

REPORT ON EXAMINATION
OF THE
OVERSEAS PARTNERS (US) REINSURANCE COMPANY
AS OF
DECEMBER 31, 2003

State of Delaware



Department of Insurance

Dover, Delaware



I, Matthew Denn, Insurance Commissioner of the State of Delaware, do hereby certify that the attached REPORT ON EXAMINATION, made as of December 31, 2003 of the

OVERSEAS PARTNERS (US) REINSURANCE COMPANY

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

ATTEST BY: *Jennifer L. Miller*

DATE: 21ST JUNE 2005



In Witness Whereof, I HAVE HEREUNTO SET MY HAND AND AFFIXED THE OFFICIAL SEAL OF THIS DEPARTMENT AT THE CITY OF DOVER, THIS 21ST DAY OF JUNE 2005.

Matthew Denn

Insurance Commissioner


Deputy Insurance Commissioner

REPORT ON EXAMINATION
OF THE
OVERSEAS PARTNERS (US) REINSURANCE COMPANY
AS OF
December 31, 2003

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.

A handwritten signature in black ink, appearing to read "Matt Denn", written over a horizontal line.

MATTHEW DENN
INSURANCE COMMISSIONER

DATED this 21ST day of JUNE, 2005.

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January 10, 2005

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State Corporation Commission
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Commonwealth of Virginia
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Honorable Matthew Denn
Insurance Commissioner
State of Delaware
Rodney Building
841 Silver Lake Building
Dover, Delaware, 19901

Dear Commissioners:

In compliance with instructions contained in Certificate of Authority No. 04.014, an examination has been made of the affairs, financial condition and management of the

OVERSEAS PARTNERS (US) REINSURANCE COMPANY

hereinafter referred to as "OPUS Re" or "Company", incorporated under the laws of the State of Delaware. The examination was conducted at the principal offices of the Company, located at Two Logan Square, Suite 600, Philadelphia, Pennsylvania.

The report of such examination is respectfully submitted herewith.

SCOPE OF EXAMINATION

The last examination was conducted as of December 31, 1999. This examination covered the four year period of January 1, 2000 to December 31, 2003, 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.

The format of this report is designed to explain the procedures employed on examination and the text will explain changes wherever made. If necessary, comments and recommendations have been made in those areas in need of correction or improvement. In such cases, these matters were thoroughly discussed with responsible officials during the course of the examination.

The general procedures of the examination followed the rules established by the National Association of Insurance Commissioners' (NAIC) Committee on Financial Condition Examiners Handbook, and generally accepted statutory insurance examination standards.

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

- Fidelity Bond & Other Insurance
- Legal Actions
- Conflicts of Interest
- Market Conduct Activities
- All Asset & Liability items not mentioned

HISTORY

The Company was incorporated on October 19, 1993 under the laws of the State of Delaware as a stock property and casualty insurance company with its name being Reliance Reinsurance Company. Its original Delaware Certificate of Authority was issued on March 4,

1994 and authorized the Company to transact the business of health, credit health, property, surety, marine and transportation, and casualty insurance. The Company began assuming reinsurance in 1995.

On October 2, 2000 the Company was sold by the Reliance Insurance Group to Overseas Partners Ltd. (OPL), a Bermuda domiciled insurer, for its statutory capital and surplus and an additional \$6 million. The Company's former parent, Reliance Insurance Company was placed into rehabilitation on May 29, 2001 and the ultimate parent company, Reliance Group Holdings Inc. filed for Bankruptcy in June 2001.

Subsequent to the acquisition of the Company by OPL the Company's name was changed to its current title, Overseas Partners US Reinsurance Company (OPUS Re). See Holding Company System for additional details. During 2002 the Company's Board of Directors made the decision to place the Company into run-off and the Company has been in run-off since that time (See Territory & Plan of Operation for additional details).

CAPITALIZATION & DIVIDENDS TO STOCKHOLDERS

The Company received the following Gross Paid In and Contributed Surplus during the examination period:

| | |
|--------------|-----------------------------|
| 2000 | \$245,000,000 |
| 2001 | 0 |
| 2002 | 1,109,096 |
| 2003 | <u>50,600</u> |
| TOTAL | <u>\$246,159,696</u> |

For the period under examination, the Company paid the following dividends:

| | |
|--------------|-----------------------------|
| 2000 | \$ 0 |
| 2001 | 200,000 |
| 2002 | 198,500,000 |
| 2003 | <u>0</u> |
| TOTAL | <u>\$198,700,000</u> |

Subsequent to the December 31, 2003 examination date the Company paid an extraordinary dividend in the amount of \$6,971,402. This dividend was approved by the Delaware Insurance Department in accordance with the Delaware Insurance Code.

HOLDING COMPANY SYSTEM

As previously noted the Company was acquired by OPL on October 2, 2000. OPL, a Bermuda company, reported the following significant financial information in its 2003 Annual Report:

- * Members' Equity was \$700,963,000 as of December 31, 2003
- * Members' Equity decreased by (\$507,102,000) during 2003 from \$1,208,065,000 in 2002
- * The significant decrease in Members' Equity is due to "Liquidating Distributions" totaling \$534,635,000 or \$4.50 per share during 2003.

The following is the ownership summary of OPUS Re:

Overseas Partners LTD (OPL- Bermuda)

- * **Overseas Partners Reinsurance Company (OP Re- Bermuda)**
- * **Overseas Partners US Holding Company (OPUS HC- Delaware)**
- * **Overseas Partners US Reinsurance Company (OPUS Re-Delaware)**

As shown above, the Company's direct parent is OPUS HC. The Company owns no subsidiaries and maintains no material interest in any affiliated companies. The Company has been a wholly owned subsidiary of the OPL Group since October 2, 2000.

Subsequent to the December 31, 2003 examination date, OPL entered into a Stock Purchase Agreement with the Fairfax Group whereby OPUS Re will be acquired by the Fairfax Group and will become a direct subsidiary of Clearwater Insurance Company, formerly Odyssey Reinsurance Company, a Delaware domiciled insurer.

MANAGEMENT AND CONTROL

The affairs of the Company shall be managed by a Board of Directors composed of a minimum of seven (7) persons. Each Director is elected for a period of one (1) year and until his successor shall be elected and shall qualify.

Regular meetings of the Board of Directors shall consist of at least four-(4) regularly scheduled quarterly meetings per year. No specific date or time is given for an annual meeting.

The following were the Directors of the OPUS Re as elected by the Company's Shareholders as of December 31, 2003:

| <u>Director</u> | <u>Primary Occupation/Employer</u> |
|---------------------------------|---|
| Mark Royston Bridges (Chairman) | Overseas Partners Group Hamilton, Bermuda |
| Shari Lynn Conley-Barrett | Overseas Partners Group Hamilton, Bermuda |
| Christopher John Fleming | Overseas Partners Group Hamilton, Bermuda |
| Mark Bertram Cloutier | Overseas Partners Group Hamilton, Bermuda |
| William Anthony McKenna | Consultant for Overseas Partners Group, Philadelphia, PA |
| Lynda Andrea Davidson-Leader | Overseas Partners Group Hamilton, Bermuda |
| Duncan Campbell McBeath | Overseas Partner Group Hamilton, Bermuda |

The following were the Officers of OPUS Re as elected by the Board of Directors and serving as of December 31, 2003:

| | |
|----------------------|-----------------|
| Mark Royston Bridges | President |
| Nigel John Griffey | Secretary |
| Linda Zampini | Treasurer |
| Polly Jirele | Asst. Secretary |
| Theresa Ziotnik | Asst. Secretary |

The By-Laws of the Company also establish/permit committees of the Board; however no committees of the Board were active as of the December 31, 2003 examination date.

In mid 2002, the Company decided to go into run-off (see Territory and Plan of Operation). At that time the Company began the process of downsizing itself and began a search for a Third-Party Administrator to run-off the remaining business of the Company until such time as the Company could be sold.

Management Agreements

Administrative Services Agreement

Effective October 20, 2003 OPUS Re entered into an Administrative Services Agreement with Reinsurance Solutions International, L.L.C. (RSI). Per the terms of the agreement, RSI performs the majority of the day-to-day functions of the Company including various administrative, accounting and claims activities. No underwriting services are provided as the Company is in run-off. Also, the Company's actuarial review/determination is determined by a separate third-party (Tillinghast). The review of the agreement indicates that reasonable limitations have been placed on RSI with regards to Authority Levels and the major operating decisions are left to the Officers of the Company, who are appointed by the Board of Directors on an annual basis.

The initial period of the agreement with RSI is October 20, 2003 - October 31, 2006. However, either party may terminate the agreement upon ninety (90) days prior notice without cause, which is important given the pending Stock Purchase Agreement previously noted.

Tax Allocation Agreement

With regards to intercompany agreements (excluding reinsurance), the Company is party to one-(1) intercompany agreement, which is a tax allocation agreement between OPUS Re,

OPUS HC and other affiliated companies. Per the terms of the agreement the affiliates file a consolidated federal income tax return. The applicable affiliates included in this agreement are only the companies based/domiciled in the United States, as such, OPL, a Bermuda Company is not included in this agreement.

The review of the Tax Agreement noted the following: "the Affiliate will pay to, or receive from, HoldCo (OPUS HC), an amount equal to the federal income tax/benefit, at the current year's statutory rate applied to the Affiliate's separate taxable income/loss, adjusted for all tax credits. Such tax/benefit shall be determined without regard to separate company limitations. If the amount of the consolidated tax/benefit is greater or less than the sum of the individual Affiliate's tax/benefit amounts, the difference will be allocated to OPUS Re". This statement means that OPUS Re could be responsible for a portion of its affiliate's tax liability. As such, the following recommendation is made:

It is recommended that the Company amend its intercompany Tax Allocation Agreement to state that federal income taxes are to be calculated on a separate company basis and that each affiliate is responsible fully and solely for its tax/benefit resulting from said calculation.

CORPORATE RECORDS

The examination reviewed the various corporate records of the Company. No conflicts between the By-Laws, the Articles of Incorporation or other corporate records were noted. However the review of the Minutes of the Meetings of the Board of Directors noted several items of concern. First; the Board of Directors did not appoint an independent CPA firm to perform an annual audit of the Company's financial statements. As such the following recommendation is made:

It is recommended that the Board of Directors appoint an independent CPA to perform an annual audit of the Company's Statutory Financial Statements.

Second; the Board of Directors did not review and approve the independent audit report issued by the Company's independent CPA's. Therefore, the following recommendation is made:

It is recommended that the Board of Directors review and accept the Audited Financial Statements on an annual basis as issued by the Company's independent CPA firm.

Third; the Board of Directors did not specifically approve the appointment of RSI as the Company's Third-Party Administrator to perform the majority of the Company's day-to-day operations until the Company is run-off or sold. The following related recommendation is made:

It is recommended that in the future the Board of Directors approve all Third-Party Administrator agreements that are material to the day to day operations of the Company.

Fourth; the Board of Directors did not elect the Officers of the Company on an Annual Basis as is required by the By-Laws Article V, Section 2. As such, the following recommendation is made:

It is recommended that the Board of Directors elect the Officers of the Company on an annual basis as is required by the Corporate By-Laws in Article V, Section 2.

GROWTH OF COMPANY

The following information was obtained from the Company's filed Annual Statements and covers the five preceding years:

| Admitted Year | Assets | Surplus | Net Premiums Earned | Net Underwriting Gain/(loss) | Net Income/(loss) | Suplus/Capital Contributions Recv'd | Dividends Paid |
|------------------|--------------|--------------|------------------------|---------------------------------|-------------------|---|-------------------|
| 1999 | \$66,654,964 | \$28,230,397 | \$23,671,844 | (\$7,466,406) | (\$2,602,695) | \$ 0 | \$ 0 |
| 2000 | 275,424,399 | 273,187,480 | 7,450,963 | (4,924,171) | (254,917) | 245,000,000 | 0 |
| 2001 | 352,318,574 | 271,928,221 | 76,585,113 | (17,641,845) | (2,381,653) | 0 | 200,000 |
| 2002 | 215,767,221 | 73,406,942 | 157,563,458 | (19,657,301) | (4,028,270) | 1,109,096 | 198,500,000 |
| 2003 | 139,660,217 | 69,714,016 | 61,213,234 | (7,684,011) | (1,164,200) | 50,603 | 0 |

As indicated by the above information, the four year examination period witnessed several dramatic changes in the Company's operations. Specifically, significant increases and decreases with regards to Premiums Earned and Policyholders' Surplus are revealed. These changes are due to the fact that in 2000 the Company (then known as Reliance Reinsurance Company) was acquired by OPL. At that time a significant amount of capital was infused into OPUS Re with the intention of giving the Company significant underwriting capacity. This was consistent with OPL's acquisition application in which OPL stated an interest in heavily capitalizing OPUS Re in the hopes of making OPUS Re a significant player in the assumed reinsurance market place.

Subsequently, in 2002 the Board of Directors of OPL changed its position and determined that OPUS Re should be put into run-off and the Company and its licenses/accreditations should be put up for sale. A \$198,500,000 dividend (return of capital) was requested from the Delaware Insurance Department. After a target actuarial analysis, the dividend was approved.

Further significant items noted pertain to the Company's net underwriting loss during the examination period in the amount of (\$49,907,328), which contributed to the net loss during the same period in the amount of (\$7,829,040). However, policyholders' surplus increased by \$41,483,619 or 147% during the examination period as the result of the fact that capital contributions received significantly exceeded dividends/return of capital paid.

TERRITORY AND PLAN OF OPERATION

Territory

The Company is licensed in a total of 43 jurisdictions (including Delaware). Per the Company's filed 2003 Annual Statement, OPUS Re indicates premiums written (assumed and ceded only) on the following lines of business:

| <u>Line of Business</u> | <u>Assumed</u> | <u>Ceded</u> | <u>Net</u> |
|--|----------------------------|---------------------------|----------------------------|
| Fire | (\$ 406) | (\$ 4) | (\$ 402) |
| Allied Lines | (1,619,657) | (19,548) | (1,600,109) |
| Group Accident and Health | 33,193,338 | 362,750 | 32,830,588 |
| Workers' Compensation | 43,191 | 32,511 | 10,680 |
| Other Liability- Occurrence | 633,021 | 476,496 | 156,525 |
| Private Passenger Auto Liability | 14,505,148 | 158,518 | 14,346,630 |
| Commercial Auto Liability | (94,646) | (71,243) | (23,403) |
| Auto Physical Damage | 8,895,427 | 97,213 | 8,798,214 |
| Aircraft (all perils) | 29,227 | 319 | 28,908 |
| Reinsurance (nonproportional- property) | 185,748 | 48,713 | 137,035 |
| Reinsurance (nonproportional- liability) | 3,345,459 | 2,542,657 | 802,802 |
| Totals | <u>\$59,115,850</u> | <u>\$3,628,382</u> | <u>\$55,487,468</u> |

Gross Premiums Written in 2003 amounted to \$59,115,850 with \$3,628,382 subsequently ceded (over 98% to an affiliated company). As such, net premiums written in 2003 amounted to \$55,487,468, which is a significant decline from the net premiums written in 2002, which amounted to \$156,819,566. The significant decline is due to the fact that the Company went into run-off in mid 2002.

Plan of Operation

The Company has no proactive plan of operation other than to run-off the existing losses until such time as the Company is sold.

REINSURANCE

During 2003 the Company assumed \$80.3 million in earned premiums and ceded \$19.1 million leaving Net Premiums Earned in the amount of \$61.2 million. Subsequent to December 31, 2003, the projected annualized net premiums earned for 2004 are approximately \$24.2 million, which is a decrease of 60.5% or \$37 million. The decrease in premium is consistent with a company in run-off. A summary of the assumed and ceded reinsurance agreements applicable to the premiums mentioned above is shown below:

Assumed

The review of the material assumed reinsurance agreements in effect as of the December 31, 2003 examination date noted three (3) total assumed agreements. Of these agreements two (2) insurance groups constituted in excess of 94% of gross premiums written for 2003:

Specific and Aggregate Medical Stop Loss Quota Share- Highmark Life Insurance Company

The reinsured companies are Highmark Life Insurance Company and Highmark Life Insurance Company of New York. OPUS Re is the sole reinsurer accepting 100% of the reinsurance placement. The agreement became effective on January 1, 2002 and is continuous until terminated in accordance with the Commencement and Termination section of the Agreement.

There are two-(2) types of cessions under agreement: 1) Specific Excess of Loss- OPUS Re accepts a 40% Quota Share participation with the original insurer maintaining 60% on all risks under covered policies up to \$2,000,000 per covered person, per policy year less the Self-Insured Retention. OPUS Re will then accept 100% of applicable losses in excess of \$2,000,000 per covered person, per policy year less up to \$5,000,000 per covered person, per policy year; 2)

Aggregate Excess of Loss- OPUS Re accepts 40% Quota Share participation on all risks under covered policies up to \$2,000,000 per self-funded employer group in excess of a minimum employer's aggregate self-funded retention of 125% of expected claims costs.

The reinsurance premium is a pro rata share of the Original Gross Premium with the reinsurer (OPUS Re) allowing a ceded commission, which is to be 25% of the Original Ceded Gross Premium. The Agreement also provides for a claims fund, which amounted to \$2.5 million as of December 31, 2003.

“Traditional” Private Passenger Automobile Quota Share- Direct General Insurance Companies

The reinsured companies are Direct Insurance Company, Direct General Insurance Company, Direct General Insurance Company of Louisiana and Direct General Insurance Company of Mississippi. OPUS Re is one-(1) reinsurer in a group of reinsurers and is accepting 40% of the total reinsurance placement. The agreement became effective on January 1, 2002 and is continuous until terminated in accordance with the Commencement and Termination section of the Agreement.

Per the terms of the Agreement, OPUS Re assumes 40% of the 25% cession of the cedants Net Retained Liability for all "Traditional" Private Passenger Automobile Insurance with regards to policies new or renewed effective during the Agreement Year. Ceded losses shall not exceed \$900,000 for any one loss or losses in excess of policy limits. NOTE: As respects the cedants' Gross Net Written Premium, certain premium caps are noted in various states with a gross premium cap in all states amounting to \$300 million.

The subject business is Private Passenger Automobile Physical Damage and Liability business written in the following territories: Arkansas, Florida, Georgia, Kentucky, Louisiana, Mississippi, North Carolina, South Carolina and Tennessee. Loss limits vary by type (bodily

injury, uninsured motorists, etc.). Specifically, the property occurrence limit for OPUS Re is 40% of \$1,000,000 per occurrence.

Loss Corridor: The cession to OPUS Re includes 40% of 25% of losses below a 73% loss ratio. The cession stops at a 73% loss ratio and resumes when the loss ratio exceeds 84% (not subject to a deficit carry forward).

Premiums ceded are Quota Share based on the Gross Net Written Premium. The agreement provides for a provisional ceding commission of 21% of the Ceded Gross Net Written Premiums. Return premiums are returned net of the applicable ceding commission.

"Non-Traditional" Private Passenger Automobile Quota Share- Direct General Insurance Companies

The reinsured companies are Direct Insurance Company, Direct General Insurance Company, Direct General Insurance Company of Louisiana and Direct General Insurance Company of Mississippi. OPUS Re is one (1) reinsurer in a group of reinsurers and is accepting 40% of the total reinsurance placement. The agreement became effective on January 1, 2002 and is continuous until terminated in accordance with the Commencement and Termination section of the Agreement.

Per the terms of the Agreement, OPUS Re assumes 40% of the 25% cession of the cedants Net Retained Liability for all business classified as "Non-Traditional" Private Passenger Automobile Insurance with regards to policies new or renewed effective during the Agreement Year. Ceded losses shall not exceed \$900,000 for any one loss or losses in excess of policy limits. NOTE: As respects the cedants' Gross Net Written Premium, certain premium caps are noted in various states with a gross premium cap in all states amounting to \$300 million.

The subject business is Private Passenger Automobile Physical Damage and Liability business written in the following territories: Arkansas, Florida, Georgia, Kentucky, Louisiana,

Mississippi, North Carolina, South Carolina and Tennessee. Loss limits vary by type (bodily injury, uninsured motorists, etc.). Specifically, the property occurrence limit for OPUS Re is 40% of \$1,000,000 per occurrence.

Loss Corridor: The cession to OPUS Re includes 40% of 25% of losses below a 71.5% loss ratio. The cession stops at a 71.5% loss ratio and resumes when the loss ratio exceeds 93% (not subject to a deficit carry forward). There is also a loss cap (not included in the "Traditional" business agreement described above). As provided in the agreement any losses in excess of a 106.5% loss ratio will be retained by the cedant.

Premiums ceded are Quota Share based on the Gross Net Written Premium. The agreement provides for a provisional ceding commission of 25% of the ceded Gross Net Written Premiums. Return premiums are returned net of the applicable ceding commission.

The review of the Company's Assumed Reinsurance Program as of year end 2003 noted no material concerns. As previously noted, the Company is in run-off and is not soliciting any new assumed business. The agreement with Highmark Life was terminated on the examination date (December 31, 2003) and the agreements with the Direct General companies were terminated on a run-off basis on December 31, 2002.

Ceded

The Company maintained two-(2) ceded reinsurance agreements as of the December 31, 2003 examination date. Both agreements were with the Company's affiliate, Overseas Partners Re Ltd. (OP Re). These two-(2) agreements consisted of 99% of all premiums ceded during 2003. The two-(2) agreements are summarized below:

Quota Share Retrocessional Cover

This agreement, which was effective January 1, 2001, was cancelled on a run-off basis effective December 31, 2002. The agreement provides that all casualty assumed reinsurance treaties, casualty assumed facultative reinsurance certificates, and casualty assumed automatic or semi-automatic facultative reinsurance binding facilities with limits of liability for Ultimate Net Loss of \$10 million or less are retroceded to OP Re on a 75% Quota Share basis.

Excluded from this agreement is Accident & Health Insurance of all kinds, which excludes the retrocession of the Company's Highmark Life Aggregate Medical Stop Loss assumption.

Per the terms of the agreement, OPUS Re cedes a quota share percentage of the applicable Assumed Gross Net Written Premiums and associated commission and brokerage expense. An additional override ceding commission in the amount of 8% of the ceded reinsurance premium is provided by the agreement. Sliding scale commission adjustments are made in accordance with the terms of the agreement but do not appear unusual or unreasonable. The right to offset and the Insolvency Clause are included in the Agreement. OP Re assumes 100% of the 75% retrocession.

Stop Loss Agreement

The Stop Loss Agreement with OP Re covers all assumed facultative, treaty and automatic and semi-automatic facultative facility reinsurance written by OPUS Re. The Agreement period was an initial period of October 1, 2000 - December 31, 2001 and subsequently 12 month calendar periods thereafter commencing January 1, 2002.

OPUS Re retains Ultimate Net Losses and Underwriting Expenses (combined ratio) up to 125% of the Company's Net Earned Premium. OP Re's limit of liability is the lesser of \$100 million or 50% of the Company's Net Earned Premium during an applicable contract year. The aggregate limit under the contract entirety is \$300 million. There are no exclusions and the

agreement provides for the Insolvency Clause. OP Re has a 100% share in the placement of this retrocession.

ACCOUNTS AND RECORDS

For the years under examination, since the Company was acquired by OPL, the Company's financial statements were audited by the accounting firm of Deloitte & Touche, LLP (D&T). The examination reviewed D&T's 2003 audit workpapers and have utilized them to the fullest extent possible. In addition, the various accounts and records of the Company were reviewed without exception.

FINANCIAL STATEMENTS

The Company's financial position on December 31, 2003 and the results of operations for 2003 are presented in the following statements:

| | ASSETS | | | |
|--|-----------------------------|-------------------------------|--------------------------------|--------------|
| | <u>Assets</u> | <u>Nonadmitted Assets</u> | <u>Net Admitted Assets</u> | <u>Notes</u> |
| Bonds | \$79,285,133 | | \$79,285,133 | 2 |
| Cash and short-term investments | 37,271,920 | | 37,271,920 | |
| Receivable for securities | 128,419 | | 128,419 | |
| Investment income due and accrued | 1,320,061 | | 1,320,061 | |
| Agents' balances or uncollected premiums: | 2,673,764 | | 2,673,764 | |
| Deferred Premiums | 3,442,176 | | 3,442,176 | |
| Accrued Retrospective Premiums | 1,139,436 | | 1,139,436 | |
| Reinsurance recoverables | 640,183 | | 640,183 | |
| Funds held by reinsured companies | 10,010,357 | | 10,010,357 | |
| Federal Income Taxes Recoverable | 2,668,746 | | 2,668,746 | |
| Net deferred tax asset | 6,931,657 | \$5,851,809 | 1,079,848 | |
| Receivable from parent, subsidiaries and Affiliates | 174 | | 174 | |
| Aggregate Write-Ins | <u>193,203</u> | <u>193,203</u> | <u> </u> | |
| TOTALS | <u>\$145,705,229</u> | <u>\$ 6,045,012</u> | <u>\$139,660,217</u> | |

LIABILITES, SURPLUS AND OTHER FUNDS

| | | Notes |
|---|--------------------------|-------|
| Losses | \$61,116,730 | 1 |
| Loss Adjustment Expenses | 2,541,315 | 1 |
| Reinsurance payable on paid losses | 1,596,848 | |
| Commissions payable | 1,665,378 | |
| Other expenses | 1,670,338 | |
| Taxes, licenses and fees | 10 | |
| Unearned premiums | 434,258 | |
| Ceded reinsurance premiums payable | 920,893 | |
| Amounts withheld for account of others | <u>431</u> | |
| Total liabilities | <u>\$69,946,201</u> | |
| Common capital stock | \$5,000,000 | |
| Gross paid in and contributed surplus | \$70,659,699 | |
| Unassigned funds (surplus) | (\$5,945,683) | |
| Surplus as regards policyholders | <u>\$69,714,016</u> | |
| TOTAL | <u>\$139,660,217</u> | |

UNDERWRITING AND INVESTMENT EXHIBIT

| | | |
|--|-------------------|---------------------------|
| Premiums earned | | <u>\$61,213,234</u> |
| Losses incurred | \$44,308,329 | |
| Loss expenses incurred | 3,328,645 | |
| Other underwriting expenses incurred | <u>21,260,271</u> | |
| Total underwriting deductions | | <u>(\$68,897,245)</u> |
| Net underwriting (loss) | | <u>(\$7,684,011)</u> |
| Net investment income earned | 2,403,423 | |
| Net realized capital gains | 825,099 | |
| Net investment gain | | <u>\$3,228,522</u> |
| Other income- interest on funds held | | <u>\$491,952</u> |
| Net Income before taxes | | <u>(\$3,963,537)</u> |
| Federal and foreign taxes incurred | | <u>(\$2,799,337)</u> |
| NET INCOME | | <u>(\$1,164,200)</u> |

CAPITAL AND SURPLUS ACCOUNT

| | |
|---|-------------------------|
| Surplus as regards policyholders, December 31, 2002 | \$73,406,942 |
| Net income | (\$1,164,200) |
| Change in net deferred income tax | (1,319,140) |
| Change in nonadmitted assets | (1,410,186) |
| Change in provision for reinsurance | 150,000 |
| Surplus paid in | <u>50,600</u> |
| Change in surplus as regards policyholders for the year | (\$3,692,926) |
| Surplus as regards policyholders, December 31, 2003 | <u>\$69,714,016</u> |

SCHEDULE OF EXAMINATION ADJUSTMENTS

The examination made no financial adjustments to the 2003 Annual Statement of Overseas Partners US Reinsurance Company.

NOTES TO FINANCIAL STATEMENTS

Note 1

Bonds

\$79,285,133

Procedures were performed to confirm the existence and ownership of the investments reported in Schedule D, Part 1. These procedures were performed without exception. The Company continues to invest primarily in Bonds with ratings of “1” or “2” per the NAIC SVO Manual. The quality make up of the Company’s Bond portfolio as of December 31, 2003 was as follows:

| <u>NAIC Designation</u> | <u>2003</u> |
|-------------------------|-------------|
| 1 | 98.1% |
| 2 | 1.9% |
| 3 - 6 | 0.0% |

The Company’s bonds are held by multiple custodians. All custody agreements contain the NAIC’s Indemnification Clause.

Note 2

Loss & LAE Reserves

\$63,658,045

The Company Loss and LAE data was tested by the examination with no exceptions noted. An actuarial review performed by INS Consultants concluded that the Company’s Loss and LAE reserves were within an acceptable range and are accepted for purposes of this report.

STATUS OF PREVIOUS EXAMINATION RECOMMENDATIONS

The review of the prior Report on Examination noted that the prior examination did not make any Report on Examination recommendations.

RECOMMENDATIONS

The Company's attention is directed to the following examination recommendations:

* It is recommended that the Company amend its intercompany Tax Allocation Agreement to state that federal income taxes are to be calculated on a separate company basis and that each affiliate is responsible fully and solely for its tax/benefit resulting from said calculation (Page 7, Management & Control).

* It is recommended that the Board of Directors appoint an independent CPA to perform an annual audit of the Company's Statutory Financial Statements (Page 7, Corporate Records).

* It is recommended that the Board of Directors review and accept the Audited Financial Statements on an annual basis as issued by the Company's independent CPA firm (Page 8, Corporate Records).

* It is recommended that in the future the Board of Directors approve all Third-Party Administrator agreements that are material to the day to day operations of the Company (Page 8, Corporate Records).

* It is recommended that the Board of Directors elect the Officers of the Company on an annual basis as is required by the Corporate By-Laws in Article V, Section 2 (Page 8, Corporate Records).

SUBSEQUENT EVENTS

The following significant events were noted as part of the examinations review of events occurring subsequent to the December 31, 2003 examination date:

* The Company paid an extraordinary dividend to its parent, Overseas Partners US Holding Company on June 10, 2004 in the amount of \$6,971,402 or 10% of policyholders' surplus as of December 31, 2003.

* The Company significantly changed the structure of its investment holdings, transferring approximately \$18.7 million from short-term investments to long term bonds.

* On July 2, 2004 OPL and Odyssey Re Holdings Corporation (Odyssey Re) entered into a Stock Purchase Agreement, whereby Odyssey Re intends to acquire all of the capital stock of OPUS Re. At the time this Report was written the Delaware Insurance Department had received the Stock Purchase Agreement (including attachments) and a public hearing on the matter was pending. NOTE: Odyssey Re is the indirect parent of Clearwater Insurance Company (a Delaware domiciled insurer). After the sale, the Company will become a direct subsidiary of Clearwater Insurance Company (Clearwater).

* In anticipation of the sale, the Company is entering into a novation agreement with Clearwater and OP Re. Per the terms of the agreement, Clearwater will "take the place of" OP Re with respect to the 75% Ceded Quota Share Agreement. The Ceded Stop Loss Agreement will be commuted prior to the sale. At the time this Report was written the novation agreement was not in effect.

SUMMARY COMMENTS

On October 2, 2000 the Company was sold by the Reliance Insurance Group to Overseas Partners Ltd. (OPL), a Bermuda domiciled insurer, for its statutory capital and surplus and an additional \$6 million. The Company's former parent, Reliance Insurance Company was placed into rehabilitation on May 29, 2001 and the ultimate parent company, Reliance Group Holdings Inc. filed for Bankruptcy in June 2001.

Subsequent to the acquisition of the Company by OPL the Company's name was changed to its current title, Overseas Partners US Reinsurance Company (OPUS Re).

During the period under review the Company received Gross Paid In and Contributed Surplus totaling \$246,159,696 and paid dividends totaling \$198,700,000.

The Company went into run-off in mid 2002. As such, net premium written and gross, ceded and net loss reserves have been declining since that time. The Company has no proactive plan of operation other than to sell the Company and to run-off the existing losses until such time as the Company is sold.

Effective October 20, 2003 OPUS Re entered into an Administrative Services Agreement with Reinsurance Solutions International, L.L.C. (RSI). Per the terms of the agreement, RSI performs the majority of the day-to-day functions of the Company including various administrative, accounting and claims activities. No underwriting services are provided as the Company is in run-off. Also, the Company's actuarial review/determination is determined by a separate third-party (Tillinghast). The review of the agreement indicates that reasonable limitations have been placed on RSI with regards to Authority Levels and the major operating decisions are left to the Officers of the Company, who are appointed by the Board of Directors on an annual basis.

Subsequent to the December 31, 2003 examination date, OPL entered into a Stock Purchase Agreement with the Fairfax Group whereby OPUS Re will be acquired by the Fairfax Group and will become a direct subsidiary of Clearwater Insurance Company, formerly Odyssey Reinsurance Company, a Delaware domiciled insurer. A public hearing was scheduled for October 14, 2004, the results of which along with the Commissioners final decision and order were not available at the time of the writing of this Report.

CONCLUSION

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

| <u>Description</u> | <u>Current Examination</u> | <u>12/31/99 Examination</u> | <u>Changes Increases (Decreases)</u> |
|----------------------|----------------------------|-----------------------------|--------------------------------------|
| Assets | \$139,660,217 | \$ 66,654,964 | \$73,005,253 |
| Liabilities | 69,946,201 | 38,424,567 | 31,521,634 |
| Policyholder Surplus | 69,714,016 | 28,230,397 | 41,483,619 |

In addition to the undersigned, James Blair, Jr., CFE, CPA (examination supervisor) participated in the examination. The actuarial services of INS Consultants, Inc. are also acknowledged.

Respectfully submitted,



Gregg Bealuk, CFE
Examiner in Charge
Insurance Department
State of Delaware