

REPORT ON EXAMINATION
OF THE
NORTH STAR REINSURANCE CORPORATION
AS OF
DECEMBER 31, 2008

Karen Weldin Stewart, CIR-ML
Commissioner



Delaware Department of Insurance

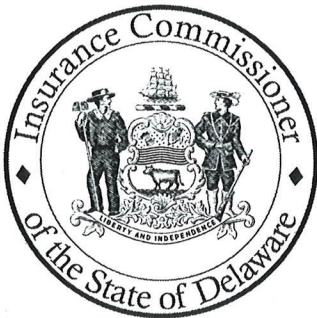
I, Karen Weldin Stewart, Insurance Commissioner of the State of Delaware, do hereby certify that the attached REPORT ON EXAMINATION, made as of December 31, 2008 of the

NORTH STAR REINSURANCE CORPORATION

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

Attest By: *Sonia C. Harris*

Date: 29 June 2010



In Witness Whereof, I have hereunto set my hand and affixed the official seal of this Department at the City of Dover, this 29th day of June 2010.

Karen Weldin Stewart, CIR-ML
Insurance Commissioner

Karen Weldin Stewart, CIR-ML
Commissioner



Delaware Department of Insurance

REPORT ON EXAMINATION
OF THE
NORTH STAR REINSURANCE CORPORATION
AS OF
DECEMBER 31, 2008

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.

A handwritten signature in black ink, appearing to read "Karen Weldin Stewart".

Karen Weldin Stewart, CIR-ML
Insurance Commissioner

Dated this 29th day of June, 2010

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SALUTATION

June 30, 2010

Honorable Alfred W. Gross
Chairman, Financial Condition (E) Committee,
NAIC
Commissioner
Bureau of Insurance
Virginia State Corporation Division
P.O. Box 1157
Richmond, Virginia 23219

Honorable Paulette J. Thabault
Secretary, Northeastern Zone
Commissioner
Vermont Insurance Division
Dept. of Banking, Insurance, Securities, and
Health Care Administration
89 Main Street
Montpelier, Vermont 05620-3101

Honorable James J. Donelon
Secretary, Southeastern Zone
Commissioner
Louisiana Dept. of Insurance
1702 N. 3rd Street
P.O. Box 94214
Baton Rouge, Louisiana 70802-9214

Honorable Mary Jo Hudson
Secretary, Midwestern Zone
Director
Ohio Department of Insurance
50 West Town Street
Third Floor, suite 300
Columbus, OH 43215

Honorable Christina Urias
Secretary, Western Zone
Director
Arizona Department of Insurance
2910 N. 44th Street, suite 210
Phoenix, Arizona 85018-7269

Honorable Karen Weldin Stewart, CIR-ML
Commissioner
Delaware Department of Insurance
Rodney Building
841 Silver Lake Blvd.
Dover, Delaware 19904

Commissioners/Directors:

In compliance with instructions and pursuant to statutory provisions contained in Certificate of Authority Number 09.010, dated May 13, 2009, an examination has been made of the affairs, financial condition and management of the

NORTH STAR REINSURANCE CORPORATION

hereinafter referred to as “Company” or “NSR” and incorporated under the laws of the State of Delaware as a stock company with its statutory home office located at 1209 Orange Street, Wilmington, Delaware, 19801. The examination was conducted at the main administrative offices of the Company, located at 120 Long Ridge Road, Stamford, CT, 06902-1843.

The report of such examination is submitted herewith.

SCOPE OF EXAMINATION

The last examination was conducted as of December 31, 2005. This examination covers the period since that date through December 31, 2008. Transactions subsequent to the latter date were reviewed where deemed necessary.

We conducted our examination in accordance with the National Association of Insurance Commissioners (NAIC) *Financial Condition Examiners Handbook* (FCEH Handbook) and generally accepted statutory insurance examination standards consistent with the Insurance Laws and Regulations of the State of Delaware. The FCEH Handbook requires that we plan and perform the examination to evaluate the financial condition and identify prospective risks of the Company by obtaining information about the Company, including corporate governance, identifying and assessing current and prospective inherent risks to which the Company is exposed, and evaluating its system controls and procedures used to mitigate those risks. The examination also included assessing the principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation and management's compliance with Statutory Accounting Principles and annual statement instructions when applicable to domestic state regulations.

All accounts and activities of the Company were considered in accordance with the risk-focused examination process. This examination report only addresses regulatory information revealed by the examination process.

During the course of this examination, consideration was given to work performed by the Company's Internal Audit Department (IAD) and by the external accounting firm, Deloitte & Touche, LLP (D&T), of New York, New York. Certain auditor workpapers have been incorporated into the workpapers of this examination and have been utilized in determining the scope and areas of emphasis in conducting the examination.

North Star Reinsurance Corporation

The examination was conducted concurrently with that of affiliates General Reinsurance Corporation (GRC) and National Reinsurance Corporation (NRC), also Delaware domestic insurance companies. Separate reports of examination were filed for each company.

HISTORY

The Company was incorporated under the laws of Delaware on December 1, 1977, to act as the vehicle for the transfer of the corporate domicile from New York to Delaware of a predecessor company, North Star Reinsurance Corporation, which had originally been incorporated under the laws of New York on August 3, 1956.

The Company was owned by General Re Corporation (GRN), but was contributed to Signet Star Holding, Inc. (SSHI) in 1993 in conjunction with a joint venture entered into between GRN and W. R. Berkley Corporation (Berkley). As part of the venture SSHI also acquired all of the common stock of Signet Star Reinsurance Company, which was a wholly owned subsidiary of Berkley. Concurrently the Company entered into a retrocessional agreement with its prior affiliate, GRC, to reinsure the Company's net claim and claim expenses arising from reinsurance assumed and direct business written with an inception, renewal or premium anniversary date prior to January 1, 1993.

The joint venture was dissolved in 1995. As part of the dissolution and restructuring, GRN repurchased the Company, and all of the business written by the Company with an effective date of January 1, 1993 and on December 28, 1995 was assumptively reinsured and novated to Signet Star Reinsurance Company.

Effective December 21, 1998, the Company then became a member of the Berkshire Hathaway Inc. (Berkshire) holding company structure when, through a merger agreement, the parent company GRN became a wholly owned subsidiary of Berkshire.

North Star Reinsurance Corporation

The Company has not written any new or renewal business since it was re-acquired by GRN on December 28, 1995. The Delaware Department of Insurance has approved a minimum capital and surplus level for the Company of \$10,000,000.

Capitalization

The Company has 50,000 shares of common stock authorized and 10,000 shares of preferred stock authorized, each with a par value of \$100 per share. There are 40,000 shares of common stock and 5,000 shares of preferred stock issued and outstanding, and all are currently held by GRN.

There were no changes to the \$5,510,000 of gross paid in and contributed surplus during the examination period, nor did the Company pay any dividends.

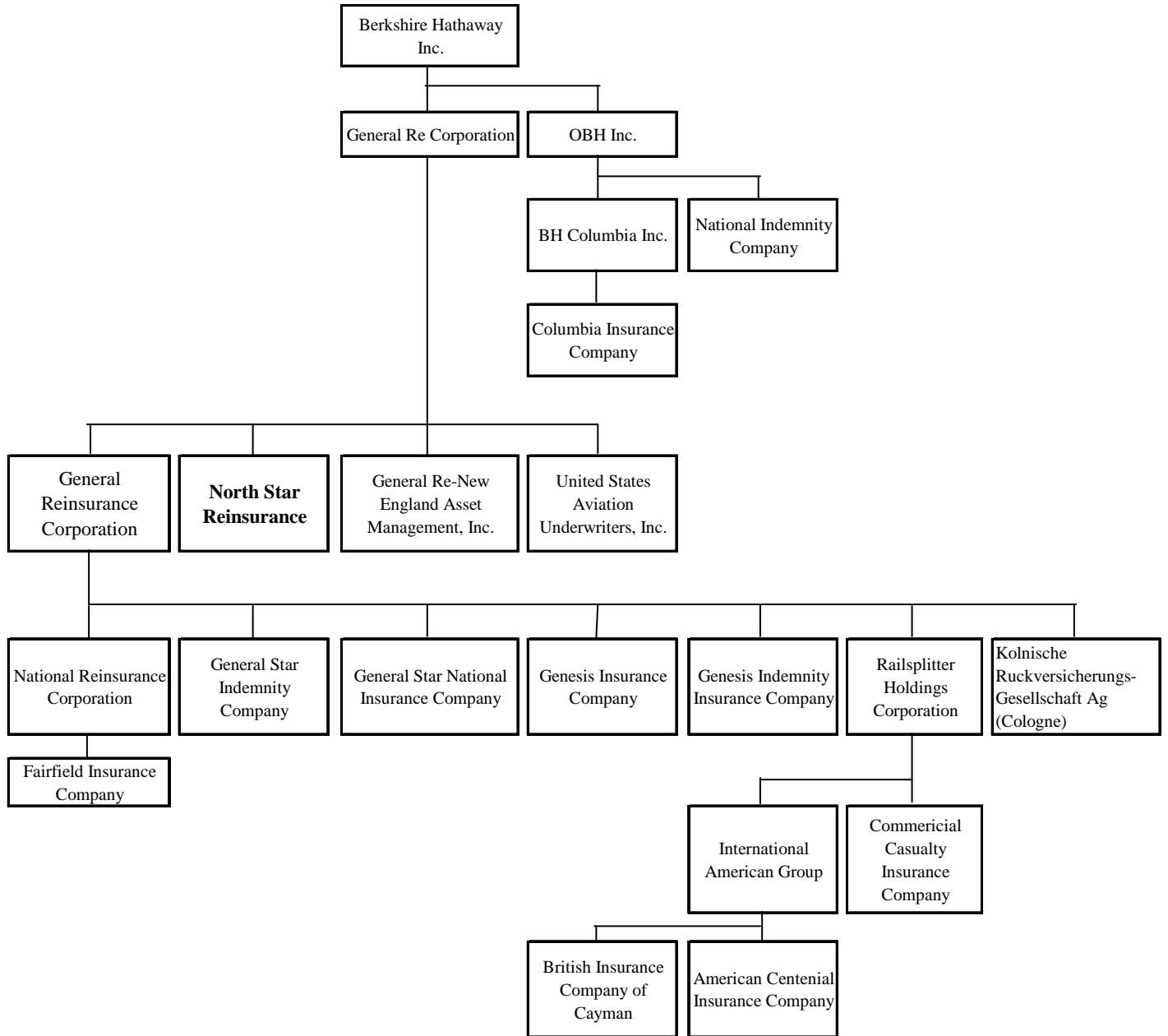
MANAGEMENT AND CONTROL

Insurance Holding Company System

The Company is a member of an insurance holding company system as defined at 18 *Del. C.* § 50, “Insurance Holding Company System Registration”. The Company is directly owned by GRN, a Delaware holding company. The GRN group of companies provides global reinsurance and financial service operations in over 75 cities in 29 countries, and provides reinsurance in approximately 136 countries. GRN in turn is owned by Berkshire, a publicly traded holding company whose subsidiaries overall engage in a number of diverse business activities including property and casualty insurance and reinsurance, utilities and energy, finance, manufacturing, services and retailing.

The following is an abbreviated organizational chart as of December 31, 2008.

North Star Reinsurance Corporation



The above entities are all 100% owned. Mr. Warren Buffett is considered the ultimate controlling person over the holding company system, owning approximately 31.8% of Berkshire.

North Star Reinsurance Corporation

Board of Directors and Officers

The business affairs and corporate activities are vested in a Board of Directors. The bylaws provide that the number of directors shall be established by the Board of Directors or by action of the stockholder and shall consist of not less than seven (7) members. Directors are elected annually at the annual stockholders' meeting, and serve until a successor is elected and qualified. A majority of the Board of Directors, but no less than five (5) members, shall constitute a quorum for the transaction of business.

The bylaws provide that the Officers of the Company shall be a Chairman of the Board, a President, a Treasurer and a Secretary, all of whom shall be elected by the Board of Directors at the next regular meeting after the Annual Meeting of the stockholder. The Chief Executive Officer may from time to time appoint other officers.

The Board of Directors and Officers duly appointed or elected and serving as of December 31, 2008 were as follows:

<u>Director</u>	<u>Primary Business Affiliation</u>
William George Gasdaska, Jr.	Chief Financial Officer, Treasurer and Senior Vice President General Re Corporation and General Reinsurance Corporation
Stephen Chard Barbour *	Senior Vice President and Chief Financial Officer (North America) General Reinsurance Corporation
Damon Nicholas Vocke	Senior Vice President, Secretary and General Counsel General Re Corporation and General Reinsurance Corporation
Nicholas Stavros Canelos *	Senior Vice President and Global Claims Manager General Reinsurance Corporation
Leslie Jean Davis	Vice President and Assistant General Counsel General Reinsurance Corporation
Daniel Kevin Lyons *	Senior Vice President and Chief Actuary General Reinsurance Corporation
John Vincent Regan *	Senior Vice President and Controller General Reinsurance Corporation

North Star Reinsurance Corporation

<u>Officers</u>	<u>Title</u>
William George Gasdaska, Jr. *	Chairman, Chief Executive Officer, President, Treasurer
Adam David Roberts *	Secretary

* Indicates newly appointed or elected during the examination period

Committees

The bylaws provide for the Board to appoint such standing committees and/or special committees, each consisting of two (2) or more directors, to perform such duties and make such investigations and reports as the Board by resolution may determine. Additionally the Board of Directors may appoint an Executive Committee with the powers and authority of the Board in the management of the Company. During the examination period there were no such committees appointed by the Board. It was noted, however, that certain committees have been appointed by the GRN Board of Directors whose decisions can impact the entire GRN group of companies. Two (2) of the eight (8) GRN Board members also serve on the Company's Board. The committees include an Audit Committee, a Risk Committee (oversees the corporate governance and risk assessment process), and a Complex Transaction Committee (oversees risk transfer related issues and contracts issued by its entities).

Members of these committees serving as of December 31, 2008 were as follows;

<u>GRN Risk Committee</u>	<u>GRN Audit Committee</u>	<u>GRN Complex Transaction /Committee</u>
Franklin Montross IV	Franklin Montross IV	Franklin Montross IV
Imre John Cholnoky	Imre John Cholnoky	William Gasdaska, Jr.
William Gasdaska, Jr.	William Gasdaska, Jr.	Damon Vocke
Damon Vocke	Damon Vocke	Other individuals are also
Salvatore Curiale*	Salvatore Curiale*	invited to participate,

North Star Reinsurance Corporation

John Regan	Members of the Berkshire	including the Chief Actuary
Daniel Lyons	Audit Committee also	and GRN's independent
Nicholas Canelos	participate in these	Board member
Adrienne Mageras	meetings	
Kenneth Lundgren		
Jonathan Hewitt		
Sigfried Kuon		
Winfried Heinen		
Teresa McTague		
Janice Englesbe		
Sandra Bell		

* Indicates member is independent

Corporate Governance

The Company operates under a corporate governance environment that includes certain oversight and corporate direction from both the upstream parent Berkshire and from GRN, and the Board of Directors and management of the Company. The control consciousness is developed throughout the organization through a sound organizational structure that allows for ease of communication across the entity, a conscious commitment to integrity, promoting ethical values and competence of employees, the assignment of clear authority and responsibility, an open management philosophy and operating style and a commitment to the development of resources.

In addition, the governance process establishes the roles of the GRN board, and the GRN Audit, Risk, and Complex Transactions Committee in the establishment of a sound risk management process that has a pervasive influence on the way business activities are structured, objectives and strategies are established and risks identified. It also influences risk assessment,

North Star Reinsurance Corporation

control activities, information and communication systems, monitoring activities, and antifraud programs.

The Audit Committee assists management in significantly influencing the “tone at the top.” In its fiduciary role, the Board along with the Risk Committee is responsible for overseeing the internal controls over financial reporting established by management and the process by which management satisfies itself that they are working effectively. They are also responsible for assessing the risk of financial fraud by management and ensuring that controls are in place to prevent, deter and detect such fraud. The oversight controls extend to understanding management’s strategic initiatives, risk management processes (including antifraud programs) and controls as well as the internal and external audit plans and procedures for addressing risks within the organization.

Internal audit, in its oversight capacity, has broad knowledge about the Company which enables it to identify operational deficiencies as well as indicators of fraud. Internal audit assists in the monitoring of organizational objectives, the adherence with policies and procedures and the deterrence of fraud by examining and evaluating the effectiveness of the operational processes and the adequacy and effectiveness of internal controls as part of their audits. The scope of the Internal Audit program is coordinated with the Company’s independent accountants to ensure adequate coverage and maximum efficiency. Each year, a comprehensive risk-based audit plan is prepared and presented to the Audit Committee and to senior management.

Conflict of Interest Policy

The immediate parent company, GRN, maintains a formal written Policy Statement on Conflict of Interest procedures under which the subsidiaries participate. In accordance with these procedures, conflict of interest compliance questionnaires are required to be completed by all directors, officers and employees on an annual basis. Currently compliance is ensured

North Star Reinsurance Corporation

through the use of an electronic process which tracks completed and outstanding forms, and the Company was noted to have complied with its conflict of interest procedures for the period under review.

Intercompany Agreements

The Company participated in the following inter-company service and administrative type agreements that were in effect as of December 31, 2008:

Expense and Tax Allocation Agreement

Effective December 28, 1995, the Company and GRN entered into an expense and tax allocation agreement.

Each of the parties can provide services to the other that includes administration, underwriting services, personnel, investment, EDP, treaty services, medical and such other expenses and taxes of any kind, rent, employee benefits and directors fees. Fees charged shall be based on time, number of employees, company assets, rent space or other agreed upon cost allocation methods.

The consolidated tax liability is allocated among affiliates in the ratio that each affiliate's separate return tax liability bears to the sum of the separate return tax liabilities of all affiliates that are members of the consolidated group. Estimated payments are required to be made by the respective affiliates to GRN and if such member is in a tax loss position that member will establish an account receivable from GRN.

General Services Agreement

Effective September 1, 1998 and last amended October 1, 2006, the Company entered into a general services agreement whereby GRC provides, without limitation, such services as; administration, communications and public relations, actuarial, audit, executive, legal, personnel, comptroller, employee benefits and benefit plans, accounting, tax and other financial services.

North Star Reinsurance Corporation

This agreement was amended and restated effective January 1, 2009. No significant changes in the overall provisions in the agreement were noted.

Investment Management Agreement

Effective June 1, 2003, the Company entered into an investment management agreement with General Re-New England Asset Management, Inc. (NEAM), whereby NEAM will make investment decisions for the Company in accordance with investment restrictions and guidelines as stated in the agreement. All investment transactions require prior approval from the Company except for transactions in the "short term pool" account.

Joint Asset Agreement

Effective January 1, 1989 and as amended and restated on February 1, 2007 with amendments through July 1, 2009 (to reflect changes in non-insurance participants), a joint asset agreement was established between and among the Company and certain other subsidiaries of GRN in order to improve the investment returns on contributed funds. The companies joined together, creating a short term pool fund to which each participant contributes cash in excess of general working capital. Each participant jointly owns a percentage of the assets in the pool and shares in the investment income/loss in proportion to its contributed assets. Participants may cancel their participation and withdraw their contributions upon notice to the manager. GRC has been appointed as the manager and investment advisor for the jointly owned assets comprising the pool fund.

Master Loan Agreement

Effective March 1, 1993 and as amended and restated on February 1, 2007 with amendments through July 1, 2009, a master loan agreement was established between and among GRN and certain of its subsidiaries to create an inter-company short term loan facility to reduce each participant's level of short term investments while retaining sufficient liquidity to pay

North Star Reinsurance Corporation

current obligations through affiliate borrowings as needed. GRC manages the short term loan facility and is authorized to make loans by affiliates to affiliates requesting such a loan. Loans bear interest from the date funds are advanced until the date repaid and the rate of interest shall be the average rate currently received by participants on their short term investments. Loans are to be outstanding for no longer than six months, and borrowing affiliates may repay the loans at any time without penalty. Where necessary to allow for the loaned amount to be an admissible asset, the borrowing entity is responsible for providing collateral sufficient to cover 100% of the value of the loan.

The amended and restructured Master Loan Agreement was properly submitted to and approved by the Delaware Department of Insurance. As of December 31, 2008, there were no loans outstanding due to the Company and only minimal transactions during the year in conjunction with this agreement.

TERRITORY AND PLAN OF OPERATION

The Company is authorized to transact the business of insurance in all states except Hawaii, Maine, North Carolina, and Wyoming, and is also licensed in the District of Columbia and Puerto Rico. There were no changes to the states or territories in which the Company is authorized to do business during the period under review.

Since December 28, 1995, when the Company was re-acquired by GRC, the Company has not written any new or renewal business.

Gross assumed premiums totaled (\$16,571), as of December 31, 2008, and the entire amount was retroceded to GRC.

GROWTH OF THE COMPANY

The following information was extracted from the Company's filed Annual Statements and shows the changes in the Company since the last examination:

Year	Net Admitted Assets	Surplus as Regards Policyholders	Gross Premiums Written *	Net Premiums Earned	Net Income
2008	\$22,364,472	\$19,499,119	\$ (16,571)	\$ -0-	\$479,612
2007	\$24,228,951	\$19,087,088	\$(1,608,823)	\$ -0-	\$826,661
2006	\$21,574,735	\$18,235,982	\$ 257,280	\$ -0-	\$935,188
2005	\$30,626,036	\$17,933,239	\$ 371,361	\$ -0-	\$468,710

* Reinsurance assumed.

The Company is in run-off with all business ceded to an affiliate, GRC. The fluctuations in the above categories are primarily a result of this run-off, primarily impacted from both the changes in amounts paid through the period as well as changes in the settlement amounts outstanding with GRC.

REINSURANCE

The Company's liabilities are 100% reinsured through a retrocessional agreement with GRC, entered into on December 28, 1995.

ACCOUNTS AND RECORDS

Claim transactions are administered and maintained on legacy electronic data processing systems, which are shared by the GRN subsidiaries. Although data in many instances automatically feeds between these legacy systems, postings into the statutory general ledger, SAP, primarily occur on a manual basis. Personal computers and file servers support financial reporting and analysis. The systems are maintained by personnel located in Trumbull.

North Star Reinsurance Corporation

The Company's investments are managed and administered by an affiliate, General Re-New England Asset Management, Inc. (NEAM), which utilizes the CAMRA system. The investment related transactions are also posted manually by the Finance Department into the general ledger system.

The Company's financial statements were audited by the firm of D&T. D&T issued an unqualified opinion of the audited statutory financial statements for all years under examination review. Workpapers prepared by D&T in connection with the annual audit were reviewed and, where deemed appropriate, have been utilized and incorporated into the examination workpapers.

The accounts and records review included an assessment of the Company's risk management process in identifying and controlling risks in the key operational areas of the Company. In making the assessment in each key area, processes were reviewed, risks were identified, operational and organizational controls were identified and tested and the Company's methodology for assessing the effectiveness of the established mitigation factors was evaluated.

The primary systems used in the operations of the Company were also evaluated. The Information Systems (IS) portion of the examination was performed by INS Services, Inc. The review was performed in accordance with the FCEH Handbook. The review of IS controls included IS management and organizational controls; application and operating system software change controls; system and program development controls; overall systems documentation; logical and physical security controls; contingency planning; local and wide area networks, personal computers, and mainframe controls. Control testing performed by the Company's SOX and Internal Audit functions and by D&T was evaluated, and testing of end user computing and IS outsourcing controls were performed in making the evaluation. As a result of the procedures performed, the IS Examination Team obtained reasonable assurance that IS general controls and

North Star Reinsurance Corporation

general application controls were functioning as management intended and that an effective system of controls is in place and conducive to the accuracy and reliability of financial information processed and maintained by the Company. There are no reportable items related to our review of IS controls.

FINANCIAL STATEMENTS

The following pages contain a statement of assets, liabilities, surplus and other funds as of December 31, 2008, as determined by this examination:

Assets

Liabilities, Surplus and Other Funds

Statement of Income including Capital and Surplus Account

North Star Reinsurance Corporation

Assets

As of December 31, 2008

	Ledger <u>Assets</u>	Non-Admitted <u>Assets</u>	Net Admitted <u>Assets</u>	<u>Notes</u>
Bonds	\$ 6,307,059	\$ 0	\$ 6,307,059	1
Cash, cash equivalents, and short-term investments	15,991,953		15,991,953	2
Investment income due and accrued	65,460		65,460	
	<hr/>	<hr/>	<hr/>	
Total assets	<u>\$ 22,364,472</u>	<u>\$ 0</u>	<u>\$ 22,364,472</u>	

Liabilities, Surplus and Other Funds

As of December 31, 2008

		<u>Notes</u>
Losses	\$ 0	3
Loss adjustment expenses	0	3
Current federal and foreign income taxes	37,097	
Net deferred tax liability	98,705	
Payable to parent, subsidiaries and affiliates	2,729,551	
Total liabilities	<u>\$ 2,865,353</u>	
Common capital stock	\$ 4,000,000	
Preferred capital stock	500,000	
Gross paid-in and contributed surplus	5,510,000	
Unassigned funds (surplus)	9,489,119	
Surplus as regards policyholders	<u>\$ 19,499,119</u>	
Totals	<u>\$ 22,364,472</u>	

North Star Reinsurance Corporation

Statement of Income
As of December 31, 2008

UNDERWRITING INCOME

Premiums earned \$ 0

DEDUCTIONS

Losses incurred \$ 0

Loss expenses incurred 0

Other underwriting expenses incurred 0

Total underwriting deductions \$ 0

Net underwriting gain or (loss) \$ 0

INVESTMENT INCOME

Net investment income earned \$ 569,076

Net realized capital gains or (losses) 87,452

Net investment gain or (loss) \$ 656,528

OTHER INCOME

Net gain (loss) from agents' or premium balances charged off \$ 0

Total other income \$ 0

Net income before dividends to policyholders and before federal
income taxes \$ 656,528

Dividends to policyholders 0

Net income after dividends to policyholder but before federal
income taxes \$ 656,528

Federal and foreign income taxes incurred 176,916

Net income \$ 479,612

CAPITAL AND SURPLUS ACCOUNT

Surplus as regards policyholders, December 31, 2007 \$ 19,087,088

GAINS AND (LOSSES) IN SURPLUS

Net income \$ 479,612

Change in net unrealized foreign exchange capital gain (104,210)

Change in net deferred income tax 36,629

Change in surplus as regards policyholders for the year \$ 412,031

Surplus as regards policyholders, December 31, 2008 \$ 19,499,119

NOTES TO FINANCIAL STATEMENTS

Note 1 – Bonds

\$6,307,059

The above captioned amount is the same as that reported by the Company in its 2008 Annual Statement.

Bonds comprised 28.2% of total admitted assets, of which 100.0% were rated Class 1 by the NAIC Securities Valuations Office.

Note 2 – Cash

\$15,991,953

The above captioned amount represents 71.5% of total admitted assets, and is the same as that reported by the Company in its 2008 Annual Statement.

The balance is comprised of cash equivalents \$8,459,149 and short term investments \$7,532,804. The entire cash equivalents balance of \$8,459,149 represents the Company's portion of the "Gen Re Short Term Pool" account as governed under the provisions of the Joint Asset Agreement.

Note 3 – Losses

\$ 0

Loss Adjustment Expenses

\$ 0

The Company has been in run-off since 1995, and cedes 100% of all losses and loss adjustment expenses to GRC. Consequently, the Company did not carry reserves for losses or loss adjustment expenses.

INS Consultants, Inc. was retained by the Delaware Insurance Department to conduct an actuarial review of the GRC, NRC and NSR (gross) company reserve methodologies and adequacy. The review indicated that over 93% of the Company's gross Incurred But Not Reported (IBNR) loss and Allocated Loss Adjustment Expense is attributable to Asbestos and Environmental reserves, which were tested by comparing the companies' survival ratios to

North Star Reinsurance Corporation

industry averages on a gross basis. These survival ratios were found to be weaker than the industry averages, and while the IBNR was strengthened within the group to reach target survival ratios at the end of 2008, this increase was not spread back to the Company. The actuarial review considered, however, the combined position of GRC and the Company based on the 100% cession to GRC, and concluded that the overall reserve position was adequate.

The Company was noted to have received an exemption from the Delaware Department of Insurance with regards to filing an Actuarial Opinion.

COMPLIANCE WITH PRIOR REPORT RECOMMENDATIONS

There were four (4) recommendations contained within the prior examination report. Each of these recommendations was reviewed along with applicable follow up actions performed by the Company, and the Company was determined to be in compliance with the prior report recommendations.

SUMMARY OF RECOMMENDATIONS

There were no recommendations included within this report.

SUBSEQUENT EVENTS

There were no subsequent events noted that would have a significant impact on the Company.

CONCLUSION

The following schedule shows the results of this and the prior examination with changes between the three year periods:

<u>Description</u>	<u>December 31 2005,</u>	<u>December 31, 2008</u>	<u>Difference</u>
Assets	\$30,626,036	\$22,364,472	\$(8,261,564)
Liabilities	\$12,692,797	\$2,865,353	\$(9,827,444)
Capital and Surplus	\$17,933,239	\$19,499,119	\$1,565,880

The assistance of Delaware's consulting firms, INS Consultants, Inc., and INS Services, Inc. is acknowledged.

Respectfully submitted,



Mary L. Rodack, CFE
Examiner-In-Charge
State of Delaware