REPORT ON EXAMINATION

OF THE

UNITED STATES FIRE INSURANCE 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

UNITED STATES FIRE INSURANCE 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

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UNITED STATES FIRE 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 25th day of June, 2009

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February 24, 2009

SALUTATION

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

Honorable Joel Ario
Secretary, Northeastern Zone (I), NAIC
Pennsylvania Insurance Department
1326 Strawberry Square
Harrisburg, PA 17120

Honorable James J. Donelson
Secretary, Southeastern Zone (II), NAIC
Louisiana Department of Insurance
1702 North Third Street
Baton Rouge, LA 70802

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 Karen Weldin Stewart, CIR-ML
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 08.013 dated April 28, 2008, an examination has been made of the affairs, financial condition and management of

UNITED STATES FIRE INSURANCE COMPANY

hereinafter referred to as “Company” or “USF”, 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, Crum & Forster Indemnity Company (CFIC), 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

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, 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 April 1, 1824. The Company absorbed the following companies by merger: Peter Cooper Insurance Company of New York in September, 1911; Williamsburg City Fire Insurance Company of New York on October 31, 1916; Colonial Assurance Corporation of New York on December 21, 1922;

Allemannia Fire Insurance Company of Pittsburgh on May 31, 1951; and Southern Fire Insurance Company on September 21, 1956.

During 2003, MJR Fire Insurance Company was incorporated in Delaware as a wholly-owned property and casualty insurance company subsidary of United States Fire Insurance Company. Effective December 31, 2003, the United States Fire Insurance Company, a New York domiciled Company, was merged with and into the MJR Fire Insurance Company. In connection with the merger, MJR Fire Insurance Company's name was changed to United States Fire Insurance 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 2,242,187 common shares authorized with a par value of $3 per share, of which 1,528,754 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 & Contributed Surplus**	**Unassigned Funds (Surplus)**	**Total**
December 31, 2004	$428,222,606	$4,586,262	$279,329,699	$173,142,376	$885,280,943
Operations (1)					
2005 Operations	(27,937,345)			176,339,794	148,402,449
2006 Operations	(2,734,000)			125,956,024	123,222,024
2007 Operations	(1,751,000)			286,075,393	284,324,393
Dividends Paid (3)					
2005 Dividends Paid				(88,500,000)	(88,500,000)
2006 Dividends Paid				(94,500,000)	(94,500,000)
2007 Dividends Paid				(97,300,000)	(97,300,000)
December 31, 2007	**$395,800,261**	**$4,586,262**	**$279,329,699**	**$481,213,587**	**$1,160,929,809**

(1) Operations is defined as: Net income, change in net unrealized capital gains or (losses), change in net unrealized foreign exchange capital gains or (losses), change in net deferred income tax, change in non-admitted assets, change in provision for reinsurance 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 (refer to Notes to the Financial Statements for information related to Special Surplus).
(3) Dividends paid were considered ordinary and were reported properly to the Delaware Insurance Department.

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 earned surplus. 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, cash dividends to the stockholder of $280,300,000, as reflected below, represent ordinary dividends, declared and paid by the Company in accordance with 18 Del. C. §5005(b):

Date Declared	Date Paid	Amount
March 14, 2005	March 31, 2005	$88,500,000
March 8, 2006	March 31, 2006	$94,500,000
March 12, 2007	March 31, 2007	$97,300,000

In addition, the Company paid a cash dividend to the stockholder in the amount of $116,000,000 on March 31, 2008 which was also an ordinary dividend.

Additionally, the Board of Directors approved a stockholder dividend in the amount of $350.0 million on October 20, 2008. The dividend was approved by the Delaware Department of Insurance on October 20, 2008 and was predominantly extraordinary. The dividend was calculated as ordinary dividend in the amount of $92,981 and extraordinary dividend in the amount of $349,907,019.

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. On July 7, 2005, the Board formed and appointed members to the Investment Committee, which was the Company’s only active committee as of December 31, 2007. The Board members serving on the Investment Committee were as follows:

V. Prem Watsa	Brian Bradstreet	Roger Lace
Mary Jane Robertson	Paul Rivett	

The bylaws of the Company state the principal officers shall be a President, a Chairman of the Board of Directors, a Chief Executive Officer, and any other Vice-Presidents, a Treasurer, a Secretary, one or more Assistant Vice Presidents, one or more Assistant Secretaries, and such other officers, assistant officers or agents as the Board 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
Joseph F. Braunstein, Jr.	President
Mary Jane Robertson	Executive Vice President, Treasurer & CFO
Felicia L. Garland	Vice President & Secretary
Marc Adee	Senior Vice President
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
Mark L. Owens	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.

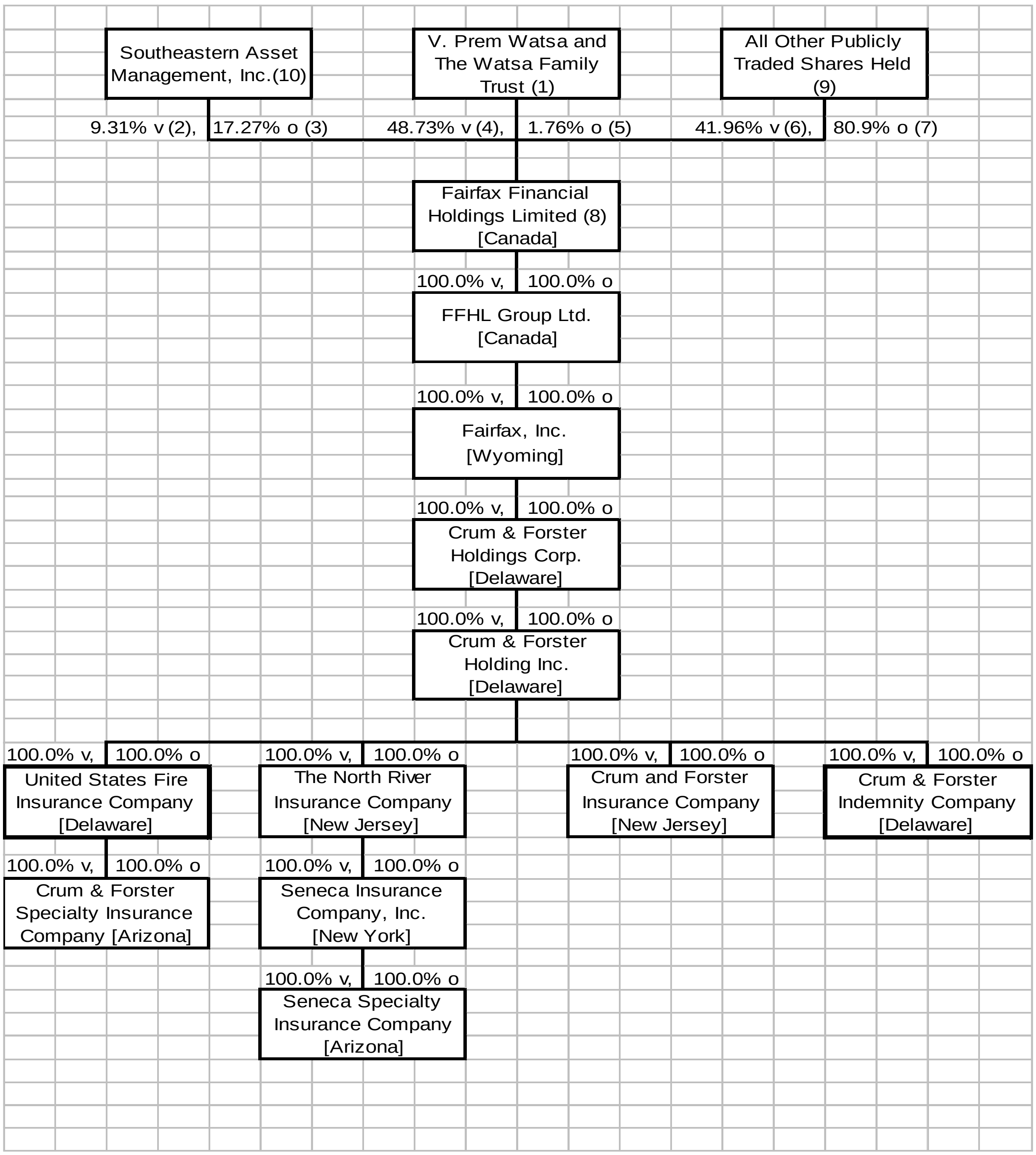
During our review for compliance with 18 Del. C. §4919, it was noted that the Company properly reported changes in directors and principal officers.

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 Ltd. (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.



Notes 1 through 10 were discerned through the examination and more fully describe the 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 note (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 note (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].

AGREEMENTS

Administrative Service Agreements

The Company is a party to administrative service agreements with the pool participants (refer to reinsurance section) effective January 1, 1993. By amendments dated June 12, 1995, and December 21, 2000, Crum & Forster Indemnity Company and Crum & Forster Specialty Insurance Company (C&F Specialty), respectively, were added to these agreements. The Company provides all administrative services such as underwiting, claims handling, reinsurance and premium collections on behalf of the parties. Operating expenses incurred in the performance of services are allocated in accordance with SSAP 70. Pool participants are charged their respective shares of operating expenses.

Personal Lines Administrative Services Agreement

The Company is a party to a personal lines administrative services agreement with TIG Insurance Company (TIG), formerly International Insurance Company, an Illinois insurer, effective January 1, 1993. TIG provides certain underwriting and administrative services relating to personal lines reinsurance agreement between TIG and the Company. The Company agrees to reimburse all costs and expenses incurred by TIG.

Reinsurance and Insurance Management and Services Agreement

The Company is a party to a reinsurance and insurance management and services agreement with TIG, formerly International Insurance Company, effective January 1, 1993. TIG provides the Company with management of certain reinsurance recoverables and for run-off along with performing discontinued operations previously performed by certain of the Crum & Forster business units on behalf of the Company. The Company agrees to pay all costs and expenses incurred by TIG.

Service Agreement

The Company is a party to a service agreement with TIG Insurance Company (TIG) effective January 1, 2000. TIG provides certain services relating to the underwriting, issuance and delivery of policies, and handling of claims in the state of Hawaii. TIG is reimbursed for expenses budgeted and agreed upon for a year and paid quarterly (at the beginning of the quarter).

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 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 terms of the tax allocation agreement, no party will be required to neither pay more in taxes nor 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.

Claims Service and Management Agreement

The Company was party to a claims services and management agreement with RiverStone Claims Management LLC (RiverStone), a Delaware limited liability company and an affiliate, wholly-owned by the Parent, effective July 1, 2000. RiverStone provided the Company claims services for certain identified types of claims. The Company agreed to pay a base service fee of $2,100,000 per year. Fees of $175,000 were payable monthly in arrears on the last day of each calendar month. This agreement was terminated August 30, 2007.

Master Repurchase Agreement

The Company is a party to a master repurchase agreement with FFH effective July 1, 2000, with an amendment dated September 11, 2001. 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 for CFIC and CFInsco of $5 million.

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.

Administrative Services Agreement

The Company is a party to an administrative services agreement with Seneca Insurance Company, Inc. (SIC), a New York insurer and an affiliate that is ultimately wholly-owned by the Company's immediate parent, Crum & Forster Holding Inc., also incorporated in Delaware, effective August 31, 2000. The Company provides SIC with certain underwriting and administrative services. SIC agrees to pay all costs and expenses incurred by the Company.

Administrative Services Agreement

The Company was a party to an administrative services agreement with Fairfax Information Technology Services, Inc. (FITS), a wholly-owned subsidiary of Fairfax Inc., a Wyoming corporation (Parent), effective January 1, 2001. The Company provided FITS with certain management and general services. FITS agreed to pay all costs and expenses incurred by the Company. This agreement was terminated December 31, 2007.

Asset Exchange Agreement

The Company was a party to an asset exchange agreement with Crum & Forster Indemnity Company effective April 25, 2001. The Company bought reinsurance recoverables from Crum & Forster Indemnity Company 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 paid in the amount of $2,337,500. There were no transactions under this agreement during the examination period. This agreement was no longer in effect at December 31, 2007.

Information Technology Agreement

The Company was a party to an information technology agreement with FITS effective September 1, 2001. FITS provided the Company with information technology services. Costs and expenses incurred are allocated in accordance with SSAP No. 70. This agreement was terminated December 31, 2007.

Put Agreement

The Company is a party to a put agreement with ORC Re Limited (ORC Re) and Fairfax Financial Holdings Limited (FFH), the Company's ultimate parent, effective June 28, 2002. Under this agreement, USF has the future right to sell its interests in several limited partnerships to ORC Re and FFH guarantees the obligations of ORC Re related to this agreement.

Investment Management Agreement

The Company is a party to an investment management and administrative services agreement among Hamblin Watsa Investment Counsel Ltd. (Hamblin Watsa) and 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.

Escrow Agreement

The Company is a party to an escrow agreement among the Parent, CFIC, SIC and The Bank of New York effective December 23, 2002. The purpose of the agreement and the escrow account is to assure the domestic insurer's enforceable right to recoup federal income tax in the event of future losses.

Administrative Services Agreement

The Company is a party to an administrative services agreement with Seneca Specialty Insurance Company (Seneca Specialty), an Arizona company and an affiliate that is ultimately wholly-owned by the Parent, effective January 1, 2005. The Company provides Seneca Specialty with certain underwriting and administrative services. Seneca Specialty agrees to pay all costs and expenses incurred by the Company.

Claims Service and Management Agreement

The Company is a party to a claims services and management agreement among Fairmont Premier Insurance Company (Fairmont Premier), Fairmont Specialty Insurance Company (Fairmont Specialty) and Fairmont Insurance Company (Fairmont) effective January 1, 2006. USF provides claims services for certain identified types of claims for Fairmont Premier, Fairmont Specialty and Fairmont. Fairmont Premier, Fairmont Specialty and Fairmont each agree to pay a fee based on each entity's share of the costs, overhead and general expenses incurred by the Company in providing the services. Fees are payable quarterly in advance on the first day of each calendar quarter.

Administrative Services Agreement

The Company is a party to an administrative services agreement with Markel Insurance Company of Canada (Markel), a Canadian company, effective January 1, 2007. The Company provides Markel with certain underwriting and administrative services. Markel agrees to pay all costs and expenses incurred by the Company.

Share Purchase Agreement

The Company was a party to a share purchase agreement with TIG effective February 15, 2007. The Company sold its 800,000 shares of common stock of Odyssey Re Holdings Corp. to affiliate TIG, for cash consideration of $30,160,000, the fair value of the stock at that time, for a realized gain of $12,336,000.

TERRITORY AND PLAN OF OPERATION

As of December 31, 2007, the Company was licensed to transact multiple property and casualty lines of insurance in all fifty states, the District of Columbia, Puerto Rico and the U.S. Virgin Islands.

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 over 1,300 producers. Producers on a direct written basis generally fall into three categories: wholesale brokers (41.5%), independent regional retail firms (38.5%), and national brokers (20%). 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, fire, group accident and health and allied lines. Under the terms of a pooling agreement, the

Company (as Pool lead) assumes from pool participants, 100% of premiums, losses, dividends to policyholders and other underwriting expenses. The Company retains 76% of all business (see Reinsurance Ceded section for more information).

As of January 1, 2006, certain 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.

On the filed Annual Statement for 2007, the Company reported the following distribution of gross premiums written:

Line	Premiums	Percent
Workers' Compensation	$173,612,030	23.74%
Commercial Auto Liability	130,883,496	17.90%
Other Liability – Occurrence	48,222,673	6.59%
Fire	102,932,654	14.08%
Group Accident and Health	68,789,134	9.41%
Allied Lines	68,302,001	9.34%
Commercial Multiple Peril	24,985,662	3.42%
Auto Physical Damage	22,752,186	3.11%
Other Accident and Health	36,282,104	4.96%
Earthquake	18,525,921	2.53%
Fidelity	12,677,347	1.73%
All Other Lines < $10,000,000 individually	23,337,294	3.19%
Total	$731,302,502	100.00%

REINSURANCE

On the filed Annual Statement for 2007, the Company reported the following distribution of net written premiums:

Total Direct Written Premiums		$731,302,502
Assumed premiums affiliated		$328,168,218
Assumed premiums non-affiliated		34,041,020
Total Assumed Premiums		$362,209,238
Total Gross Premiums		$1,093,511,740
Ceded premiums affiliated		$280,589,088
Ceded premiums non- affiliated		70,141,397
Total Ceded Premiums		$350,730,485
Net Written Premiums		$742,781,255

Percentage Ceded of Gross 32.1%

Assumed – Non-Affiliated

In addition to assumptions from the pool participants, the Company has only three other significant sources of assumed business: an 80% quota share with affiliate C&F Specialty, a 100% quota share with affiliate Fairmont Premier Insurance Company (Fairmont Premier) and mandatory pools. The premiums assumed from C&F Specialty, Fairmont Premier and the mandatory pools for 2007 were $85,115,000, $17,995,000 and $11,574,000, respectively.

Ceded

The Company is a 76% participant in a pool with its affiliates. 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 the Company, 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	5/1/07 to	$100 million XS $100 million Terror excluded,	100%	Wentworth 5%

Line of Business	Term	Layer/ Limit	Placement	Affiliate Participation
Fairmont business)	5/31/08	Reinstatement: 1 Pro rata w/ $200 million limit		
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%
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 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 76% 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), a Bermuda reinsurer, 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. 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 repesent its 76% 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 76% 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	$605,581,644	$2,934,247,259	$2,048,966,316	$885,280,943	$43,569,669
2005	566,367,698	3,089,671,058	2,144,487,666	945,183,392	93,963,943
2006	782,877,377	3,328,674,930	2,354,769,514	973,905,416	162,187,861
2007	742,781,255	3,694,722,840	2,533,793,031	1,160,929,809	137,063,710

The growth over the examination period is noted as follows:

- 22.7% increase in net written premiums
- 25.9% increase in net admitted assets
- 23.7% increase in liabilities
- 31.1% increase in policyholder surplus
- 214.6% increase in net income

The Company reported net income of $137,063,710 for 2007 compared to $43,569,669 for 2004. The increase of $93,494,041 from 2004 to 2007 mainly reflects continued moderate incurred losses, loss expenses and other underwriting expenses incurred coupled with significant realized capital gains during 2005-2007.

The Company's investment manager has an aggressive opportunistic investment portfolio approach. Net realized capital gains (exclusive of capital gains taxes) reported for the years under examination were $53,411,926, $128,553,856 and $46,628,272 for the years 2005, 2006 and 2007, respectively.

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 affilate, 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	$1,318,333,513		$1,318,333,513	(1)
Preferred stocks	7,347,478		7,347,478	
Common stocks	872,436,150		872,436,150	(2)
Cash, cash equivalents and short-term investments	940,399,274		940,399,274	(3)
Other invested assets	93,174,093		93,174,093	(4)
Aggregate write-ins for invested assets	169,556,972		169,556,972	(5)
Investment income due and accrued	23,388,077		23,388,077	
Uncollected premiums and agents balances in course of collection	47,881,616	$3,007,582	44,874,034	
Premiums, agents balances and installments, booked but deferred and not yet due	54,691,148	1,084,312	53,606,836	
Accrued retrospective premium	48,087,647	4,857,877	43,229,770	
Amounts recoverable from reinsurers	45,775,587		45,775,587	
Net deferred tax asset	38,140,767		38,140,767	
Guaranty funds receivable on deposit	7,386,843		7,386,843	
Electronic data processing equipment	136,038		136,038	
Furniture and equipment	2,510,108	2,510,108	0	
Aggregate write-ins for other than invested assets	57,401,581	20,464,173	36,937,408	
Total assets	$3,726,646,892	$31,924,052	$3,694,722,840	

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

		Note
Losses	$1,269,500,511	(6)
Reinsurance payable on paid loss and loss adjustment expenses	2,011,979	
Loss adjustment expenses	443,091,318	(6)
Commissions payable	4,319,039	
Other expenses	35,498,998	
Taxes, licenses and fees	26,824,853	
Current federal and foreign income taxes payable	12,457,681	
Unearned premiums	299,714,148	
Dividends declared and unpaid to policyholders	104,368	
Ceded reinsurance premiums payable	5,597,405	
Funds held by company under reinsurance treaties	190,425,180	
Amounts withheld or retained by company for account of others	31,616,538	
Provision for reinsurance	13,758,332	
Payable to affiliates	4,113,756	(7)
Payable for securities	7,239,484	
Aggregate write-ins for liabilities	187,519,441	(8)
Total liabilities	$2,533,793,031	
Aggregate write-ins for special surplus funds	$395,800,261	(9)
Common capital stock	4,586,262	
Gross paid in and contributed surplus	279,329,699	
Unassigned funds	481,213,587	
Surplus as regards policyholders	$1,160,929,809	
Total liabilities and surplus as regards policyholders	$3,694,722,840	

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

Underwriting Income		Note
Premiums earned	$803,205,721	
Deductions:		
Losses incurred	$415,575,579	
Loss expenses incurred	121,464,098	
Other underwriting expenses incurred	218,174,921	
Total underwriting deductions	$755,214,598	
Net underwriting gain or (loss)	$47,991,123	
Investment Income		
Net investment income earned	$106,700,525	
Net realized capital gains or (losses)	46,628,272	
Net investment gain or (loss)	$153,328,797	
Other Income		
Aggregate write-ins for miscellaneous income	$(17,291,973)	
Net income before federal income taxes	$184,027,947	
Federal and foreign income taxes incurred	46,964,237	
Net Income	$137,063,710	

Capital and Surplus Account

Surplus as regards policyholders, December 31, 2004	$885,280,943
Net income	$393,215,514
Change in unrealized capital gains	70,319,641
Change in net unrealized foreign exchange	30,346,482
Change in net deferred income tax	57,730,756
Change in non-admitted assets	5,886,144
Change in provision for reinsurance	(1,549,671)
Dividends paid to stockholder	(280,300,000)
Change in surplus as regards policyholders for the years	$275,648,866
Surplus as regards policyholders, December 31, 2007	$1,160,929,809

SCHEDULE OF EXAMINATION ADJUSTMENTS

No adjustments were proposed for this examination.

NOTES TO FINANCIAL STATEMENTS

Note 1 Bonds $1,318,333,513

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	$1,151,120,173	87.32%
All Other Governments	0	0.00%
States and Territories and Possessions	569,492	0.04%
Political Subdivisions of States	0	0.00%
Special Revenue	502,762	0.04%
Public Utilities	0	0.00%
Industrial and Miscellaneous	166,141,086	12.60%
Total	$1,318,333,513	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	$1,152,192,427	87.40%
2	0	0.00%
3	0	0.00%
4	163,641,086	12.41%
5	2,500,000	0.19%
6	0	0.00%
Total	$1,318,333,513	100.00%

Bonds with an aggregate carrying value of $356,581,466 were on deposit with various state or governmental insurance departments or entities in compliance with applicable insurance laws. Bonds on deposit with California represent $311,821,290, or 87.45%, of the total, primarily for workers’ compensation requirements of that state.

Bonds with an aggregate carrying value of $312,691,193 were held as collateral for the open SPDR short sale positions (see Note 9 to Financial Statements for more information).

Note 2 Common Stock $872,436,150

Unaffiliated common stock is carried at market value. Affiliated common stock is carried at the underlying statutory equity basis.

Type	Amount
Unaffiliated publicly traded equity securities	$543,594,627
Investments in affiliates	328,841,523
Total	$872,436,150

Investments in affiliates consist of the following components (with percent ownership in parentheses):

Affiliate	Amount
Northbridge Financial Corporation (15.5%)	$202,204,458
HWIC Asia Fund – Class A (21.1%)	73,603,441
Crum & Forster Specialty Insurance Company (100.0%)	29,342,792
Advent Capital (Holdings) Plc (7.6%)	15,069,660
TRG Holding Corporation (1.4%)	8,580,181
Fairmont Specialty Insurance Managers, Inc. (100.0%)	40,991
Total	$328,841,523

Note 3 Cash, Cash Equivalents and Short-term Investments $940,399,274

Of the $781,522,162 cash position, $734,955,653, or 94.0%, was held as collateral for the open SPDR short sale positions (see Note 9 to Financial Statements for more information). The remainder of the line item consists of $6,945,244 in cash equivalents and $151,931,868 in short-term investments, which consisted primarily of U.S. Treasury Bills.

Note 4 Other Invested Assets $93,174,093

This balance consists of investments in limited partnerships, which are valued pursuant to the equity method of accounting which is prescribed by SSAP 48 and SSAP 97. The Company has no individual investment in limited partnerships in excess of 2% of total admitted assets and the aggregate investment in limited partnerships does not exceed 10% of total admitted assets. Of the five limited partnership investments, four are non-affiliated and one is affiliated. The Company does not have an ownership interest in any limited partnership that exceeds 20% of the limited partnership equity.

Note 5 Aggregate Write-ins for Invested Assets $169,556,972

This balance consists of the following components:

Type	Amount
Investment in credit default swaps	$163,596,297
Investment in warrants	5,900,672
Investment in call options	60,003
Total	$169,556,972

At December 31, 2007, the Company holds credit default swap contracts terms between five and seven years that are designated as ineffective hedges. The Company acquired these contracts through four institutional counterparties at an aggregate premium of $58,274,378 to hedge the exposure of a potential decline, due to default, of the underlying bond obligations. The notional amount of the underlying securities totaled $2,890,000,000 with expirations ranging from March 2010 to March 2014. The Company does not own these underlying obligations in its portfolio. If there is a default, the Company will instruct the counterparty to buy back the bonds and pay the Company the difference between the par value and the buy back price as well as refunding any remaining premium not earned. The carried fair value at December 31, 2007, was

$163,596,297 and unrealized gains amounted to $105,321,919. This strategy was reviewed by Rutter Associates LLC on behalf of the Delaware Insurance Department on December 19, 2006.

Note 6	Loss Reserves	$1,269,500,511
	Loss Adjustment Expense Reserves	$443,091,318

Loss and loss adjustment expense reserves (LAE) represent 67.6% 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. 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.

Note 7 Payable to Affiliates $4,113,756

Of the $4,113,756 balance, $2,885,536 is due to affiliates under the Reinsurance Pooling Agreement. According to the NAIC Annual Statement Instructions Manual, amounts payable relating to inter-company reinsurance transactions are specifically excluded from Payable to Affiliates. On future financial statements, any balances related to the Reinsurance Pooling Agreement will be classified as an Aggregate Write-ins for Liabilities item titled "Amounts Due to Affiliates under Reinsurance Pooling Agreement".

Note 8 Aggregate Write-ins for Liabilities $187,519,441

The major components of this balance include the following:

Retroactive Reinsurance Reserve Ceded $(574,368,480)

This amount is the Company's portion of pooled balances for finite cessions recorded as retroactive reinsurance as outlined in SSAP 62.

Liabilities for Financial Instruments $722,417,407

This balance consists of the following components:

Type	Amount
SPDR short sales	$706,504,500
Financial common stock short sales	12,151,983
Accrued dividends payable on SPDR short sales	3,760,924
Total	$722,417,407

As an economic hedge against a decline in the U.S. equity markets, between July 2004 and November 2007, the Company executed short sales of approximatley $620 million of

Standard and Poor's Depository Receipts (SPDRs). The short sales are accounted for as a secured borrowing with a pledge of collateral.

As an economic hedge against deteriorating conditions in the credit markets, the Company executed short sales of certain U.S. financial guarantee companies, mortgage insurance companies and financial institutions of approximately $12,523,000.

The SPDR short sales liability, carried at the cash liability required to close the position, had a basis of $619,587,194 at December 31, 2007. Bonds with an aggregate carrying value of $312,691,193 and cash of $734,955,653, or $1,043,435,433 in aggregate, were held as collateral for the open SPDR short sale positions and the open financial common stock short sale positions.

<u>Note 9</u> <u>Special Surplus Funds</u> <u>$395,800,261</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.

(2) During the review of other invested assets, it was noted that the Company did not disclose the following limited partnership commitments in the 2004 Annual Statement, Schedule BA – Part 1:

Name	Remaining Commitment
Pacific Century Fund I L.P.	$10,000,000
Rutland Fund A L.P.	$9,831,817
Unison Capital L.P.	$14,660,338
Unison Capital II L.P.	$4,830,722

It was recommended that the Company disclose the remaining unfunded capital commitments for limited partnerships as required by the NAIC Property and Casualty Annual Statement Instructions. It appears that the Company has included future commitments in column 18 of Schedule BA – Part 1 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	$3,694,722,840	$2,934,247,259	$760,475,581
Liabilities	$2,533,793,031	$2,048,966,316	$484,826,715
Special surplus funds	$395,800,261	$428,222,606	$(32,422,345)
Common capital stock	4,586,262	$4,586,262	0
Gross paid in and contributed capital	279,329,699	279,329,699	0
Unassigned funds (surplus)	481,213,587	173,142,376	308,071,211
Total surplus as regards policyholders	$1,160,929,809	$885,280,943	$275,648,866
Totals	$3,694,722,840	$2,934,247,259	$760,475,581

Since the last examination, the Company's assets have increased $760,475,581, liabilities have increased $484,826,715, and capital and surplus has increased $275,648,866.

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) On March 10, 2008, the Company's Board declared a dividend payable of $116,000,000 to its sole shareholder, C&F Holding Inc. The dividend was paid on March 31, 2008. The Delaware Insurance Department was properly notified.

Additionally, the Board of Directors approved a stockholder dividend in the amount of $350,000,000 on October 20, 2008. The dividend was approved by the Delaware Department of Insurance on October 20, 2008 and was predominately extraordinary. The dividend was calculated as ordinary dividend in the amount of $92,981 and extraordinary dividend in the amount of $349,907,019.

(2) In April 2008, the Company closed its SPDR short positions for a realized loss of $(22,522,742). Three of the four financial common stock short sale positions were also subsequently closed in April 2008, for a realized gain of $2,052,691. After the close of the SPDR positions in April 2008, the Company entered into total return swaps, primarily to reduce the margin maintenance requirements and counter party credit risk. The total return swaps have a notional value of $848,642,000 at June 30, 2008, and terminate in March 2009.

(3) In June 2008, the Company commuted both Inter-Ocean reinsurance agreements. For Inter-Ocean II, the Pool participants did not receive any funds with regard to 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 $64,028,800, which represents the Company's 76% share of the total pool expense of $84,248,000.

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