REPORT ON EXAMINATION

OF

FAIRMONT SPECIALTY INSURANCE COMPANY

AS OF

DECEMBER 31, 2005

I, Matthew Denn, Insurance Commissioner of the State of Delaware, do hereby certify that the attached REPORT ON EXAMINATION, made as of DECEMBER 31, 2005 of the

FAIRMONT SPECIALTY INSURANCE COMPANY

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

ATTEST BY: ______________________

DATE: 27 JUNE 2007

In Witness Whereof, I HAVE HEREUNTO SET MY HAND AND AFFIXED THE OFFICIAL SEAL OF THIS DEPARTMENT AT THE CITY OF DOVER, THIS 27TH DAY OF JUNE 2007.

____

Insurance Commissioner

REPORT ON EXAMINATION

OF THE

FAIRMONT SPECIALTY INSURANCE COMPANY

AS OF

December 31, 2005

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

MATTHEW DENN
INSURANCE COMMISSIONER

DATED this 27TH Day of JUNE 2007.

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May 30, 2007

Honorable Alfred Gross
Chairman, Financial Condition (E)
Committee, NAIC
State Corporation Commission
Bureau of Insurance
Commonwealth of Virginia
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Richmond, Virginia 23218

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Utah Department of Insurance
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Honorable Matthew Denn, Commissioner
State of Delaware
Department of Insurance
841 Silver Lake Boulevard, Suite 100
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Dear Commissioners:

In compliance with instructions and pursuant to statutory provisions contained in Certificate of Authority 06.022, dated June 1, 2006, an Association examination has been made of the affairs, financial condition and management of

FAIRMONT SPECIALTY INSURANCE COMPANY

hereinafter referred to as the "Company" incorporated under the laws of the State of Delaware as a stock company with its home office located at 1209 Orange Street, Wilmington, Delaware. The examination was conducted at the main administrative offices of the Company located at 10777 Westheimer Road, Houston, Texas 77042.

The report of examination is respectfully submitted.

SCOPE OF EXAMINATION

The Company was last examined as of December 31, 2004, by representatives of the Delaware Department of Insurance representing the Northeastern Zone of the National Association of Insurance Commissioners (NAIC). This comprehensive financial examination covered the period January 1, 2005, through December 31, 2005, 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 where deemed necessary.

This report is presented on the 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 responsible Company officials during the course of the examination.

The general procedure of the examination followed the rules established by the NAIC's Committee on Financial Condition Examiners Handbook, and generally accepted statutory insurance examination standards. The examination was performed by representatives of the Delaware Department of Insurance representing the Northeastern Zone of the NAIC. No other states participated in the examination.

The examination of the Company is being conducted concurrently with the examinations of two affiliates, Fairmont Premier Insurance Company and Fairmont Insurance Company, both California companies. The Delaware examination team is participating in the examinations of the California affiliates.

In addition to items hereinafter incorporated as part of the written report, the following were checked and made part of the workpapers of this examination:

HISTORY

The Company was incorporated on April 24, 1980 under the laws of Delaware under the temporary title of Ranger Insurance Company of Delaware to act as the vehicle for the transfer of the corporate domicile of Ranger Insurance Company from Elmsford, New York to Wilmington, Delaware, effective December 31, 1983. The original incorporation date, August 1, 1923, was retained pursuant to Delaware law. The predecessor company was incorporated under the laws of New York and began business on September 1, 1923.

From organization until July 29, 1966, when the name Ranger Insurance Company was adopted, operations were conducted under the title Export Insurance Company. On December 31, 1978, the Company absorbed by merger the Pan American Fire & Casualty Company. In 1986, Ranger's former parent, Anderson Clayton & Co., was acquired by The Quaker Oats Company, Chicago, Illinois. The Company was purchased from the Quaker Oats Company on April 1, 1987 by American Ranger, Inc., a Delaware holding company, owned by David T. Chase family interests and transferred October 6, 1987 to Chase Insurance Holdings Corporation, a newly formed wholly owned subsidiary.

On January 6, 1994, the Company was purchased by Fairfax Financial Holdings, Ltd. (FFHL). The Company is a member of the FFHL holding company, a Canadian holding company system, and a subsidiary of Fairfax, Inc., a Wyoming corporation. Ownership of the Company changed on December 4, 2000, from Fairfax, Inc., to TIG Insurance Company, a California company and a subsidiary of Fairfax, Inc.

A corporate restructuring plan was effective January 1, 2004, whereby all of the outstanding shares of the Company were contributed to TIG Premier Insurance Company (TPIC), whose common stock was subsequently distributed to TIG Insurance Group from TIG Insurance Company. TIG Insurance Group then contributed the common stock of TPIC to Fairmont Specialty Group Inc. (FSG). FSG was a subsidiary of Fairfax, Inc., which is a subsidiary of FFHL.

On May 5, 2004, the Secretary's office for the State of Delaware approved the Certificate of Amendment changing the name of Ranger Insurance Company to Fairmont Specialty Insurance Company. On December 2, 2004, TPIC changed its name to Fairmont Premier Insurance Company.

On December 23, 2005, Fairmont Specialty Group Inc. (FSG) was sold to TIG Insurance Company (TIG) along with all of FSG’s subsidiary companies including the Company. The California Department of Insurance (CDI) approved this transaction on December 22, 2005. TIG exchanged 7,744,125 shares of common stock of its publicly traded affiliate Odyssey Reinsurance Holding Corporation (ORHC) for 100% of the FSG shares. The total purchase price was stated at $138.4 million, which approximated the statutory surplus of the FSG shares acquired. There was no goodwill recorded as a result of this transaction.

On December 28, 2005, the Company’s ultimate parent, Fairfax Financial Holdings Limited (Fairfax) announced that, effective January 1, 2006, the Fairmont Specialty Group of Companies (including the Company) would be placed into run-off and that subject business would subsequently be carried on as the “Fairmont Specialty Division” of the affiliated Crum & Forster group of companies. Pursuant to the “Restructuring Plan for Fairmont Specialty Group” it was the stated intention that Crum & Forster Holding, Inc. (C&F) insurance subsidiaries, including United States Fire Insurance Company (U.S. Fire) will ultimately write the new and renewal Fairmont Specialty Division business. However, Fairmont Specialty Division business cannot be written by C&F insurers immediately in some jurisdictions due to rate and form filing requirements and certain C&F insurers need to be licensed for additional lines of insurance in some states. For these reasons the business on a go-forward basis continues to be written by the Fairmont Specialty Group of companies and is then 100% reinsured with U.S. Fire.

Capitalization

Common capital stock of the Company totaled $3,100,000 during the period under examination. Since December 4, 2000, 100% of the Company's 310,000 shares of common capital stock, with a par value of $10.00 per share, were owned by TIG Insurance Company. As previously noted, a corporate restructuring plan was effective January 1, 2004, whereby all of the outstanding shares of the Company were contributed to TPIC, whose common stock was subsequently distributed to TIG Insurance Group from TIG Insurance Company. TIG Insurance Group then contributed the common stock of TPIC to Fairmont Specialty Group Inc. (FSG).

As of the examination date, 100% of the Company's 310,000 shares of common capital stock, with a par value of $10.00 per share, were owned by Fairmont Premier Insurance Company (Premier).

Dividends to Stockholders

During the period under review, the Company paid no dividends to stockholders.

MANAGEMENT AND CONTROL

Management

The elected Directors of the Company at December 31, 2005, were as follows:

Name and Residence	Principal Business Affiliation
Marc J. Adee Houston, Texas	President Fairmont Specialty Group, Inc.
Loyd R. Godbold Tomball, Texas	Senior Vice President Fairmont Specialty Group, Inc.
David O. Green The Woodlands, Texas	Executive Vice President Fairmont Specialty Group, Inc.
Sharlene J. Husky Humble, Texas	Vice President Fairmont Specialty Group, Inc.

The Officers of the Company at December 31, 2005, were as follows:

Name	Title
Marc J. Adee	President
Sharlene J. Husky	Senior Vice President and Secretary
Paul M. Mundy	Assistant Vice President and Treasurer
David O. Green	Executive Vice President
Loyd R. Godbold	Senior Vice President
Chris S. Throckmorton	Senior Vice President and Actuary
Nicole B. Smith	Senior Vice President
Gary J. McGeddy	Executive Vice President
Lloyd F. Chaffin	Executive Vice President
Richard J. Klimazewski	Executive Vice President
Gus E. Aivaliotis	Vice President
Jill S. Everett	Vice President

Control

The ultimate controlling person is V. Prem Watsa, Chairman and chief executive officer of FFHL. Watsa has voting control, directly or indirectly, of more than 50 percent of the voting common shares of FFHL.

Conflicts of Interest

As of 2005 the Company had a procedure in place whereby the "Company Policies and Guidelines" are posted on the Human Resources database. Inclusive in this procedure is a Conflicts of Interest Policy. Officers and employees of the Company are asked to sign an Employee Acknowledgment to certify that each has read and understand the Company Policies and Guidelines.

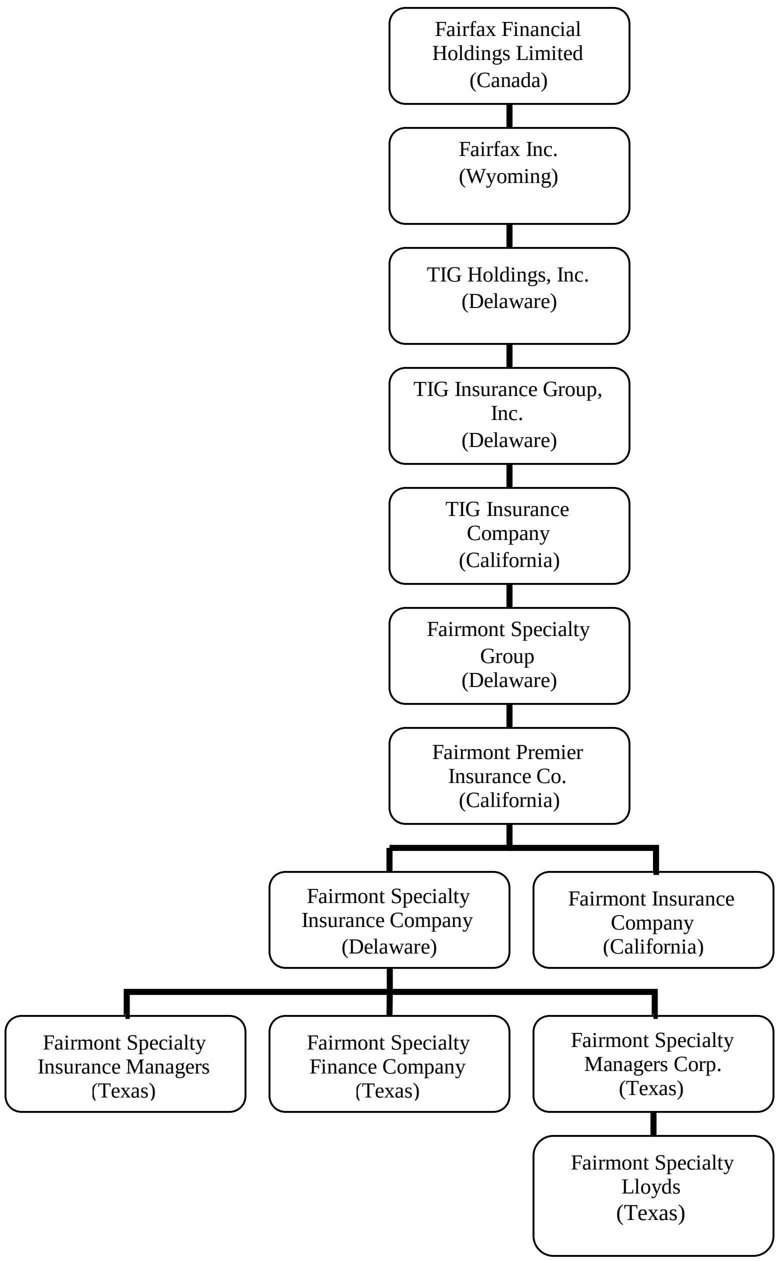
HOLDING COMPANY SYSTEM

The Company became a member of the FFHL holding company on January 6, 1994. FFHL is a Canadian financial services holding company that owns property/casualty and life insurance and reinsurance companies along with investment management and insurance claims administration business.

As previously noted, on January 1, 2004, a corporate restructuring plan was implemented resulting in the ownership of the Company held by Premier, whose common stock was contributed to FSG. FSG, a newly formed holding company organized under the laws of Delaware, was set up to oversee underwriting and management of particular classes of business formerly managed by TIG Insurance Group. FSG is a subsidiary of Fairfax, Inc., which is a subsidiary of FFHL. FSG consists of four insurance companies: Fairmont Premier Insurance Company (Premier), formerly TIG Premier Insurance Company (TPIC), Fairmont Insurance Company (FIC), Fairmont Specialty Insurance Company, formerly Ranger Insurance Company (the Company), and Ranger Lloyds. The ownership of all four companies ultimately remains with FFHL.

Organization Chart

The following abridged organizational chart, which is limited to the top tier holding companies, the Company's immediate parent along with its subsidiary insurance companies, depicts the Company's relationship within the holding company system:



all ownership is 100%.

Copies of the "Form B Holding Registration Statements" filed with the Delaware Insurance Department, during the period under examination, were reviewed. It appeared that the Company had complied with the provisions of 18 Del. Admin. Code § 1801.

MANAGEMENT AND SERVICE AGREEMENTS AND RELATED PARTY TRANSACTIONS

The following agreements were reviewed in prior examinations and remain in effect as of the examination date:

- Assignment of agents' balances from Ranger Lloyds to the Company, effective January 1, 1975.
- Loan Agreement between the Company and Ranger Insurance Managers, Inc. dated November 1, 1987.
- Service Agreement between the Company and Ranger Managers Corp., effective January 1, 1996.
- Service Agreement between the Company and Ranger Insurance Managers, Inc., effective January 1, 1996.
- Service Agreement between the Company and Ranger Insurance Finance Company, effective January 1, 1996.
- Service Agreement between the Company and Odyssey Reinsurance Company of Canada, effective January 1, 1999.
- A Claims Service and Management Agreement between the Company and RiverStone Claims Management LLC, effective October 20, 1999.
- An Inter-Company Tax Allocation Agreement between the Company and TIG Holdings, Inc., effective January 1, 2000.

- A Tax Services Agreement between the Company and Fairfax, Inc., effective May 10, 2001.
- An Information Technology Agreement between the Company and Fairfax Information Technology Systems, Inc., effective December 1, 2001.
- The Company has reinsurance brokerage agreements with the following intermediaries: Guy Carpenter & Company, Inc., Benfield Inc., and Towers, Perrin, Forrester and Crosby, Inc.
- The Company entered into a Stock Purchase Agreement, dated December 31, 2003, with Guild Underwriters Napa, Inc., whereby the Company sold all of its issued and outstanding stock, consisting of 1,000 shares, of Ranger Insurance Services, Inc. for consideration of $1,000. The transaction was not material and did not require prior approval by the Department.
- An Investment Agreement among the Company, Hamblin Watsa Investment Counsel Ltd. (HWIC), and Fairfax Financial Holdings Limited (FFHL) was effective January 1, 2003. Pursuant to the Agreement, HWIC manages the investments of the Company in accordance with investment objectives outlined in the Agreement. The Company's investments are held in an account by The Bank of New York, as custodian. All fees are paid by the Company to FFHL and FFHL reimburses HWIC for investment management services. HWIC is a subsidiary of FFHL. The Agreement was approved by the Department by letter dated May 6, 2003.
- A Claims Service and Management Agreement between the Company and nSpire Reinsurance Limited (nSpire) was entered into as of December 31, 2003. The Agreement was made in association with the restructuring of the Company. As part of the restructuring, the Company and nSpire entered into a Loss Portfolio Transfer Agreement

pursuant to which nSpire reinsures all of the losses and related loss adjustment expenses of the Company incurred prior to the effective date under the Company's discontinued lines of business. In addition, the Company entered into a 100% Quota Share Reinsurance Agreement with nSpire, pursuant to which nSpire reinsures all of the net liability of the Company for loss incurred after the effective date under the Company's discontinued lines policies that are in-force on the effective date. Under the Loss Portfolio Transfer Agreement and the 100% Quota Share Reinsurance Agreement, nSpire has assumed responsibility for handling claims arising under insurance policies and assumed reinsurance contracts covered by the Loss Portfolio Transfer Agreement and 100% Quota Share Reinsurance Agreement. The Claims Service and Management Agreement provide for nSpire to delegate back to the Company certain claims handling functions. Pursuant to the Agreement, the Company will perform claims and litigation management and related administrative services and be paid a Management Fee. nSpire will pay the Company a Management Fee equal to nSpire's share of the costs, overhead and general expenses incurred by the Company for claims handling services. The Claims Service and Management Agreement was approved by the Department by letter dated December 23, 2003, approving the Form D filing by the Company.

- A Trust Agreement among the Company, nSpire Reinsurance Limited, and The Bank of New York was entered into as of January 1, 2004. The Trust Agreement was entered into in conjunction with the Loss Portfolio Transfer Agreement and the 100% Quota Share Reinsurance Agreement, collectively referred to as the "Reinsurance Agreements". Pursuant to the Reinsurance Agreements, the Company has ceded certain losses and nSpire has reinsured and agreed to indemnify the Company against such losses in accordance with the terms of the Reinsurance Agreements. The Trust Agreement provides for nSpire to establish a Trust Account at The Bank of New York to hold assets in order to secure payments under or in connection with the Reinsurance Agreements. Assets in the Trust Account are held for the sole use and exclusive benefit of the Company. The Trust Agreement was approved by the Department by letter dated February 26, 2004, approving the Form D filing by the Company.

- An Inter-Company Reinsurance Pooling Agreement among the Company, Fairmont Insurance Company (FIC), and TIG Premier Insurance Company (Premier) was entered into as of January 1, 2004. Under the Agreement FIC and the Company cede 100% of their net business to Premier, the lead company. Premier then cedes the pooled results, including premiums, losses and certain expenses of all three companies, 13 percent to FIC, 67 percent to the Company, and 20 percent is retained by Premier. The Agreement was approved by the Department by letter dated December 23, 2003, approving the Form D filing by the Company.
- An Administrative Services Agreement was entered into among the Company, FIC, and Premier as of January 1, 2004. This Agreement was entered into in conjunction with the Inter-Company Reinsurance Pooling Agreement. Pursuant to the Administrative Services Agreement, Premier agrees to act as manager for the parties to the Agreement and perform underwriting, claims and litigation management and related administrative services for the business under the Pooling Agreement. The Administrative Services Agreement outlines certain direct expenses for which each party is responsible; including allocable policy and other printed supplies necessary to conduct its business, commissions to producers, taxes, board and bureau assessments, auditing expenses, license fees, legal expenses, investment expenses, and all loss and loss adjustment expenses. Under the Agreement, expenses for services provided by the manager will be

allocated, fairly apportioned and reimbursed by and among the parties on an equitable basis, in accordance with statutory accounting practices. The Agreement was approved by the Department by letter dated December 23, 2003, approving the Form D filing by the Company.

- An Expense Sharing Agreement was entered into among the Company, FIC, TIG Insurance Company (TIC), and Premier as of January 1, 2004. The Agreement was entered into in conjunction with the restructuring of the companies. The Expense Sharing Agreement provides each company will make available to the other services and facilities necessary for the conduct of their respective businesses and to allocate the cost of such services and facilities on an equitable basis, in accordance with statutory accounting practices. The Agreement applies to all operating expenses pertaining to shared functions of the parties, and does not apply to losses, allocated loss adjustment expenses, agents' or other commissions, taxes or fees for investment management services. The Agreement provides for all personnel and personnel services of any one or more of the parties, all office space, supplies, business equipment, furniture, fixtures, and all other requirements for the conduct of business of any of the parties may be provided by any one or more of the other parties. The Agreement was approved by the Department by letter dated December 23, 2003, approving the Form D filing by the Company.
- Effective January 1, 2006, Fairmont Premier, Fairmont Specialty Insurance Company, Fairmont Premier Insurance Company, and United States Fire Insurance Company (the "Manager") entered into a "Claims Service and Management Agreement". Management services to be provided by the manager shall include, without limitation, investigating, adjusting, comprising, defending, litigating, managing, supervising, settling and paying

claims and the selection, management and supervision of counsel, adjusters and other third party providers, as the Manager determines is appropriate in the Manager's reasonable discretion, but limited by the terms of the Claims Management Authority Letter. The Management Fee shall be equal to the Company's share of the costs, overhead and general expenses incurred by the Manager in providing services hereunder. The reason for this agreement is to handle claims from certain business previously written by the Fairmont Specialty Group. Due to restructuring, all new and renewal business, as well as all employees of Fairmont Specialty Group, will be transferred to US Fire Insurance Company (Manager). This agreement provides a way for the Fairmont Specialty claims to be administered by the former Fairmont Specialty employees and US Fire will be reimbursed for that expense. Approval was made by the Delaware Department of Insurance on December 27, 2005.

- Effective January 1, 2006, a "Business and Personnel Transfer Agreement" by and among Fairmont Specialty Group, Inc., Fairmont Premier Insurance Company, Fairmont Insurance Company, Fairmont Specialty Insurance Company, Fairmont Specialty Lloyds ('Sellers') and United States Fire Insurance Company ('Purchaser'). This Agreement transfers (1) the opportunity to write, from and after January 1, 2006, certain new and renewal business currently written by the Sellers, (2) certain other assets used in transacting the transferred business, and (3) certain personnel. The definition of transferred assets shall mean the renewal rights, the real property (operating leases per Company), the business contracts, the tangible assets (furniture, fixtures, equipment), the intangible assets (intellectual property, software, business names) and the Fairmont Specialty Insurance Managers, Inc. books and records. Also, all of the outstanding shares of the Fairmont Specialty Insurance subsidiary, Fairmont Specialty Insurance Managers, Inc., will be sold to the Purchaser. The Purchaser will be assuming 100% of the liabilities of the Sellers in respect of the real property (operating lease obligations), ownership of the intangible and tangible assets and under the business contracts (to the extent performed on or after the closing date). All obligations accruing on or prior to December 31, 2005, in favor of the employees under Fairmont Premier's Employee Benefit Plans shall remain with the Sellers except: the liabilities and corresponding assets in connection with post-retirement medical benefits and vacation day accruals up to 5 days will be assumed by the Purchaser. The Purchaser will assume the liability/agree to pay severance obligations and certain retention bonuses. The reason behind the transfer agreement is to affect a restructuring which will leave the run-off/discontinued business of Fairmont Specialty Group with TIG Insurance Company, who has been involved in run-off operations for a number of years. Approval was made by the Delaware Department of Insurance on December 19, 2005.

TERRITORY AND PLAN OF OPERATION

The Company is a property and casualty insurance company that currently writes primarily commercial multiple peril, other liability, products liability, surety, other commercial auto liability, group accident and health and personal lines. The Company writes in all 50 states and the District of Columbia and specializes in niche markets that require unique underwriting, claims and loss control expertise, such as propane distributors and agri-products. The Company assumes 100% of the business produced by Ranger Lloyds, an affiliate.

The corporate restructure plan, effective January 1, 2004, resulted in change in ownership of the Company, as previously discussed, and the creation of Fairmont Specialty Group (FSG). As previously noted, FSG consists of four insurance companies: Premier, FIC, the Company and

Ranger Lloyds. FSG operates as three distinct business units: 1) bail and specialty property and casualty, based in Houston, TX, focusing on niche business with a concentration on short-tailed casualty programs; 2) accident and health, based in Tinton Falls, NJ, focusing on a variety of specialty coverages; and 3) Hawaii property and casualty, based in Honolulu, Hawaii, focusing on serving the local Hawaii economy by writing personal lines and small commercial business insurance. Each of the three business units have access to write on any of the companies in the group. Planning, budgeting and monitoring of FSG are prepared by management based on the three separate business units. As part of the formation of FSG, significant changes in management occurred.

Premiums for the bail and specialty property/casualty segments have historically been written by the Company. The niche areas targeted are energy (propane, fuel oil, natural gas and utilities), agriculture (grain elevators, feed mills, fruit and vegetable processing), explosives and bail bonds. The Company's insurance business is operated through independent agents. Business is produced using 81 licensed and appointed agencies and 157 agents that access the Company through Fairmont Specialty Insurance Managers.

The accident and health business under FSG offers employer stop loss, provider excess and medical excess, special risk (student medical, travel, and blanket special risk), and carve-out (dental, vision, and organ transplant). Distribution is primarily through approximately twenty managing general agents (MGAs) and claims are managed using third party administrators (TPAs).

The Hawaii property/casualty business segment under FSG provides personal lines and small commercial coverages strictly within the Hawaiian Islands. Commercial wind exposure is limited and there is no personal lines wind exposure.

In anticipation of the 2004 restructure plan, the Company discontinued two books of business; specifically, a public entity and California inter-state trucking book of business.

Beginning January 1, 2004, the Company and FIC cede 100% of their net business to Premier, pursuant to the Inter-Company Reinsurance Pooling Agreement.

As part of the restructure plan, effective January 1, 2004, the Company entered into a Loss Portfolio Transfer Agreement with nSpire Reinsurance Limited (an affiliate), pursuant to which nSpire will reinsure all of the losses and related loss adjustment expenses of the Company incurred prior to the effective date under its discontinued lines of business (the “Specialty Discontinued Lines”).

In addition, effective January 1, 2004, the Company entered into a 100% Quota Share Reinsurance Agreement with nSpire under which nSpire will reinsure all of the net liability of the Company for losses incurred after the effective date under Specialty Discontinued Lines policies that are in force on the effective date and mandatory renewals of such policies.

GROWTH OF THE COMPANY

The following information was obtained from the Company’s filed Annual Statements for the period indicated.

Year	Net Admitted Assets	Surplus As Regards Policyholders	Gross Written Premium	Net Income
2005	$248,243,914	$96,805,992	$90,401,651	$14,810,515
2004	235,722,443	86,988,899	82,156,549	10,941,363
2003	269,704,280	84,039,435	80,283,583	27,832,207
2002	229,325,278	44,936,997	115,292,534	(6,621,392)

REINSURANCE

The following describes the Company's reinsurance program as of December 31, 2005:

As of January 1, 2004, the Company was reorganized and entered into a pooling agreement with two of its California affiliates, Premier and FIC. The agreement provides, among other things, that Premier will be the lead company and that the companies will cede all business to the pool, net of reinsurance. The Company has a 67% participation in the pool and Premier and FIC have 20% and 13% participation, respectively.

The reorganization of the Company required the commutation of several treaties and a loss portfolio transfer to nSpire, an unauthorized affiliate of the Company. The Company entered into a Commutation and Release Agreement with CRC (Bermuda) Reinsurance Limited, effective June 30, 2003. The Agreement provided for CRC to pay the Company $18.7 million. Pursuant to the Agreement, the parties commuted all past, present and future obligations and liabilities under the named reinsurance agreements, the Aggregate Reinsurance Agreement (Stop-Loss Treaty) underwriting year 1999 and the Aggregate Reinsurance Agreement (Stop-Loss Treaty) underwriting year 2000.

The Company commuted two existing Aggregate Excess Reinsurance Contracts with CRC covering the 2001 and 2002 accident years. The effective date of the commutations was September 30, 2003. The Company received $500,000 and $250,000, respective to the 2001 and 2002 accident years.

The Company entered into a Loss Portfolio Transfer Agreement with nSpire Reinsurance Limited, Ireland, effective January 1, 2004. Pursuant to the Agreement, nSpire reinsures all of the losses and related loss adjustment expenses of the Company incurred prior to the effective date under the Company's discontinued lines of business. The Company paid a reinsurance premium of $66 million minus all covered loss paid during the period October 1, 2003 through December 31, 2003.

In conjunction with the loss portfolio transfer to nSpire, the Company entered into a 100% Quota Share Reinsurance Agreement with nSpire, effective January 1, 2004. Pursuant to the Agreement, nSpire reinsures all of the net liability of the Company for losses incurred after the effective date under the discontinued lines of business that are in force on the effective date, and mandatory renewals of such policies.

The Company's ongoing business consists of the following lines and sub lines: propane, utilities, agriculture, bail bonds, Markel fronting, explosives, miscellaneous bonds and fuel oil.

<u>Assumed</u>

The Company assumes 100% of the business written by an affiliate, Ranger Lloyds. The business assumed from Ranger Lloyds under the 100% reinsurance agreement, effective February 19, 1968, was primarily commercial multi peril, other liability and product liability.

<u>Ceded</u>

The following table illustrates the Company's ceded reinsurance program in effect for the year ending 12/31/05.

Lines Reinsured or Type	**Name of Reinsurer**	**Term**	**Dec 31, 2005 Term Change**	**Company Retention**	**Treaty Limits**
First Casualty Excess Liability Workers' Compensation	Swiss Reinsurance America Corp 80%; nSpire Re Ltd 20%	September 1, 2004 to April 30, 2005	Renewed to expire April 30, 2006	$1.5 million	$4.5 million XS $1.5 million
Second Casualty Clash Liability Workers' Compensation	Arch Reinsurance 25%; Endurance Specialty Ins. Ltd. 20%; Lloyds Syndicates 25%; nSpire Re. Ltd. 10%; Platinum Underwrites Reinsurance 20%	September 1, 2004 to April 30, 2005	Renewed to expire April 30, 2006	$6 million	$5 million XS $6 million

Third Casualty Clash Liability Workers' Compensation	Arch Reinsurance 25%; Endurance Specialty Ins. Ltd. 20%; Lloyds Syndicates 25%; Hannover Life Reinsurance. 10%; Platinum Underwrites Reinsurance 20%	September 1, 2004 to April 30, 2005	Renewed to expire April 30, 2006	$11 million	$9 million XS $11 million
Specialty Umbrella Quota Share Casualty Loss Occurrence	Swiss Reinsurance America Corp 80%; nSpire Re Ltd 20%	September 1, 2004 to August 31, 2005	Renewed to expire March 31, 2006, nSpire 20% terminated	$1 million Primary + 20% of $5 million Umbrella	80% of $5 million after the primary
Hawaii Umbrella Quota Share Casualty Risk attach	General Reinsurance Co. 80%	April 1, 2004 to August 31, 2005	Renewed to expire March 31, 2006	$1 million Primary + 20% of $5 million Umbrella	80% of $5 million after the primary
Boiler and Machinery property Quota Share, Risks attached	Hartford Steam Boiler	October 1, 2000 Continuous	Continued	0	100% of $25 million
Property per risk excess of loss occurrence	General Reinsurance Co. 100%	July 1, 2004 to June 30,2005	Renewed to expire June 30, 2006	$1 million	$1 million XS $1 million
Property per risk excess of loss occurrence	General Reinsurance Co. 100%	July 1, 2004 to June 30,2005	Renewed to expire June 30, 2006	$2 million	$3 million XS $2 million
Property per risk excess of loss occurrence	General Reinsurance Co. 100%	July 1, 2004 to June 30,2005	Renewed to expire June 30, 2006	$5 million	$5 million XS $5 million
Hawaii property per risk excess of loss occurrence	General Reinsurance Co. 100%	July 1, 2004 to June 30,2005	Renewed to expire June 30, 2006 with limits at $1 million XS $1 million	$1 million	$1 million XS $1 million
Property Catastrophe per risk excess of loss	General Reinsurance Co. 100%	July 1, 2004 to June 30,2005	Renewed to expire June 30, 2006	$2 million	95% of $18 million XS $2 million
Hawaii property per risk excess of loss occurrence	General Reinsurance Co. 100%	July 1, 2005 to June 30,2006	Additional layer added to Hawaii Property per risk	$2 million	$3 million XS $2 million
Subsequent Contracts					
2006 Quota Share Contract	Crum & Forster 100%	January 1, 2006 continuous	Quota Share contract that reinsured all policies in-force, new and renewal	0	100% of policy limits with assignment of third party reinsurance

The Company also purchased facultative reinsurance on an individual risk basis when additional property or casualty insurance was needed or when an account included unusual or extreme exposures.

ACCOUNTS AND RECORDS

Due to the aforementioned 2005 restructuring, the records and staff members supporting the financial statements, changed from Texas to New Hampshire while the examination was being conducted.

The Company's trial balance and adjusting entries were traced to the annual statement, and items were linked from schedule to schedule. It appears that the Company's accounting fairly discloses its financial position.

An assessment of the overall control environment was performed by INS Services, Inc., an internal control specialist team during the December 31, 2004 financial examination. INS Services, Inc. examined the Company's responses to the Examination Planning Questionnaire Exhibit C, interviewed management, reviewed systems, performed judgmental and statistical samples of Company records evidencing execution of the Company's information systems control environment.

FINANCIAL STATEMENTS

The following statements show the assets, liabilities, surplus and other funds of the Company, as determined by this examination, as of December 31, 2005.

Analysis of Assets
Liabilities, Surplus and Other Funds
Underwriting and Investment Exhibit
Capital and Surplus Account
Analysis of Examination Changes

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

Analysis of Assets

December 31, 2005

	Ledger Assets	Assets Not Admitted	Net Admitted Assets	Notes
Bonds	$93,072,699	$0	$93,072,699	
Common stocks	32,276,744	3,015,000	29,261,744	(1)
Cash and cash equivalents and short-term Investments	76,914,037	0	76,914,037	
Receivable for securities	1,138	0	1,138	
Aggregate write-ins for invested assets: Derivative instruments	2,889,842	0	2,889,842	
Investment income due and accrued	1,437,812	0	1,437,812	
Uncollected premiums and agents' balances in course of collection	11,841,293	2,136,408	9,704,885	
Deferred premiums, agents' balances and installments booked but deferred and not yet due	6,660,727	0	6,660,727	
Amounts recoverable from reinsurers	5,531,538	0	5,531,538	
Funds held by or deposited with reinsured companies	2,668,676	0	2,668,676	
Net deferred tax asset	14,667,745	9,983,725	4,684,020	
Guaranty funds receivable or on deposit	695,238	0	695,238	
Receivable from parent, subsidiaries, and affiliates	5,693,458	0	5,693,458	
Aggregate write-ins for other than invested assets:	15,289,772	12,473,381	2,816,391	(2)
Totals	$269,640,719	$27,608,514	$242,032,205	

Liabilities, Surplus and Other Funds

December 31, 2005

		Notes
Losses	$73,272,589	(3)
Reinsurance payable on paid loss and loss adjustment expenses	1,048,265	
Loss adjustment expenses	24,660,537	(3)
Commissions payable, contingent commissions and other similar charges	2,416,995	
Other expenses	2,816,906	
Taxes, licenses and fees	1,381,486	
Current federal and foreign income taxes	188,546	
Net deferred tax liability	0	
Unearned premiums	36,109,153	
Ceded reinsurance premiums payable	3,604,623	
Funds held by company under reinsurance treaties	2,920,113	
Amounts withheld or retained by company for account of others	1,221,993	
Remittances and items not allocated	0	
Provision for reinsurance	1,796,716	
Total liabilities	$151,437,921	
Common capital stock	$3,100,000	
Gross paid in and contributed surplus	92,709,892	
Unassigned funds (surplus)	(5,215,608)	
Surplus as regards policyholders	$90,594,282	
Total	$242,032,205	

Underwriting and Investment Exhibit
Statement of Income

December 31, 2005

UNDERWRITING INCOME

Premiums earned	$107,873,983
DEDUCTIONS:	
Losses incurred	$55,757,896
Loss expenses incurred	12,476,755
Other underwriting expenses incurred	36,546,488
Total underwriting deductions	$104,781,139
Net underwriting gain or (loss)	$3,092,844

INVESTMENT INCOME

Net investment income earned	$6,647,935
Net realized capital gains or (losses)	5,698,821
Net investment gain or (loss)	$12,346,756

OTHER INCOME

Net gain or (loss) from agents' or premium balances charged off	$(324,965)
Total other income	($324,965)
Net income before dividends to policyholders and before FIT	$15,114,635
Net income, after dividends to policyholders but before FIT	$15,114,635
Federal income tax incurred	304,120
Net income	$14,810,515

CAPITAL AND SURPLUS ACCOUNT

Surplus as regards policyholders, December 31, 2004	$86,988,899
Net income	$14,810,515
Change in net unrealized capital gains or (losses)	(3,424,835)
Change in net unrealized foreign exchange capital gains (loss)	(940,359)
Change in net deferred income tax	(3,046,158)
Change in nonadmitted assets	(4,327,146)
Change in provision for reinsurance	533,368
Change in surplus as regards policyholders for the year	$3,605,385
Surplus as regards policyholders, December 31, 2005	$90,594,282

Analysis of Examination Changes

December 31, 2005

	Company Amount	Examination Amount	Surplus Increase (Decrease)	Total
Capital and Surplus per Company				$96,805,992
Assets				
Common stocks	$32,276,744	$29,261,744	$(3,015,000)	
Aggregate Write-Ins for other than Invested Assets	6,013,100	2,816,389	(3,196,710)	($6,211,710)
Capital and Surplus per Examination				$90,594,282

NOTES TO THE FINANCIAL STATEMENT

(1) Common Stocks $29,261,744

The Company valued its common stock investment of Advent Capital Holdings PLC (Advent), a foreign affiliate, using a quoted market value from a non-qualifying stock exchange. Pursuant to Statement of Statutory Accounting Principles (SSAP) No. 88 the admitted value of the Company's investment in Advent was reduced by $3,015,000 to reflect the adjusted U.S. GAAP audited equity amount described below. It is noted that subsequent to the issuance of its 2005 Annual Statement the Company informed the Delaware Department of Insurance, of the valuation approach differing from SSAP No. 88, due to the lack of availability of GAAP audited financial statements. In May 2006, United Kingdom GAAP audited financial statements of Advent became available. The Company prepared reconciliation to U.S. GAAP, and statutory adjustments were then made, and updated the values used to adjust carrying values in the next quarterly period.

(2) Aggregate Write-Ins for other than Invested Assets $2,816,389

The captioned account was reduced by a net amount of $3,196,710. Included within this heading were two balances identified as A&H Loss Funding, and TRG Loss Draft Payable, which carried material balances receivable at year-end. Based on discussion with Company personnel, and documentation provided, it appeared that the balances were generally uncollectible.

It is recommended that the Company investigate the contents of these accounts and comply with SSAP No. 6, paragraph 9.a regarding the aging of accounts.

(3) Loss and Loss Adjustment Expenses $97,933,126

The California Department of Insurance directed the Fairmont Premier Insurance Company under California Insurance Code Section 733, to retain the actuarial firm of Petit Actuarial Group, LLC (Petit) for the purpose of assisting this examination in determining the reasonableness of the pooled companies (Fairmont Insurance Company, Fairmont Premier Insurance Company and Fairmont Specialty Insurance Company) loss and loss adjustment expense reserves. Based on the analysis by Petit, and the review of their work by a Casualty Actuary from the CDI, the Company's December 31, 2005, reserves for losses and loss adjustment expenses were determined to be reasonably stated.

COMPLIANCE WITH PRIOR REPORT

The Company's compliance with prior examination recommendations was reviewed for each account in the current examination for which there was prior examination recommendations. The Company complied with all prior examination recommendations.

SUMMARY OF RECOMMENDATIONS

1. Aggregate Write-Ins for other than Invested Assets

It is recommended that the Company investigate the contents of these accounts and comply with SSAP No. 6, paragraph 9.a regarding the aging of accounts. (P. 27)

CONCLUSION

As a result of this examination, the financial condition of the Company, as of December 31, 2005 was determined to be as follows:

Admitted Assets	$242,032,205
Liabilities	$151,437,921
Capital and Surplus	90,594,282
Total	$242,032,205

During the period subsequent to the previous examination of December 31, 2004, total assets have increased $10,509,275. Liabilities have increased $2,704,377, and capital and surplus have increased $7,804,896 in the same period.

ACKNOWLEDGMENT

The assistance rendered by the officers and employees of the Company during the course of the examination are hereby acknowledged.

Christopher R. Bechtel

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Examiner-In-Charge
Department of Insurance
State of Delaware
Northeastern Zone, NAIC

SUBSEQUENT EVENTS

Effective January 1, 2006, the Fairmont Specialty Group of Companies (including the Company) were placed into run-off and subject business would subsequently be carried on as the "Fairmont Specialty Division" of the affiliated Crum & Forster (C&F) group of companies. Consequently the Company retained calendar year 2004 and 2005 business, as well as unearned premiums in-force, at December 31, 2005, as they earn off during 2006. United States Fire Insurance Company, an affiliate, will service the business. Once the C&F companies acquire the proper rate and form filing approvals, and licensing, the business will no longer be written or renewed by the Fairmont Specialty Group.