, December 31, 2007		<u><u>\$ 19,906,834</u></u>

FINANCIAL CHANGES

No financial changes were made as a result of this examination.

NOTES TO FINANCIAL STATEMENTS

Note 1 - Bonds:

\$17,147,024

The Company's bond holdings totaled \$17.2 million and comprised almost 85% of total adjusted admitted assets and almost 86% of the Company's total invested assets, at December 31, 2007. Security composition for the year ended 2007 was comprised of the following:

U.S. Governments	\$ 6.4 million
Special Revenue	5.7 million
Industrial & Miscellaneous	<u>5.1 million</u>
	<u>\$17.2 million</u>

Of the Company's total bond holdings, \$16.2 million or 94.2% were categorized as Class 1, with respect to NAIC credit quality standards. All other bonds were categorized as Class 2 with a book value of \$1,000,000. All investments were rated by the SVO, Moody's and Standard and Poor's with similar quality ratings.

COMPLIANCE WITH PRIOR REPORT RECOMMENDATIONS

This is the first examination of Naxos Insurance Company.

SUMMARY OF RECOMMENDATIONS

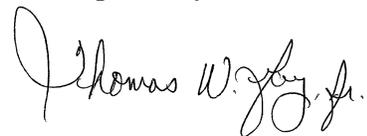
No recommendations were made in this examination report.

CONCLUSION

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

Description	12/31/2007 Current <u>Examination</u>
Assets	<u>\$ 20,290,409</u>
Liabilities	<u>\$ 383,575</u>
Common capital stock	\$ 2,600,000
Gross paid in and contributed capital	17,400,000
Unassigned funds (surplus)	<u>(93,166)</u>
Total surplus as regards policyholders	<u>\$ 19,906,834</u>
Totals	<u>\$ 20,290,409</u>

Respectfully submitted,



Thomas W. Gay, CFE
Examiner-in-Charge
State of Delaware
Northeastern Zone, NAIC

SUBSEQUENT EVENTS

The Company wrote their first policy on March 28, 2008.

On September 15, 2008, Lehman Brothers, (Lehman) the manager of five (5) separate funds with investments totaling 24.8% in the Company's ultimate parent, Lightyear Delos Acquisition Corp., filed for Chapter 11 bankruptcy protection. As represented by management, this filing is not anticipated to have any effect on the investment as it is fully funded and there is no mechanism by which Lehman may unilaterally withdraw its invested funds. Any sale of shares held by these funds must be done in accordance with the terms of the Stockholder's Agreement executed by the Lehman entities and all other shareholders.