STATE OF MISSOURI

MDCCCXX

DEPARTMENT OF INSURANCE, FINANCIAL INSTITUTIONS AND PROFESSIONAL REGISTRATION

P.O. Box 690, Jefferson City, Mo. 65102-0690

RE: Examination Report of Employers Reinsurance Corporation as of December 31, 2006

ORDER

After full consideration and review of the report of the financial examination of Employers Reinsurance Corporation for the period ended December 31, 2006, together with any written submissions or rebuttals and any relevant portions of the examiner's workpapers, I, Linda Bohrer, Acting Director, Missouri Department of Insurance, Financial Institutions and Professional Registration pursuant to section 374.205.3(3)(a), RSMo., adopt such report. After my consideration and review of such report, workpapers, and written submissions or rebuttals, the findings and conclusions of the examination report are incorporated by reference and deemed to be my findings and conclusions to accompany this order pursuant to section 374.205.3(4), RSMo.

Based on such findings and conclusions, I hereby ORDER Employers Reinsurance Corporation, to take the following action or actions, which I consider necessary to cure any violation of law, regulation or prior order of the Director revealed by such report: (1) implement, and verify compliance with, each item mentioned in the General Comments and/or Recommendations section of such report; (2) account for its financial condition and affairs in a manner consistent with the Director's findings and conclusions.

So ordered, signed and official seal affixed this June 30, 2008.

Linda Bohrer

Linda Bohrer, Acting Director
Department of Insurance, Financial Institutions
and Professional Registration

REPORT OF THE

ASSOCIATION FINANCIAL EXAMINATION OF

EMPLOYERS REINSURANCE CORPORATION

AS OF

DECEMBER 31, 2006

FILED
JUL 10 2008
DIRECTOR OF INSURANCE,
FINANCIAL INSTITUTIONS &
PROFESSIONAL REGISTRATION

STATE OF MISSOURI

DEPARTMENT OF INSURANCE, FINANCIAL INSTITUTIONS AND

PROFESSIONAL REGISTRATION

JEFFERSON CITY, MISSOURI

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Overland Park, Kansas
June 18, 2008

Honorable Alfred W. Gross, Commissioner
Virginia Bureau of Insurance
Chairman of Financial Condition (EX4) Subcommittee

Honorable Merle D. Scheiber, Commissioner
South Dakota Division of Insurance
Midwestern Zone Secretary

Honorable Linda Bohrer, Acting Director
Missouri Department of Insurance, Financial
Institutions and Professional Registration
301 West High Street, Room 530
Jefferson City, Missouri 65101

Gentlemen and Madam:

In accordance with your financial examination warrant, a full scope association financial examination has been made of the records, affairs and financial condition of

Employers Reinsurance Corporation

hereinafter referred to as such, as ERC, or as the Corporation. Its administrative office is located at 5200 Metcalf, Overland Park, Kansas 66202, telephone number (913) 676-5200. This examination began on October 15, 2007, fieldwork was completed on June 2, 2008 and the examination report was concluded on the above date.

SCOPE OF EXAMINATION

Period Covered

The prior full scope association financial examination of Employers Reinsurance Corporation was made as of December 31, 2003, and was conducted by examiners from the States of Missouri and Nevada, representing the Midwestern and Western Zones of the National Association of Insurance Commissioners (NAIC).

The current full scope association financial examination covered the period from January 1, 2004, through December 31, 2006, and was conducted by examiners from the State of Missouri, representing the Midwestern Zone of the NAIC, with no other zones participating.

This examination was performed concurrently with the examinations of the Corporation's subsidiaries, Westport Insurance Corporation (Westport) and First Specialty Insurance Corporation (First Specialty).

This examination also included the material transactions and/or events occurring subsequent to the examination date, which are noted in this report.

Procedures

This examination was conducted using the guidelines set forth in the Financial Condition Examiners Handbook of the NAIC, except where practices, procedures and applicable regulations of the Missouri Department of Insurance, Financial Institutions and Professional Registration (DIFP) and statutes of the State of Missouri prevailed.

The examiners relied upon information supplied by the Corporation's independent auditor, PricewaterhouseCoopers, LLP, of Kansas City, Missouri, for its audit covering the period from January 1, 2006, through December 31, 2006. Information relied upon included cash, investments and premium account confirmations, attorney letters, tests of controls, and narrative descriptions of processes and controls.

Comments - Previous Examination

Listed below are comments, recommendations and notes of the previous examination report dated as of December 31, 2003, and the subsequent response or action taken by the Corporation.

GE Service Mark Agreement

Comment: This agreement was never filed for prior approval with the DIFP, as required by Section 382.195 RSMo. (Prohibited transactions, exceptions). The Corporation was directed to immediately submit this Agreement as part of a Form D filing to the DIFP for approval.

Company's Response: The Corporation agreed to comply with the recommendation.

Current Findings: This agreement was terminated following the acquisition of the Corporation by Swiss Reinsurance Company (Swiss Re).

Federal Tax Allocation Agreement

Comment: There were federal income tax settlements during the examination period between the Corporation and several identified affiliates that were not parties to the Federal Tax Allocation Agreement. The Corporation was directed to amend the Federal Tax Allocation Agreement to add the affiliates.

Company's Response: The Corporation indicated changes in the way intercompany tax settlements are handled whereby ERC was no longer a conduit in settling tax matters with the identified affiliates.

Current Findings: The Corporation entered into a new Federal Tax Allocation Agreement with Swiss Re, which did not include the affiliates noted in the prior examination.

Agreements Not Signed

Comment: The Corporation was cited for not locating and providing signed copies of several related party agreements identified in the prior examination report. The Corporation was directed to execute the agreements in accordance with applicable holding company laws.

Company's Response: The Corporation noted some of the agreements have been terminated and others have been executed as directed.

Current Findings: Current related party agreements reviewed during the course of this examination were properly signed.

Intercompany Transactions without Agreements

Comment: The prior examination report noted that the Corporation had other intercompany transactions in the examination period that were not subject to written agreements. The Corporation was directed to draft written agreements with the identified affiliates and file the agreements with the DIFP.

Company's Response: The Corporation agreed to comply with the recommendation.

Current Findings: Some of the affiliates noted in the comment are no longer part of the Corporation's holding company system following the acquisition of ERC by Swiss Re. ERC has entered into new agreements with current related parties and these agreements have been submitted to the DIFP for approval.

Intercompany Transactions Not Reported

Comment: The examination noted several situations where amounts paid or received on certain identified intercompany agreements were not properly reported on Schedule Y – Part 2 of the Annual Statement. The Corporation was directed to implement accounting procedures to track all transactions with affiliates and subsidiaries to ensure the complete reporting of these transactions on Schedule Y – Part 2.

Company's Response: The Corporation agreed to comply with the recommendation.

Current Findings: This examination reviewed intercompany transactions and agreements to ensure compliance with applicable Missouri holding company laws. The examination's review did not indicate any materials exceptions from the applicable Missouri holding company laws.

Disclosure of Assets in Trust Accounts

Comment: The Corporation did not disclose certain assets held in trust accounts that are not for the benefit of policyholders as required by the NAIC's Annual Statement instructions. The Corporation was directed to report trust account assets on Schedule E – Part 3 – Special Deposits of the Annual Statement in the future.

Company's Response: The Corporation agreed to comply with this recommendation.

Current Findings: No problems were noted with respect to special deposits as of December 31, 2006.

Unsigned Reinsurance Agreements

Comment: The Corporation could not provide signed copies of several reinsurance agreements with certain identified affiliates and several non-affiliates. The Corporation was directed to implement recordkeeping procedures and controls to ensure that all future agreements are signed and maintained properly.

Company's Response: The Corporation agreed to comply with the recommendation.

Current Findings: Reinsurance agreements reviewed during this examination were properly signed.

Year-End Reporting Dates

Comment: It was noted that the Corporation closed its books and records for year-end transactions other than at December 31. The Corporation was directed to disclose its accounting practice for reporting asset and liability balances with dates prior to December 31 in the Notes to the Financial Statement section of the Annual Statement.

Company's Response: The Corporation agreed to comply with the recommendation.

Current Findings: The Corporation disclosed the use of year-end cut-off dates other than December 31 in the Notes to the Financial Statements section of the 2006 Annual Statement.

Reconciliation of Tax Accounts

Comments: The examination noted that the Corporation could not provide a complete reconciliation of the individual components that comprise the reported Annual Statement balance for the Federal Income Tax Recoverable line. ERC was directed to annually reconcile the general ledger balances for income statement accounts with the actual provision for income taxes that is calculated by the tax department.

Company's Response: ERC responded that management was aware that the amount reported was different than the detailed supporting back-up amount. However, management viewed the difference as reasonable and prudent reserve with respect to inherent tax uncertainties that could occur in the future.

Current Findings: ERC provided the supporting workpapers, which agreed to the amounts reported for the Federal Income Tax Recoverable line of the Annual Statement.

Deferred Tax Assets

Comments: The examination noted that the Corporation developed a tax planning strategy that resulted in a material deferred tax asset. The examination further determined that the uncertainty surrounding the tax strategy does not appear to be a "prudent and feasible" tax planning strategy, as required by the applicable Statement of Statutory Accounting Principle (SSAP). Accordingly, ERC was directed to non-admit the resulting deferred tax asset.

Company's Response: ERC responded that the tax planning strategy has been discontinued.

Current Findings: The examination did not uncover any questionable tax planning strategy during this examination.

Aggregate XOL Retrocession Agreements

Comments: There were conflicting opinions from actuaries engaged by the DIFP on whether the aggregate excess of loss (XOL) reinsurance agreement entered into by ERC transferred risks in accordance with the guidance provided by SSAP #62. The DIFP recommended that the Board of Directors and management of ERC apply conservatism principles to its current accounting and reserving practices and also apply conservatism principles before implementing any future reinsurance agreements, accounting strategies, or other transactions where statutory authority is not well defined.

Company's Response: ERC's initial response disagreed with the comment; however, a subsequent response indicated no additional comment.

Current Findings: The XOL retrocession agreement was commuted during the fourth quarter of 2007.

Loss Reserving Practices

Comments: ERC's reported loss reserves were determined to be materially deficient on a net basis according to the report of the DIFP's consulting actuary. The deficiency was due mostly to overly optimistic actuarial assumptions, double discounting of reserves, and management's decision to record reserves at amounts lower than estimated by the Corporation's actuaries. ERC was directed to change its reserving philosophy to reduce the likelihood of future reserve deficiency.

Company's Response: ERC responded that reserve strengthening measures were implemented in 2005 to cover adverse loss developments.

Current Findings: The DIFP engaged the services of a consulting actuary to review and opine on the sufficiency of the Corporation's reserves as of the examination date. The review did not indicate any material reserve deficiency.

HISTORY

General

The Corporation operates as a stock property and casualty insurer in Missouri under the insurance laws of Chapter 379 RSMo (Insurance Other Than Life). A brief corporate history of ERC is summarized below:

- The Corporation was originally incorporated as Employers Indemnity Corporation and began business on July 1, 1914. The Corporation's offices were located in Kansas City, Missouri.
- The Corporation's name was changed to Employers Reinsurance Corporation on August 22, 1928.
- ERC became a subsidiary of ERC Corporation through an exchange of stock on July 25, 1969.
- Getty Oil Company purchased ERC Corporation in July 1980. The corporate headquarters were moved to Overland Park, Kansas in October 1980.
- ERC, ERC Corporation, and Getty Reinsurance Corporation were merged and the new entity was incorporated on March 13, 1981, as Getty Reinsurance Corporation. The Company name was concurrently changed to Employers Reinsurance Corporation. The ultimate parent remained Getty Oil Company.
- Getty Oil Company was acquired by Texaco, Inc. in February 1984.
- General Electric Capital Services, Inc. (GE Capital Services), a subsidiary of General Electric Company (GE), purchased all of the outstanding stock of ERC from Texaco, Inc. in July 1984.
- GE Capital Services contributed its ownership of ERC to a subsidiary holding company, GE Insurance Solutions Corporation (GEIS) (formerly GE Global Insurance Holding Corporation), in March 1995.
- Financial control of the Corporation was held from March 1995 to June 2006 by GEIS.
- On November 18, 2005, GE entered into a transaction agreement to sell GEIS to Swiss Reinsurance Company, (Swiss Re).
- The sale transaction closed and was completed on June 9, 2006, with Swiss Re acquiring and taking over ownership of GEIS. Subsequently, GEIS was re-named Swiss Re Solutions Holding Corporation (SRSHC), serving as the immediate parent of ERC.
- Effective January 1, 2008, Westport Insurance Corporation, a wholly-owned subsidiary of ERC merged with and into ERC, with ERC as the surviving legal entity. Following the execution of the merger transactions, ERC changed its name to Westport Insurance Corporation (New Westport).

Capital Stock

The Corporation's restated and amended Articles of Incorporation, effective March 14, 2005, provide the Corporation with the authority to issue 11,673 shares of Series A preferred stock with a par value of $100,000 per share, 700 shares of Series B preferred stock with a par value of $100,000 per share, and 1,269 shares of common stock with a par value of $5,000 per share. The holders of record of the Series A preferred stock have voting power, with each share having 1/100 of a vote. As of December 31, 2006, all 1,269 shares of common stock were issued and outstanding for a total common capital stock account balance of $6,345,000. All of the common stock was held by Swiss Re Solutions Holding Corporation. No Series A preferred stock was issued and outstanding as of December 31, 2006. However, 275 shares of the Series B preferred stock were issued and outstanding for a total preferred capital stock account balance of $27,500,000. As of December 31, 2006, all of the Series B preferred stock was held by Coregis Group, Inc.(Coregis). As of March 29, 2007, the Series B preferred shares owned by Coregis were retired following the merger of Coregis into ERC, with ERC as the surviving entity.

Dividends

The Series A and B preferred stocks accrue preferential and cumulative dividends at fixed rates of 7.5 and 5% per year, respectively. Cash dividends declared and paid to stockholders during the examination period is as follows:

Year	Common Stock	Series A Preferred Stock	Series B Preferred Stock
2004	$250,000,000	$87,547,500	$1,374,996
2005	0	0	1,374,996
2006	2,351,511,983	0	1,374,996

On June 8, 2006, the Corporation's investment in the common stock of Employers Reassurance Corporation (ERAC) was distributed to GEIS in the form of a non-cash dividend in the amount equal to ERAC's carrying value of $436,758,649.

On June 8, 2006, the Corporation's investment in the common stock of Scottish Re Life Insurance Corporation (Scottish Re) was distributed to GEIS in the form of a non-cash dividend equal to Scottish Re's carrying value of $3,716,600.

On June 9, 2006, the Corporation transferred sponsorship of its defined pension benefit plans to General Electric Capital Corporation (GECC), which included the transfer of net pension assets of $9,961,450 that ERC recorded as a non-cash dividend.

On December 21, 2007, the Corporation paid a cash dividend in the amount of $750,000,000 to Swiss Re Solutions Holding Corporations. This dividend was approved by the DIFP on December 20, 2007, as an extraordinary distribution.

Management

The management of the Corporation is vested in a Board of Directors that is appointed by the shareholders. The Articles of Incorporation specify that the number of directors shall not be less than nine (9) nor more than twenty-five (25). The Board of Directors elected and serving, as of December 31, 2006, was as follows:

Name	Address	Business Affiliation
Pierre L. Ozendo	Greenwich, Connecticut	President, ERC
John W. Attey	Shawnee, Kansas	Senior Vice President, ERC
Ann Frances Godbehere	Rüschlikon, Switzerland	Chief Financial Officer, Swiss Re
George Quinn	Bedford, New York	CFO, Swiss Re America Holding Corporation
Hans A. Beerli	Oberwil-Lieli, Switzerland	COO, Swiss Re
Jacques E. Dubois, Jr.	Greenwich, Connecticut	President and CEO, Swiss Re America Holding Corporation
Patrick Mailloux	Greenwich, Connecticut	President and COO, Swiss Reinsurance America Corporation
Phillip A. Lotz	New Canaan, Connecticut	CEO, Swiss Re Financial Products Corporation
Roger W. Ferguson, Jr.	Washington, D.C.	Chairman of the Board of Directors, ERC and Swiss Re America Holding Corporation
Wilson W. Wilson	Redding, Connecticut	CEO, President, Director, Swiss Re Life and Health America Inc.

At the Annual Stockholders' meeting held on April 5, 2007, a new slate of directors, as presented below, was nominated and elected. After this election of new members, only two directors remain from the previous Board of Directors.

Name	Address	Business Affiliation
Pierre L. Ozendo	Greenwich, Connecticut	President, ERC
John W. Attey	Shawnee, Kansas	Managing Director, ERC
Craig R. Esses	Stamford, Connecticut	Corporate Tax Attorney, Swiss Re America Holding Corporation
Frederic J. Gindraux	Newtown, Connecticut	Senior Vice President, Swiss Reinsurance America Corporation
Steven A. Kelner	Mullica, New Jersey	Managing Director, ERC
Michael J. DeJoy	New York, New York	Senior Vice President, Swiss Re Asset Management (Americas) Inc.

Robert M. Solitro	Manchester, New Hampshire	President and COO, North American Specialty Insurance Company
Robin P. Sterneck	Leawood, Kansas	President, First Specialty Insurance Corporation and Westport Insurance Corporation
William J. Steilen	Overland Park, Kansas	Managing Director and CFO, ERC

Although all the members of the Board of Directors as indicated above are either employees of ERC or Swiss Re, which indicates lack of independence in the Corporations' governance, this is not unusual given the ownership structure of the Corporation as a subsidiary of a major corporation. To ascertain independence and prudent corporate governance standards, the examination reviewed the composition of the Board of Directors of Swiss Re, the ultimate controlling entity of ERC. It was noted that Swiss Re's current Board of Directors is comprised of 12 members, 11 of which are independent. The examination found the definition of independence as documented in Swiss Re's corporate bylaws to be sufficient for our purposes; accordingly, we consider ERC's corporate governance, through its ultimate controlling parent, to be adequate.

The Corporation's Bylaws state that the Board of Directors shall elect an Executive Committee having no less than 3 or nor more than 7 directors. During the intervals between the meetings of the Board of Directors, the Executive Committee shall possess and may exercise all the powers of the Board of Directors in the management and affairs of the Corporation. The Board, at its discretion, may appoint other committees as necessary. The current committees of the Board of Directors consist of an Executive Committee and an Investment Committee. The committee members as of December 31, 2006, were as follows:

Investment Committee
Ronald R. Pressman
George Quinn
William J. Steilen
Chris Weihs
Eric Thorlacius

Executive Committee
George Quinn
Patrick Mailloux
Pierre L. Ozendo

At the Annual Board of Directors meeting held on April 5, 2007, new members were nominated and elected to the Executive Committee. No new members were elected to the Investment Committee. Presented below are individuals elected to the Executive Committee:

Executive Committee
Pierre L. Ozendo
Robin P. Sterneck
William J. Steilen

On November 14, 2006, the Inaugural Meeting of the Swiss Re Americas Finance & Risk Committee (FRC) was convened and members were appointed to this Committee. The Committee is comprised of representatives from legal entities that are affiliates of Swiss Reinsurance Company, from the Americas region, including but not limited to entities in the

United States and Canada. The purpose of this Committee is first, to approve investment policies, monitor compliance of investment managers, and verify that investments comply with regulatory and statutory restrictions and secondly, to monitor corporate risks based on Swiss Re's risk selection criteria and risk management principles. Pierre Ozendo, President of ERC was appointed to represent ERC and all the property and casualty (P&C) companies within the group. All actions of the FRC Committee will be approved by the ERC's Board of Directors. The following members were appointed to FRC:

Swiss Re Americas Finance & Risk Committee (FRC)

David H. Atkins
Brenda Buckingham
Roger W. Ferguson, Jr.
Pierre L. Ozendo (Representing P&C Companies) (President of ERC)
Wilson W. Wilson
Raymond Eckert
Rishi Kapur
Benjamin Meuli
George Quinn
Matthias Weber
Robert Peduto

In 2006, ERC became a participant (not a member) in Swiss Re America Holding Corporation's (SRAHC) Audit Committee. The majority of committee members shall be outside directors. The Audit Committee's primary function is to assist the Board of Directors in fulfilling its oversight responsibilities relating to confirming the integrity of SRAHC's financial statements, compliance with laws and regulations, the qualifications of external auditors and the internal and external auditing processes with the ultimate goal of reinforcing the confidence of all interested parties. The Committee shall also monitor the company's financial reporting process and system of internal controls.

The Company's ultimate parent, Swiss Reinsurance Company has instituted various policies and procedures to promote good corporate governance. Swiss Reinsurance Company's Board of Directors is comprised of 12 members, 11 who must be outside directors. The corporate Bylaws have established an Audit Committee comprised of members who are not Swiss Re's executives, who are independent and financially literate. Per the Audit Committee directives, at least one member shall have the attributes qualifying such member as an Audit Committee Financial Expert as determined by the Board. Audit Committee members may not accept any consulting, advisory, or other compensatory fee from the Company. They should not serve on the audit committee of more than two other listed companies.

Officers

The executive officers of the Corporation shall be the Chairman of the Board, the President, the Executive Vice Presidents, the Vice Presidents, the Treasurer and the Secretary, all of whom shall be elected by the Board of Directors at the first regular meeting of the Board of Directors annually. The Chairman of the Board, if any and the President shall be elected from the membership of the Board of Directors. One person may hold one or more offices except that no one person may hold the offices of President and Secretary. The Board of Directors may leave any office unfilled except that of President, one Executive Vice President or Vice President, Treasurer, Secretary, and one Assistant Secretary. As of December 31, 2006, the Company had 126 officers elected by the Board of Directors. The executive officers elected by the Board of Directors and serving as of December 31, 2006, were as follows:

Officers	**Position with the Corporation**
Roger W. Ferguson, Jr.	Chairman of the Board
Pierre L. Ozendo	President
William J. Steilen	Executive Vice President Chief Financial Officer
Ann E. Thompson	Secretary, Vice President, Associate General Counsel
Richard K. Agar*	Senior Vice President
John W. Attey	Senior Vice President
William E. Donnell	Senior Vice President
William J. O'Donnell	Senior Vice President
Robin P. Sterneck	Senior Vice President
Benjamin Meuli	Chief Investment Officer
Steven A Kelner	Vice President, Chief Reserving Actuary
Kenneth J. Holferty	Treasurer

* Richard K. Agar resigned June 2007. He was not replaced.

It should be noted that following the merger of Westport into ERC and the changing of ERC's name to New Westport effective January 1, 2008, a new slate of officers were appointed, different from the officers serving as of December 31, 2006, as noted above.

Conflict of Interest

The Corporation has a policy that requires all officers, directors, and key employees to complete a conflict of interest statement each year. Signed statements of officers and directors were reviewed for the examination period. No significant exceptions were noted.

Corporate Records

A review was made of the Articles of Incorporation and Bylaws for the examination period. During this examination period, the Articles of Incorporation were amended and restated on March 14, 2005, to add an additional 269 shares of authorized common stock for a new total of 1,269 authorized shares. The Bylaws were not amended during this examination period.

Immediately following the merger of Westport Insurance Corporation and Employers Reinsurance Corporation, the Articles of Incorporation was amended and now read in part as follows: the name of the corporation is "Westport Insurance Corporation." The amendment was filed and approved by the Missouri Secretary of State on December 10, 2007.

The minutes of the Board of Directors' meetings, committee meetings, and stockholders' meetings were reviewed for proper approval of corporate transactions. In general, the minutes appear to properly reflect and approve the Corporation's major transactions and events for the period under examination.

Acquisitions, Mergers and Major Corporate Events

On November 18, 2005, GE entered into a transaction agreement to sell GEIS, the parent company of ERC to Swiss Re. The transaction closed on June 9, 2006, and ERC became a subsidiary of Swiss Re Solutions Holding Corporation (formerly GEIS). Several transactions occurred after this closing date which significantly changed the operational and organizational structure of ERC and its various subsidiaries. These are summarized as follows:

- Through June 9, 2006, the Corporation, together with its United States affiliates and its parent, GE Insurance Solutions Corporation (GEIS), were included in the consolidated federal income tax return filed by the ultimate controlling person, General Electric Company (GE). After June 9, 2006, the Corporation is included in the consolidated federal income tax return of Swiss Re America Holding Corporation (SRAHC). The underlying income tax allocation agreement requires each entity to compute and pay its tax liability on a separate return basis. The Corporation retains credit for tax losses and settles its intercompany liability annually with cash or cash equivalents.
- On June 9, 2006, the Corporation transferred sponsorship of its defined pension benefit plans to GECC, which included the transfer of net pension assets of \$10.0 million that the Corporation recorded as a non-cash dividend.
- On December 12, 2006, ERC sold its investment in the common stock of First Marine Insurance Company to First Marine Financial Services, Inc. for \$2.1 million, resulting in a realized loss of \$1.8 million
- As of December 31, 2006, with respect to its investment in Industrial Risk Insurers (IRI), ERC reduced the cost basis of IRI from \$253.4 million to \$50 million. A realized capital loss of \$203.4 million was recognized as a result of what the Corporation determined to be other-than-temporary decline in fair value. This charge was entirely offset by a corresponding change in unrealized capital losses. Accordingly, surplus was not impacted by this impairment.
- Effective March 29, 2007, Coregis Group, Inc., (Coregis) merged into ERC with ERC as the surviving entity. This merger, which included the retirement of the Corporation's preferred stock, resulted in an overall increase to surplus of \$34.7 million.
- On March 29, 2007, Coregis received extraordinary dividends of \$188.1 million (\$88.1 million cash; \$100.0 million non-cash) from Coregis Insurance Company (CIC), of which \$157.0 was reported as a return of capital. Also, on this date, Coregis paid dividends of \$188.1 million (\$88.1 million cash; \$100 million non-cash) to Swiss Re Solutions Holding Corporation, of which \$157.0 was reported as a return of capital.

- On March 30, 2007, Coregis Insurance Company merged with and into Westport Insurance Corporation, a subsidiary of ERC, with Westport as the surviving entity.
- Effective December 10, 2007, the merger between IRI Management Services, LLC and ERC was approved by the sole stockholder. ERC is the surviving legal entity.
- Effective January 1, 2008, Westport Insurance Corporation merged with and into ERC, with ERC as the surviving legal entity. Upon execution of the merger, ERC changed its name to Westport Insurance Corporation (New Westport). See additional comments in the "Subsequent Events" section of this report.

Surplus Debentures

No surplus debentures were issued or outstanding for the period under examination.

AFFILIATED COMPANIES

Holding Company, Subsidiaries and Affiliates

The Corporation is a member of an Insurance Holding Company System as defined by Section 382.010, RSMo (Definitions). An Insurance Holding Company System Registration Statement was filed by ERC, on behalf of itself, and its insurance subsidiaries, for each year of the examination period.

In prior periods, ERC was directly controlled by GE Insurance Solutions Corporation (GEIS), which owned 100% of ERC's common stock. The ultimate controlling entity of ERC was General Electric Company (GE). During the period under examination, GE entered into a purchase agreement with Swiss Reinsurance Company (Swiss Re) for the acquisition of 100% of GEIS and all its insurance subsidiaries, including ERC. The purchase agreement was effective as of June 9, 2006.

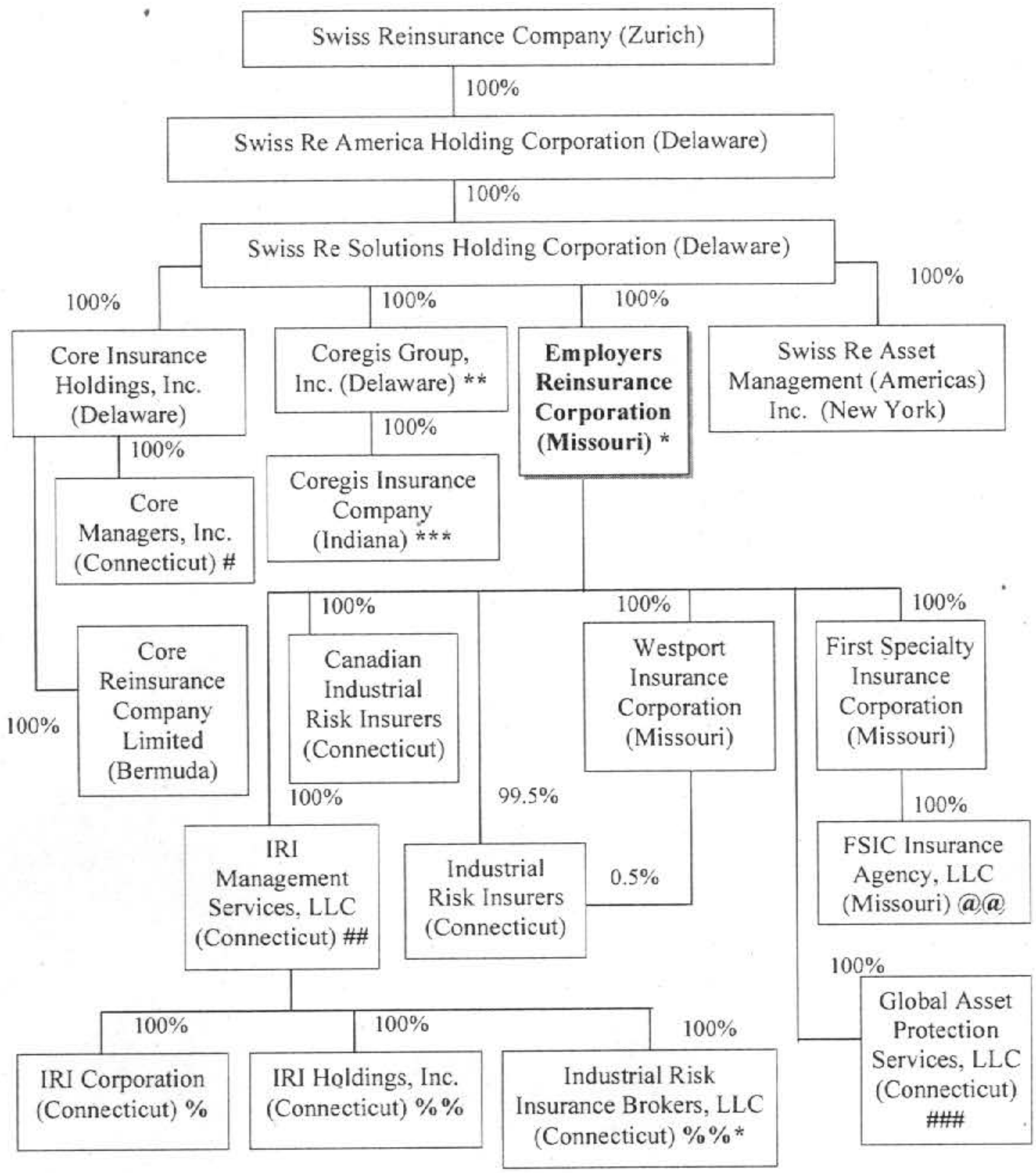
Within the holding company structure, ERC is wholly-owned by Swiss Re Solutions Holding Corporation (SRSHC), which in turn is wholly-owned by Swiss Re America Holding Corporation (SRAHC) which is wholly-owned by Swiss Re, the ultimate controlling person within the holding company system. SRSHC is the holding company for Swiss Re's US-domiciled property and casualty insurance entities. SRAHC is the holding company for all Swiss Re US business, including insurance, reinsurance and financial services. Swiss Reinsurance Company is the world's leading and most diversified reinsurer and operates on a global scale. Swiss Re offers a wide variety of reinsurance products and financial services solutions to manage capital and risk. Swiss Re is a publicly traded company on the Swiss Exchange (SWX) under the ticker RUKN and no single shareholder was determined to own 10% or more of its outstanding shares.

As of December 31, 2006, ERC directly or indirectly wholly-owned the following entities:

- Westport Insurance Corporation (Westport), a property and casualty insurer specializing in commercial lines of worker's compensation, lawyer's professional liability, general liability, property, crime, auto, and others.
- First Specialty Insurance Corporation (First Specialty), an excess and surplus lines insurer that specializes in commercial lines of wind and earthquake coverage, general liability, property, hospital professional liability, and lawyer's professional liability.
- Industrial Risk Insurers (IRI), a voluntary joint underwriting association in which ERC has a 99.5% direct membership interest. Westport has the remaining 0.5% direct membership interest, but has an agreement that assigns that interest to ERC. IRI writes large property risks usually involving multiple locations.
- Canadian Industrial Risk Insurers (Canadian IRI), a corporation in which ERC has a 100% membership interest. Canadian IRI writes the same types of policies as IRI, but in Canada only.
- Coregis Group, Inc., (Coregis), owns 100% of ERC's Series B preferred stock. As of March 29, 2007, the Series B preferred shares owned by Coregis were retired following the merger of Coregis into ERC, with ERC as the surviving entity. This preferred stock ownership was Coregis's only relationship with ERC's corporate structure.

Organizational Chart

The ultimate parent, Swiss Re, has a number of subsidiaries, which are too numerous to list in this report. Therefore, only entities that have direct and indirect ownership of ERC and entities that have transactions with ERC are listed. The following organizational chart depicts the ownership of the Corporation and the significant subsidiaries owned by the parent and ERC, as of December 31, 2006.



* Effective January 1, 2008, Employers Reinsurance Corporation, merged with and into Westport with ERC as the surviving entity. ERC was then renamed Westport Insurance Corporation.

** Effective March 29, 2007, Coregis Group, Inc., merged with and into ERC with ERC as the surviving entity.

***Eff ective March 30, 2007, Coregis Insurance Company merged with and into Westport with Westport as the survivor.

\# Effective August 3, 2007, Core Managers, Inc. merged with and into Core Insurance Holdings, Inc.

\## IRI Management Services, LLC merged with and into ERC effective December 10, 2007.

\###Eff ective November 30, 2007, Global Asset Protection Services, LLC was sold to an unaffiliated third party.

% Effective August 10, 2007, IRI Corporation merged with and into IRI Management Services, LLC.

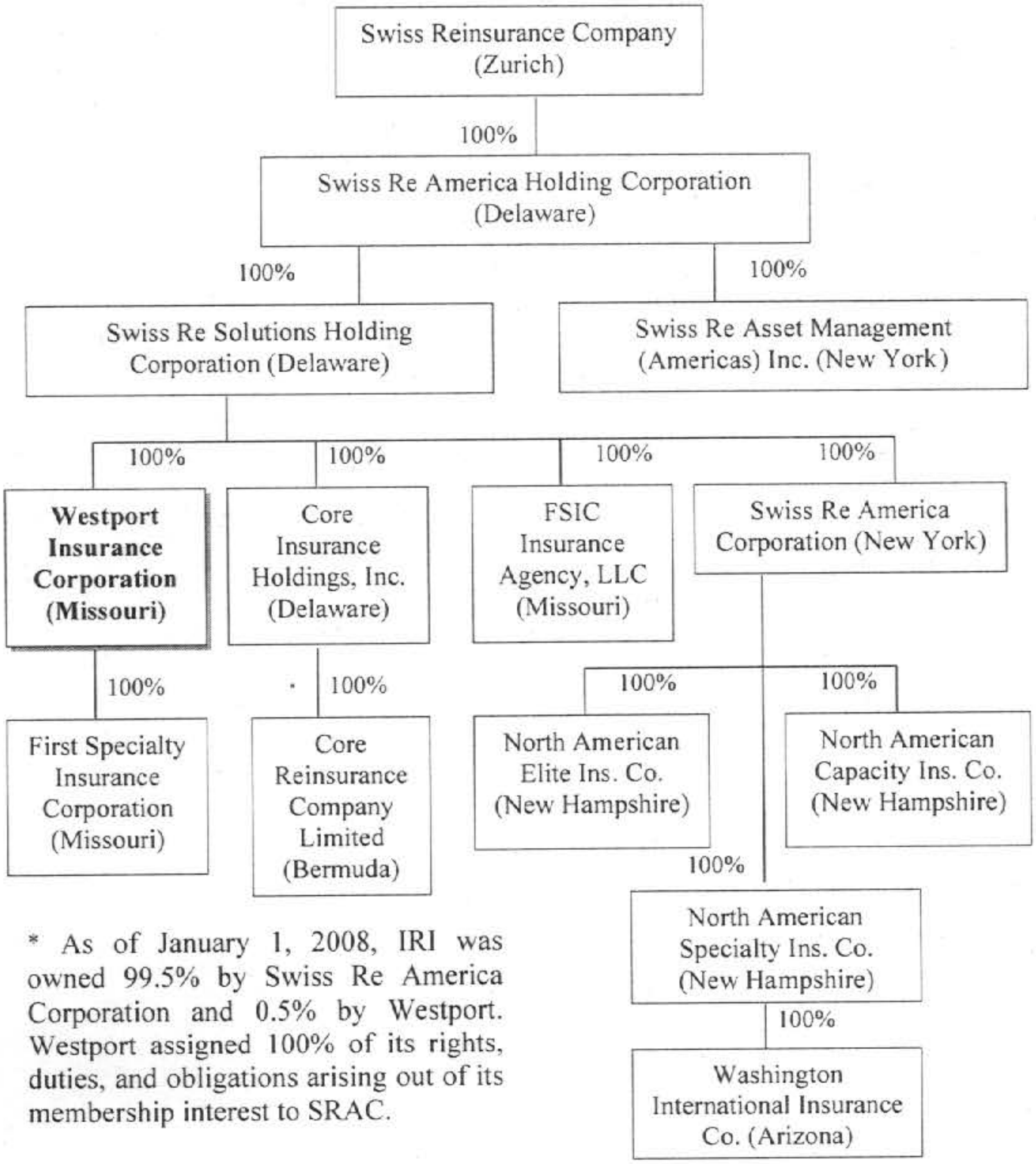
%% Effective August 10, 2007, IRI Holdings, Inc. merged with and into IRI Management Services, LLC.

%%* Effective August 10, 2007, Industrial Risk Insurance Brokers, LLC was dissolved.

@@ Effective December 10, 2007, First Specialty entered into a Membership Interest Transfer Agreement with SRSHC. Pursuant to the terms of the agreement, First Specialty's 100% ownership of FSIC Insurance Agency, LLC was transferred to SRSHC in exchange for $143,645.

On January 1, 2008, ERC merged with and into Westport with ERC as the surviving entity. Following the execution of the merger, ERC changed its named to Westport Insurance Corporation (New Westport). Pursuant to the terms of this merger, Swiss Reinsurance America Corporation (SRAC) joined the IRI association through a 99.5% membership interest, with New Westport holding the remaining 0.5% interest. As in the previous arrangement, New Westport assigned to SRAC 100% of its rights, duties, and obligations arising out of its membership interest.

The following organizational chart depicts the ownership of New Westport and its significant subsidiaries, post merger, as of **March 31, 2008**.



* As of January 1, 2008, IRI was owned 99.5% by Swiss Re America Corporation and 0.5% by Westport. Westport assigned 100% of its rights, duties, and obligations arising out of its membership interest to SRAC.

Intercompany Transactions

The Corporation is a party to the intercompany agreements outlined below.

Note: As a result of the merger of ERC and Westport effective January 1, 2008, and the re-naming of the surviving entity as Westport Insurance Corporation (New Westport), unless otherwise specifically indicated, the rights and obligations of all of ERC's related party agreements have been transferred to New Westport.

1. **Type:** Service Agreement

   Parties: Westport, Employers Reassurance Corporation, GE Insurance Solutions Agency, LLC

   Effective: February 27, 1986

   Terms: ERC will provide office space, furniture and equipment and will provide the following services: data processing, accounting, financial, actuarial, legal, executive, personnel, payroll, sales, underwriting, claims and related services necessary to conduct the businesses of the named subsidiaries. Amendment No. 4, dated June 27, 1996, includes an exhibit that shows the calculation of allocated expenses for each affiliate. Allocation percentages are developed from methodologies, such as the number of employees and the amount of assets, to allocate the various types of expenses.

   Note: As of January 1, 2008, this agreement is now with New Westport and FSIC Insurance Agency, LLC, formally known as GE Insurance Solutions Agency, LLC. Employers Reassurance Corporation was not an affiliated corporation as of December 31, 2006.

2. **Type:** Service Agreement

   Parties: First Specialty Insurance Corporation

   Effective: December 29, 1989

   Terms: ERC will provide office space, furniture and equipment and will provide the following services: data processing, accounting, financial, actuarial, legal, executive, personnel, payroll, sales, underwriting, claims and related services necessary to conduct the business of First Specialty. Amendment No. 1, dated June 26, 1996, includes an exhibit that shows the calculation of allocated expenses for each affiliate. Allocation percentages are developed from methodologies, such as the number of employees and the amount of assets, to allocate the various types of expenses.

3. **Type:** Guarantee (twelve separate guarantees with identical terms)

   Parties: WIC, Employers Reassurance Corporation (ERAC), Swiss Re Copenhagen Reinsurance A/S (f/k/a Employers Reinsurance International A/S), GE Frankona Reassurance Limited (f/k/a Employers Reassurance International Limited), Swiss

Re Frankona Reinsurance Limited (f/k/a Employers Reinsurance International Limited), Swiss Re Frankona Reinsurance ltd, UK (Frankona Reinsurance Company (U.K)), Swiss Reinsurance Ireland Limited (f/k/a Irish European Reinsurance Co. Ltd.), Coregis Insurance Company, Swiss Re Specialty Insurance (UK) Limited (f/k/a GE Specialty Insurance (UK) Limited), Swiss Re Frankona Ruckversicherungs-Aktiengesellschaft (f/k/a GE Frankona Ruckversicherungs-Aktiengesellschaft), GE Reinsurance Corporation (GE Re), Luxembourg European Reinsurance S.A.,

Effective: January 1, 2000 for GE Specialty Insurance (UK) Limited, January 1, 2000 for GE Frankona Re, November 17, 2003 for Coregis Insurance Company, and August 27, 1996 for all other affiliates

Terms: Upon default by any of the affiliates, ERC guarantees to make payments due under any contract of insurance (applicable to GE Specialty Insurance (UK) Limited and Coregis Insurance Company) or reinsurance (applicable to all other affiliates) issued by the affiliates.

Note: The Guarantee with Luxembourg European Reinsurance S.A. is the only Guarantee listed above that remains in effect. All other Guarantees were terminated prospectively effective June 9, 2006.

4. **Type:** Master Services Agreement

Parties: GE Capital Fleet Services

Effective: March 9, 1998

Terms: GE Capital Fleet Services provides various services related to the vehicles used by ERC. Addendums to the Master Services Agreement define each service to be provided. These services include an accident prevention program, preparing and issuing insurance cards, vehicle maintenance management, and fleet management. ERC will pay fees for each service based on a per vehicle rate or other per unit basis, as defined in each Addendum.

5. **Type:** Master Cost Allocation Agreement

Parties: ERC Asia Pacific Pte Ltd (ERC Asia Pacific), ERC Frankona Ruckversicherungs AG, ERC Frankona Reinsurance A/S, ERC Fra nkona Reinsurance Ltd.

Effective: September 30, 1998

Terms: ERC Asia Pacific will provide services to conduct each entity's business in the Asia-Pacific region. The services include the following: data processing and computer services, investment, internal audit, actuarial, legal, tax, branch support, cash management, group controlling, financial planning and analysis, personnel, payroll, underwriting, claims and related services. ERC Asia Pacific will be reimbursed for its actual direct and indirect costs incurred to provide the services plus a 5% markup.

Note: Effective December 31, 2006, this agreement was terminated with respect to ERC Frankona Ruckversicherungs AG, ERC Frankona Reinsurance A/S, and

ERC Frankona Reinsurance Ltd. This agreement is still active between the Corporation and ERC Asia Pacific.

6. **Type:** Master Outsourcing Agreement

Parties: GE Insurance Solutions Corporation, GECIS, First Specialty, Westport, ERAC, GE Insurance Solutions Agency, LLC (GEISA), Industrial Risk Insurers (IRI), The Medical Protective Company (Med Pro), GE Re, Coregis Insurance Company, California Insurance Company, Coregis Indemnity Company

Effective: March 1, 1999

Terms: GE Capital International Services, Inc (GECIS) will provide the following business outsourcing services for the affiliates: data processing, administrative, actuarial, general accounting, treasury, financial reporting, technical accounting, filing approval notices, agents licensing, claims, underwriting, and other support services. GECIS shall prepare reports relating to performance of the services as reasonably requested. This agreement will be supplemented for each service to be provided by a specific Statement of Work (SOW) to establish in writing the scope of the services, performance standards, pricing and customer provided support for each project. The fees for the services provided shall be agreed to by the parties and incorporated within the individual SOWs.

A summary of the SOWs attached to this agreement in which ERC is a named party is listed in the table below:

SOW No.	Effective Date	Services Provided by GECIS
1	July 1, 2000	Processes for reporting to the Insurance Services Office and state motor vehicle departments
2	May 1, 2000	Claims and underwriting support services
3	May 1, 2000	Performs cash allocation processes for receipts and disbursements
3a	May 1, 2000	Prepare 1099 forms to be sent to the Internal Revenue Service, payees, and states
3b	May 1, 2000	Prepare general ledger and bank reconciliations
3c	May 1, 2000	Prepare and file escheatment reports with various states
4	March 1, 1999	Claims services and policy coverage determination for provider excess and medical stop loss policies
5	April 1, 2000	Profitability and financial analysis
6	September 1, 2000	Cash allocation processes for reinsurance business
7	November 30, 2000	Data entry for filings with rate service organizations
10	September 1, 2000	Record client reported data on the operating system
12	March 21, 2001	Actuarial analysis and support processes
14	August 17, 2001	Claim file management on the treaty system
15	September 6, 2001	Claim file management for accident and health policies
16	September 1, 2001	Reinsurance transaction processing and reporting
17	October 26, 2001	General ledger account reconciliations
18	October 26, 2001	Accounting for receipts, disbursements, cash balancing

19	October 1, 2001	Claims and underwriting support services
20	October 1, 2001	Data analysis for property and casualty reinsurance
21	June 1, 2000	Catastrophe exposure analysis and modeling
22	October 31, 2001	Agent receivable reconciliations and collections
23	December 5, 2001	Retrocession accounting and billing
24	March 1, 2000	Planning, leading, and completing quality projects
26	December 18, 2001	Claim processing for hospital professional liability line
27	December 20, 2001	Claim processing for excess worker's compensation line
29	December 20, 2001	Perform human resources functions
32	February 20, 2002	Perform research, analysis, modeling for risk factors in the business operations
35	November 22, 2002	Pricing modeling, business portfolio analysis
38	June 30, 2003	Data entry for customer data, contract issuance
41	January 23, 2004	Pricing, underwriting and issuance of policies
42	October 12, 2004	Implement a common financial reporting platform
43	September 12, 2004	Scheduling services, customer service center monitoring
44	September 21, 2004	Provide corporate and regulatory support and contract administration

Note: As of June 9, 2006, following the acquisition of GEIS and ERC, the Corporation is no longer affiliated with GECIS. This agreement and all the SOWs have been incorporated into a Master Services Agreement with GECIS, which is an unaffiliated entity.

7. **Type:** Service Mark Agreement

Parties: GE Insurance Solutions Corporation (GEIS)

Effective: January 1, 2000

Terms: GEIS has the right from GE to license the use of the GE logo and other licensed marks. GEIS grants a license to ERC to use the GE logo and other licensed marks. ERC will pay an annual royalty of 0.125% of its total assets, as stated in its GAAP financial statements.

Note: This agreement was terminated effective June 9, 2006, following the sale of GEIS to Swiss Re.

8. **Type:** Computer Services Agreement

Parties: General Electric Company, First Specialty, Westport, and ERAC

Effective: November 4, 2000

Terms: General Electric Company, acting through its Global Computer Operation Division (GCO), will provide the following computer services: operations, production control, technical services, database administration, data center / network disaster recovery, service level performance, and logical access control. Fees to be paid to GCO by ERC and its subsidiaries are based upon scheduled amounts listed in the agreement.

Note: As of June 9, 2006, the Corporation is no longer affiliated with General Electric Company.

9. **Type:** Federal Tax Allocation Agreement

Parties: GE Insurance Solutions Corporation, Westport, First Specialty, IRI Management Services, LLC, IRI Corporation, IRI Holdings

Effective: January 1, 2001

Terms: ERC and all other entities in the agreement are included in the consolidated tax return filed by General Electric Company. The federal tax liability of each affiliate shall be calculated on a separate return basis. The subsidiaries of ERC will remit tax payments to ERC. ERC then remits tax payments on behalf of itself and its subsidiaries to GE Insurance Solutions Corporation.

Note: This agreement is no longer active due to the sale of ERC and its subsidiaries on June 9, 2006.

10. **Type:** Claims Administration Agreement

Parties: GE Reinsurance Corporation (GE Re)

Effective: January 1, 2001

Terms: ERC is appointed as a claims administrator and in that capacity ERC shall adjust and settle claims on the business of GE Re for all claims of less than $1 million. ERC will act on behalf of GE Re in all matters relating to the handling and disposition of claims. Any claims of $1 million or more will be referred to GE Re for special instructions and coordination. Claim files of GE Re will be maintained in ERC's offices. GE Re will pay ERC an annual fee as agreed upon by the parties, but the fee shall not be less than ERC's costs to provide the services specified in the agreement.

Note: Effective January 1, 2007, GE Re was merged with and into Swiss Reinsurance America Corporation (SRAC), with SRAC as the surviving corporation. All rights and obligations of GE Re under this agreement were assigned to SRAC.

11. **Type:** Master Managed Services Agreement

Parties: GE IT Solutions, Inc. (GEITS), General Electric Company and its affiliates (including ERC)

Effective: January 10, 2001

Terms: GEITS provides outsourced computer helpdesk support services. This agreement defines the standard contract terms and will be supplemented for each service to be provided by a specific Scope of Work (SOW). The fees for the services provided shall be agreed to by the parties and incorporated within the individual SOWs.

A summary of the SOWs attached to this agreement in which ERC is a named party is listed in the table below:

SOW No.	Effective Date	Services Provided by GEITS
1	December 26, 2000	Respond to technical problems from user requests. The functions and responsibilities for this SOW was assigned to GECIS in 2004.
2	April 24, 2001	Installation, maintenance, support for personal computers
4	April 23, 2004	Maintenance of UNIX systems and database servers
5	April 23, 2004	Data security and server systems administration
6	April 23, 2004	Administration of asset management systems
7	April 23, 2004	Technical support for computer systems
9	June 21, 2004	On-site help desk support management
10	June 21, 2004	End-user deskside support coordination

Note: As of June 9, 2006, the Corporation was no longer affiliated with GEITS. Effective July 13, 2007, this agreement was terminated and replaced by a Master Services Agreement between SRAHC and CompuCom IT Solutions, Inc., an unaffiliated third party.

12. Type: Service Agreement

Parties: Industrial Risk Insurers

Effective: March 26, 2001

Terms: ERC will provide equipment and will provide the following services: data processing and computer services, accounting, financial, actuarial, executive, personnel, sales, underwriting, claims and related services necessary to conduct the business of IRI. IRI will reimburse ERC for its actual and/or budgeted expenses incurred in providing the services based upon a proportionate percentage of annual overhead, salary and expenses.

Note: Effective January 1, 2008, Westport merged with and into ERC with ERC as the surviving entity. ERC then changed its name to Westport Insurance Corporation (New Westport). Pursuant to the aforementioned merger of ERC and Westport, Swiss Re America Corporation (SRAC) joined the IRI association through a 99.5% membership interest, with New Westport holding the remaining 0.5% interest. New Westport assigned to SRAC 100% of its rights, duties, and obligations arising out of its membership interest.

13. Type: Cost Sharing and General Services Agreement

Parties: The Medical Protective Company

Effective: August 21, 2001

Terms: ERC will provide equipment and will provide the following services: data processing, accounting, financial, actuarial, executive, personnel, sales, underwriting, claims and related services necessary to conduct the business of Med Pro. Med Pro will reimburse ERC for its actual and/or budgeted expenses incurred in providing the services based upon a proportionate percentage of annual overhead, salary and expenses.

Note: This agreement is no longer active due to the sale of ERC and its subsidiaries on June 9, 2006.

14. Type: Service Agreement

Parties: Core Insurance Holdings, Inc. (Core Holdings) and its subsidiaries, Core Reinsurance Company Limited (Core Re), CIC, Core Managers, Inc.

Effective: November 15, 2001

Terms: ERC will provide equipment and will provide the following services: data processing and computer services, accounting, financial, actuarial, executive, personnel, payroll, sales, underwriting, claims and related services necessary to conduct the business of the affiliates. Core Holdings and its subsidiaries will pay ERC the proportionate share of actual direct and indirect expenses required by ERC personnel to perform the services.

Note: Effective August 3, 2007, Core Managers, Inc. merged with and into Core Holdings.

15. Type: Investment Management and Services Agreement

Parties: GE Asset Management Incorporated (GEAM), Westport, First Specialty

Effective: May 1, 2002

Terms: GEAM will provide investment management services. The services will include research and identify investment opportunities, assist in developing an overall investment strategy, invest and sell assets in accordance with applicable laws and the investment guidelines of each entity, prepare quarterly reports of the purchases and sales of investments and present such reports to the Board of Directors or Investment Committee, and other services. ERC, Westport, and First Specialty will pay GEAM a quarterly management fee equal to 0.053% of the value of the assets managed by GEAM.

Note: This agreement is no longer active due to the sale of ERC and its subsidiaries on June 9, 2006.

16. Type: Services Agreement

Parties: GE Reinsurance Corporation, Westport

Effective: September 16, 2002

Terms: ERC will provide equipment and will provide the following services: data processing, accounting, financial, actuarial, executive, personnel, sales, underwriting, claims and related services necessary to conduct the business of GE Re. GE Re will reimburse ERC for its actual and/or budgeted expenses incurred in providing the services based upon a proportionate percentage of annual overhead, salary and expenses. GE Re will also provide the same services (excluding executive) for ERC and Westport and will be reimbursed using the same methodology in which GE Re reimburses ERC.

Note: Effective January 1, 2007, GE Re merged with and into Swiss Reinsurance America Corporation (SRAC) with SRAC as the surviving corporation.

17. Type: Consulting Agreement

Parties: iProcess International, LLC (iProcess), Westport, First Specialty, ERAC, Med Pro, GE Re, Coregis Insurance Company

Effective: December 26, 2002

Terms: iProcess will provide the following consulting services: recommendations for improving and standardizing processes, resolving issues outside of standard operating procedures, forecasting operational needs, formulating and implementing outsourcing programs, obtaining outsourcing services, training personnel, and other services. ERC will reimburse iProcess for all of its reasonable costs incurred, including salaries and travel and living expenses, in providing the services for all entities. The other affiliates will reimburse ERC for each entity's applicable portion of the total costs paid by ERC.

Note: This agreement is no longer active due to the sale of ERC and its subsidiaries on June 9, 2006.

18. Type: Master Equipment Lease Agreement

Parties: General Electric Capital Corporation

Effective: January 1, 2003 to December 31, 2005

Terms: ERC will lease various equipment from General Electric Capital Corporation that will be used to issue employee security badges and for monitoring physical access to corporate facilities. Monthly lease payments paid by ERC are $4,153.

Note: This agreement is no longer active due to the sale of ERC and its subsidiaries on June 9, 2006.

19. Type: Cost Sharing and General Services Agreement

Parties: CIC and Coregis

Effective: January 1, 2003

Terms: ERC will provide equipment and will provide the following services: data processing, accounting, financial, actuarial, executive, personnel, sales, underwriting, claims and related services necessary to conduct the business of CIC and Coregis. CIC and Coregis will reimburse ERC for its reasonable and necessary expenses incurred in providing the services based upon a proportionate percentage of annual overhead, salary and expenses. Exhibit A-1 of the Agreement shows the allocation methodology and allocation amounts for the various types of services provided for CIC and Coregis.

Note: Effective March 29, 2007, Coregis merged with and into ERC, with ERC as the surviving entity. Effective March 30, 2007, CIC merged with and into Westport, with Westport as the surviving entity. The agreement has been deemed terminated by operation of law as a result of the mergers of CIC and Coregis.

20. Type: Shared Offices Facilities Agreement

Parties: GE Card Services, Inc., (GE Card Services) General Electric Capital Assurance Company, GE Capital Commercial Finance, Inc., GE Capital Healthcare Financial Services, Inc., Gelco Corporation

Effective: January 1, 2003

Terms: GE Card Services, Inc. will lease a building in Frisco, Texas that will be used for office space by various GE affiliates. ERC's space will be used by IRI to support operations in the Dallas/Ft. Worth area. Each party to the agreement will be responsible for sharing the rent, operating expenses, office services expenses, and other expenses associated with operating the building and its equipment. Most of the expenses will be allocated to each entity based upon the square footage leased by each entity.

Note: This agreement is no longer active due to the sale of ERC and its subsidiaries on June 9, 2006.

21. Type: Parental Guarantee

Parties: First Specialty

Effective: June 30, 2003

Terms: ERC guarantees to reimburse First Specialty for 100% of any recoverables that are due to First Specialty under a reinsurance agreement from an external reinsurer, in the event that such recoverables become uncollectible. The Guarantee applies to all past, current, and future reinsurance agreements of the Company. ERC was paid $10,000 from First Specialty as consideration for the Guarantee.

22. Type: Marketing Network Master Services Agreement

Parties: GE Marketing Network

Effective: May 13, 2003

Terms: GE Marketing Network will provide online seminars and provide services to coordinate the seminars. ERC will pay no more than $2,000 per seminar.

Note: This agreement has been terminated as a result of the sale of ERC and its subsidiaries on June 9, 2006.

23. Type: Sublease Agreement

Parties: General Electric Capital Corporation

Effective: June 1, 2003

Terms: ERC leases approximately 21,700 square feet of office space in a building in Philadelphia, Pennsylvania. GE Capital Corporation will sublease approximately 7,800 square feet of this office space from ERC. The rental payments to be paid to ERC each year are scheduled in the agreement beginning at \$7,184 at the inception and ending at \$11,068 in 2009.

Note: As of June 9, 2006, this agreement is no longer with an affiliated party due to the sale of ERC. The agreement is still in affect as a non-related party agreement without any changes in the terms.

24. Type: Memorandum of Agreement

Parties: GE Capital International Services, Inc.

Effective: September 23, 2003

Terms: GECIS will provide business continuity planning services for ERC's computer systems. Compensation paid shall not exceed \$45,000 in total.

Note: This agreement has been terminated as a result of the sale of ERC and its subsidiaries on June 9, 2006.

25. Type: Guarantee

Parties: GE Insurance Solutions Corporation

Effective: December 30, 2003

Terms: GEIS agrees to pay ERC any amounts due from unauthorized reinsurers, as identified on Schedule F – Part 5 of the Annual Statement, in the event that the unauthorized reinsurers default on their obligations to ERC. The Guarantee is to be secured by a letter of credit naming ERC as the beneficiary.

Note: This guarantee has been terminated as a result of the sale of ERC and its subsidiaries effective June 9, 2006.

26. Type: Sublease

Parties: GE Dental and Vision

Effective: January 1, 2004 to May 15, 2005

Terms: GE Dental and Vision leases office space in a building in Agoura Hills, California. ERC will sublease approximately 400 square feet of this office space from GE Dental and Vision. The rental payments to be paid by ERC for the term of the lease will be \$733 per month.

Note: This agreement terminated May 15, 2005 and was not renewed.

27. Type: Claims Administration Agreement

Parties: Core Re

Effective: January 1, 2004

Terms: ERC is appointed as a claims administrator and in that capacity ERC shall adjust and settle claims on the business of Core Re for all claims of less than \$1,000,000. ERC will act on behalf of Core Re in all matters relating to the handling and disposition of claims. Any claims of \$1,000,000 or more will be referred to Core Re for special instructions and coordination. Claim files will be maintained in ERC's offices. Core Re will pay ERC an initial annual fee of \$225,000. Each year the volume of claims processed will be evaluated and the fee may be adjusted based upon a formula in the agreement. The fee shall not be less than ERC's costs to provide the services specified in the agreement.

28. Type: Service Reimbursement Agreement

Parties: General Electric Company, Westport, First Specialty, GE Re

Effective: April 8, 2004

Terms: The Global Business Services (GBS) division of GE will provide the following services: payroll, employee benefits, travel and living, and other services. ERC employees will participate in the GE Pension Plan and other GE benefit plans pursuant to this agreement. ERC will pay GBS for the direct costs attributable to its employees and an allocated amount for costs that are not directly attributable. ERC's allocated share is based upon the total annual compensation of ERC employees compared to the total for all GE employees. Westport, First Specialty, and GE Re will reimburse ERC for each entity's respective actual or proportional share of the total costs paid by ERC.

Note: This agreement is no longer active due to the sale of ERC and its subsidiaries on June 9, 2006.

29. Type: Statement of Work No. 1, pursuant to a Managed Security Services Master Agreement (Master Agreement)

Parties: GE IT Solutions, Inc. (GEITS)

Effective: Effective when signed by ERC and 28 months thereafter

Terms: ERC's parent, GE, has a Master Agreement with GEITS. ERC is not a party to that agreement. However, ERC is a party to the Statement of Work (SOW) No. 1, which incorporates all terms and conditions of the Master Agreement. Under the terms of SOW No. 1, GEITS will provide managed security services for ERC's computer equipment. ERC will pay \$1,482 per month to GEITS for the services provided..

Note: This agreement has been terminated as a result of the sale of ERC and its subsidiaries on June 9, 2006.

30. Type: Capital Maintenance Agreement

Parties: General Electric Capital Corporation (GECC)

Effective: December 31, 2005

Terms: GECC agrees to make capital contributions to ERC in the amount required to maintain an A.M. Best Company, Inc. (A.M. Best) Capital Adequacy Ratio (BCAR) of 175%. The Agreement has several termination provisions. The Agreement may be terminated (1) if ERC is no longer a direct or indirect subsidiary of GE, or (2) A.M. Best issues a rating to ERC of "A (Excellent)" with a "Stable" outlook, or (3) when there is a replacement for this Agreement approved in writing by A.M. Best, or (4) after December 31, 2007 with one year notice in writing to ERC and A.M. Best.

Note: This agreement has been terminated as a result of the sale of ERC and its subsidiaries on June 9, 2006.

31. Type: Tax Allocation Agreement

Parties: Swiss Re America Holding Corporation (SRAHC) and all US Subsidiaries including but not limited to the Corporation, Westport, and First Specialty

Effective: June 10, 2006

Terms: All US Subsidiaries agree to file a consolidated federal income tax return as elected by SRAHC. Each member of the SRAHC holding company system agrees to join in any consents, elections, accounting treatments, and other documents and take such other actions as SRAHC may deem necessary or appropriate. Each subsidiary of SRAHC will compute its federal income tax liability. SRAHC agrees that in no event shall the payment by any subsidiary to SRAHC exceed the federal income tax liability calculated for the individual subsidiary. Any refund due to a subsidiary on an individual income tax basis will be reimbursed by SRAHC.

32. Type: Payroll Services Agreement

Parties: Swiss Reinsurance Company

Effective: July 1, 2006

Terms: ERC will manage the leave approval process of its Australian branches. Swiss Re will maintain all payroll records for ERC's Australian branches. Swiss Re will immediately request for reimbursement of the net salary amount from ERC, prior to the funds transfer being initiated for the Australian branches payroll.

33. Type: Investment Advisory Agreement

Affiliate: Swiss Re Asset Management (Americas) Inc. (SRAM)

Effective: August 22, 2006

Terms: SRAM will manage the Corporation's portfolio of investments, provide asset liability management services, assist and advise the Corporation in the preparation of the Corporation's financial statements, and provide other investment advisory and investment accounting services to ERC as needed. In return for these services, the Corporation will pay SRAM a fee that is computed in accordance to the Schedule of Fees included in the agreement.

34. Type: TSA Cost Allocation Agreement

Affiliate: Swiss Re America Holding Corporation (SRAHC), Westport, First Specialty, GE Re, IRI, Coregis Insurance Company, and Global Asset Protection Services, LLC (GAPS)

Effective: August 29, 2006

Terms: Swiss Re entered into a Transition Services Agreement with General Electric Company (GE) as of June 7, 2006, whereby GE agreed to continue to provide certain transition services to GEIS subsidiaries that are the subject of the acquisition. This agreement assigns Swiss Re's rights and obligations under the Transition Services Agreement to SRAHC. SRAHC allocates the costs associated with the services provided by GE to the entities actually receiving the services. ERC collects payments for services from Westport and First Specialty and the other parties and for itself and remits the payments to SRAHC.

Note: Effective January 1, 2007, GE Re merged with and into Swiss Reinsurance America Corporation (SRAC) with SRAC as the surviving corporation, all rights and obligations under this agreement were assigned to SRAC. Effective March 30, 2007, CIC was merged with and into Westport with Westport as the surviving entity. Effective November 30, 2007, GAPS was sold to an unaffiliated third party. GAPS participation in this agreement terminated effective November 30, 2007.

35. Type: Securities Lending Agreement

Parties: SRAM

Effective: September 26, 2006

Terms: SRAM is appointed as an agent to ERC to lend securities from ERC's custodial safekeeping account. Loans shall only be entered into with counterparties approved by SRAM and permitted by the regulators. Collateral quality will be investment grade or higher, liquid, and not less than 102% of the loan value. ERC shall pay SRAM a fee, accrued daily, equal to 20% of the sum of all interest, dividends, and other distributions. SRAM is authorized, on a monthly basis, to charge its fees and any other amounts owed by ERC hereunder against the Account. SRAM will furnish the Corporation with monthly summary statements relating to loans and fees.

36. Type: Service Level Agreement

Affiliate: Swiss Reinsurance Company

Effective: October 1, 2006

Terms: Swiss Re will provide internal audit services for the Australian Branch of the Corporation.

In addition to the above listed agreements, ERC has reinsurance agreements with several of its subsidiaries, which are described in the Reinsurance section of this report. ERC also had numerous transactions with its parents, subsidiaries, and affiliates during the examination period. Several significant transactions that affected the organizational structure of the Corporation have been summarized in the Acquisitions, Mergers, and Major Corporate Events section of this report.

The following table summarizes the cash dividend payments and capital contributions during the examination period.

Related Party	Payment Type	Amount Paid / (Received) by ERC 2006	2005	2004
GEIS	Dividend *	$2,351,511,983	$ 0	$250,000,000
GEIS	Capital Cont.	(405,000,000)	(1,355,000,000)	(245,000,000)
GE Capital Services	Dividend	0	0	(8,060,002)
GE Capital Corporation	Dividend	0	0	87,547,500
ERAC	Capital Cont.	255,000,000	85,000,000	50,000,000
Westport	Capital Cont.	0	0	45,000,000
Coregis	Dividend	1,374,996	1,374,996	1,374,996
OP Holdings, Inc.	Dividend	(512,600,000)	0	0
GE Investments	Dividend	(30,300,000)	(69,958,333)	(73,671,450)
TOTAL		$1,659,986,979	($1,338,583,337)	$107,191,044

* During 2006, the Corporation also distributed $436,758,649 in non-cash dividends to GEIS, which altogether approximates a total dividend distribution to GEIS of $2,788,279,632 for the year.

On December 21, 2007, the Corporation paid a cash dividend in the amount of $750,000,000 to Swiss Re Solutions Holding Corporation. This dividend was approved by DIFP on December 20, 2007, as an extraordinary distribution.

The following table summarizes the fees incurred and revenues and/or recoveries (earned) during the exam period, between ERC and its parents, affiliates and subsidiaries pursuant to the intercompany agreements summarized above:

Related Party	Agreement	Net Amount Incurred / (Earned) by ERC 2006	2005	2004
Westport	Service	(18,316,297)	(17,865,973)	(17,233,323)
ERAC	Service	(5,801,288)	(13,379,421)	*
FSICIA	Service	(21,867)	*	*
First Specialty	Service	(5,801,288)	(5,603,056)	(4,239,550)
IRI	Service	(4,102,005)	(6,236,266)	*
Core Holdings	Service	*	(768,989)	*
GE Re	Service	(22,988,318)	(15,198,078)	*
Ge Re (Bermuda)	Service	*	(97,200)	*

Core Re	Cost Sharing	(2,893,407)	*	*
CIC	Cost Sharing	(4,139,074)	(5,724,146)	*
GE	Service Reimbursement	*	93,028,714	*
First Specialty	Federal Tax Allocation	(4,402,722)	(103,315)	7,196,617
Westport	Federal Tax Allocation	(1,631,989)	70,140,670	47,785,088
GE Capital Corp.	Federal Tax Allocation	*	*	*
Core	Federal Tax Allocation	*	*	*
GE Re	Federal Tax Allocation	*	*	*
GE Re (Bermuda)	Federal Tax Allocation	*	*	*
Med Pro	Federal Tax Allocation	*	*	*
Coregis Group, Inc.	Federal Tax Allocation	*	*	*
GEIS	Federal Tax Allocation	*	*	*
OP Holdings, Inc.	Federal Tax Allocation	*	*	*
GAPS	Service	(2,208,979)	(2,912,858)	*
GEIS	Service Mark	41,821,085	17,250,864	*
GECIS	Various SOWs	*	3,840,545	4,139,058
GEAM	Investment Management	*	4,766,217	*
ERC Asia Pacific	Cost Allocation	78,845	*	*
GECIS	Master Managed Service	*	2,343,210	*
SRAM	Invest Advisory	1,937,708		
First Specialty	TSA Cost Allocation	(2,277,797)	N/A	N/A
Westport	TSA Cost Allocation	(8,530,443)	N/A	N/A
SRAHC	TSA Cost Allocation	4,906,046	N/A	N/A
CIC	TSA Cost Allocation	(5,212)	N/A	N/A
GE Re	TSA Cost Allocation	(61,668)	N/A	N/A
IRI	TSA Cost Allocation	(78,170)	N/A	N/A
Gaps	TSA Cost Allocation	(136,397)	N/A	N/A

* The Corporation was not able to provide the supporting detail for the amounts incurred/ (earned) under this agreement. The lack of documentation has been documented in other communication to the Corporation.

The following is a list and abbreviated summary of additional intercompany agreements entered into subsequent to the examination date.

1. Services Agreement – Effective February 1, 2007, the Corporation entered into the Services agreement with Swiss Re Solutions Holding Corporation (SRSHC). Under this agreement, the Corporation may make available to SRSHC certain services, such as tax, accounting and audit professional services. Such services shall be used at times and in amounts determined necessary or appropriate by the managing officers of each party. The Corporation will be reimbursed for SRSHC's pro-rata share of its quarterly US

GAAP basis assets. According to the Corporation, no services have been provided or received under this agreement during 2007.

2. Swiss Re Money Market Fund Agreement – Effective June 1, 2007, the Corporation entered into the Swiss Re Money Market Fund Agreement with SRAM. Westport and First Specialty also participate in this agreement with the Corporation (collectively referred to as the participants). The participants will pool their short-term moneys into the Swiss Re Money Market fund in order to generate a greater investment yield, reduce transaction costs, and obtain better pricing on buys/sells. SRAM has responsibility for management of the securities and moneys held in the fund and will provide investment advisory and accounting services, which SRAM will be compensated by the participants. The Corporation incurred fees of $16,409,700 during 2007 under this agreement.

3. Admitted Insurance Business Service Agreement – Effective August 13, 2007, the Corporation entered into an agreement with North American Elite Insurance Company (NAE) and Westport. Westport and ERC will provide various insurance related services to NAE and facilitate NAE's expansion of various lines of insurance business. The services provided by Westport and ERC shall be on a cost reimbursement basis. ERC is authorized to utilize Westport as a subcontractor in providing services for NAE. According to the Corporation, no services have been provided to NAE during 2007.

4. Admitted Insurance Business Service Agreement – Effective August 13, 2007, the Corporation entered into an agreement with North American Specialty Insurance Company (NAS) and Westport. Westport and ERC will provide various insurance related services to NAS and facilitate NAS's expansion of various lines of insurance business. The services provided by Westport and ERC shall be on a cost reimbursement basis. ERC is authorized to utilize Westport as a subcontractor in providing services for NAS. According to the Corporation, $20,913 has been incurred by the Corporation for services performed by Westport.

5. Excess and Surplus Insurance Business Service Agreement – Effective August 13, 2007, the Corporation entered into the Excess and Surplus Insurance Business Service Agreement with First Specialty and North American Capacity Insurance Company (NAC). First Specialty and ERC will provide various insurance related services to NAC and facilitate NAC's expansion of various lines of insurance business. The services provided by First Specialty and ERC shall be on a cost reimbursement basis. ERC is authorized to utilize First Specialty as a subcontractor in providing services for NAC. The Corporation stated that there has been no activity under this agreement.

6. Master Repurchase Agreement – From time to time, the parties to the agreement (New Westport, SRAM, and Swiss Re Financial Products Corporation (SRFPC), may enter into transactions in which one party agrees to transfer to another party securities or other assets while simultaneous agreeing to transfer the funds back to the first party at a date certain or on demand. The first party shall be entitled to receive all income paid or distributed while the securities or other assets were in possession of the second party. This agreement has not been executed.

7. Master Securities Loan Agreement – From time to time the parties to the agreement (New Westport, SRAM, and SRFPC) may enter into transactions in which one party will lend to the other party certain securities against a transfer of collateral. The lender will collect a loan fee which is computed daily according to the agreement. This agreement has not been executed.

FIDELITY BOND AND OTHER INSURANCE

As of the December 31, 2006, ERC is a named insured on a standard financial institution bond providing fidelity and crime coverage, purchased through its parent, Swiss Re American Holding Corporation (SRAHC), with an aggregate liability limit of $50 million, a single loss liability limit of $25 million and a deductible of $1 million. This level of coverage meets the suggested minimum amount of fidelity insurance coverage as determined in accordance with NAIC guidelines.

SRAHC is also a named insured on several other insurance policies. Although ERC is not specifically named as an insured on most of these policies, the terms define coverage as being applicable to all subsidiaries of SRAHC, which includes ERC. These additional insurance policies are as follows: property, commercial general liability, blanket accident, workers compensation, fiduciary liability, directors' and officers' liability, kidnap and ransom, and business auto.

PENSION, STOCK OWNERSHIP AND INSURANCE PLANS

ERC employees are offered a defined contribution 401(k) plan through its upstream parent, SRAHC. Employees are automatically enrolled in the plan at 6% of base bi-weekly salary. This rate can be subsequently changed by the employee at any time. The ultimate parent company, Swiss Re, matches employee bi-weekly contributions up to 6% of an employee's bi-weekly salary and may also make an additional annual contribution to the employees' 401(k) of 6% base annual salary earned in a plan year provided the employee is actively employed during the last pay period of the plan year. ERC is allocated a portion of contributions to the 401(k) Plan. Plan years are on a calendar year basis.

Prior to the acquisition by Swiss Re, in June 2006, ERC employees were covered under the General Electric Company (GE) Pension Plan. The GE Pension Plan remains the liability of GE, pursuant to the terms of an Employee Matters Agreement, which was executed between Swiss Re and GE as part of the purchase of ERC and subsidiaries by Swiss Re.

ERC employees are offered healthcare insurance, of which a portion of the premium is paid by the employee, vision coverage only if the employee has healthcare coverage at no charge, flexible spending accounts (FSA), short-term and long-term disability insurance, life insurance and accidental death and dismemberment coverage provided at 3 times annual salary up to \$1million, savings plan, public transportation benefit, paid vacation, holiday, sick and personal time and a discretionary bonus plan based upon performance. Certain employees are also offered participation in stock appreciation rights, at the discretion of the CEO of Swiss Re.

As noted above, ERC is allocated a portion of contributions to the 401(k) Plan sponsored by Swiss Re. At December 31, 2006, the Corporation did not accrue and make provisions for this liability in its Annual Statement. The amount was not material to financial position and the error was rectified in 2007.

STATUTORY DEPOSITS

Deposits with the State of Missouri

The funds on deposit with the Missouri Department of Insurance, Financial Institutions and Professional Registration as of December 31, 2006, as reflected below, were sufficient to meet the capital deposit requirement for the State of Missouri in accordance with Section 379.098 RSMo (Insurance other than life – Securities deposited). The Corporation's required deposit for Missouri is \$1,200,000. The funds on deposit as of December 31, 2006, were as follows:

Type of Security	Par Value	Fair Value	Statement Value
Bonds	\$4,345,000	\$4,354,516	\$4,331,451

Deposits with Other States, Provinces and Countries

The Corporation also has funds on deposit with other various other states and jurisdictions in which it is licensed. Those funds on deposit as of December 31, 2006, were as follows:

State/Country	Type of Security	Par Value	Fair Value	Statement Value
Arizona	Bonds	\$10,230,000	\$10,252,404	\$10,198,101
Arkansas	Bonds	350,000	350,767	348,909
California	Bonds	488,820,000	489,588,996	486,996,232
Georgia	Bonds	210,000	328,915	325,397
Louisiana	Bonds	100,000	100,219	99,688
Massachusetts	Bonds	560,000	561,226	558,254
New Mexico	Bonds	395,000	395,865	393,768
North Carolina	Bonds	320,000	320,701	319,002
Oklahoma	Bonds	375,000	385,826	370,622
Oregon	Bonds	5,585,000	5,597,231	5,567,585

Virginia	Bonds	400,000	400,876	398,753
Canada	Canadian Bonds	520,153,525	476,508,076	482,462,083
Totals		$1,027,498,525	$984,791,102	$988,038,394

Other Deposits

The Corporation also has funds on deposit to secure certain reinsurance obligations. Those funds on deposit at December 31, 2006, were as follows:

Reinsurer	Type of Security	Par Value	Fair Value	Statement Value
Employers Reassurance Corp.	Bonds	$886,180,044	$899,439,678	$888,640,982
American United Life Ins. Co.	Bonds	589,737,830	616,113,998	606,745,177
United National Ins. Co.	Bonds	179,077,450	177,096,158	178,306,115
Totals		$1,654,995,324	$1,692,649,834	$1,673,692,274

INSURANCE PRODUCTS AND RELATED PRACTICES

Territory and Plan of Operation

Employers Reinsurance Corporation (ERC) is licensed as a property and casualty insurer by the Missouri Department of Insurance, Financial Institutions and Professional Registration (DIFP) under Chapter 379 RSMo (Insurance Other than Life). ERC is licensed and writes business in all fifty states and the District of Columbia. ERC is also licensed in the U.S. territories of Guam and Puerto Rico, ten provinces of Canada, and nationally in Canada and Australia.

ERC is primarily a reinsurance provider with limited direct business. Assumed premiums represented 90.6% and direct premiums represented only 9.4% of the total direct and assumed premiums as of December 31, 2006. The major lines of direct business, based upon 2006 direct written premiums, were as follows:

Line of Business	As a Percentage of 2006 Total Direct Written Premiums
Workers Compensation	29.5%
Other Liability – Claims Made	19.9%
Group Accident and Health	13.1%
Auto Warranty	10.2%
All Other	27.3%
Total	100.0%

During the last financial examination, ERC, along with its two wholly owned subsidiaries were solely owned by GE Insurance Solutions Corporation (GEIS), a wholly-owned subsidiary of General Electric Company (GE). With the sale of GEIS to Swiss Re in June 2006, ERC along with its two insurance subsidiaries are now organized in accordance with Swiss Re's organizational structure and included as part of the SRAHC's Property and Casualty (P&C) Division. Specifically, ERC became part of Swiss Re's Client Markets department within the P&C Division. The Client Markets department is responsible for marketing, sales and account management. All of ERC's business is subject to the SRAHC's underwriting guidelines. These guidelines are issued by the Product Department Center (PDC) and are reviewed by the Group Product and Limits Committee (GPLC). The guidelines include prohibited classes, exclusions, approved pricing models, and maximum and minimum premium requirements. The PDC is responsible for the management of underwriting, contracts and claims.

Within the P&C Division, ERC provides the following coverages: employer stop loss, Health Maintenance Organization reinsurance, professional liability (errors and omissions) for Canadian insurance agents and U.S. life insurance agents and CyberComp. The workers compensation lines of business are known as the CyberComp program. The CyberComp unit provides mono-line workers compensation coverage in the U.S. through a web-based and 100 percent digitized platform. As of December 31, 2006, the majority of ERC's direct business (52.6%) was written in the Canadian market. The product that ERC offers in Canada covers errors and omissions arising out of professional services performed by insurance agents, insurance agencies, insurance brokers, or managing general agents. ERC is a recognized market leader for insurance industry professionals and an endorsed carrier for a number of provincial trade associations. The Canadian products are tailored for errors and omissions insurance coverage for insurance agents/brokers, agencies, officers, producers, and employees. The primary focus is on the P&C producers; in which ERC offers larger policy limits, however, the Corporation also offers a smaller limit of liability for the life insurance producers. The Corporation's direct policies are produced by an agency force consisting of 816 licensed independent agents.

During the examination period, ERC also functioned as a reinsurer, writing significant treaty and facultative business. However, ERC is currently transitioning to being a primary underwriter only, in anticipation of its planned reorganization that will significantly impact its plan of operations beginning in January 2008.

During the period under examination, ERC continued to assume the business of Industrial Risk Insurers (IRI), an affiliate owned by ERC (99.5%) and Westport (0.5%). IRI policies are written on Westport's paper and cover large property risks involving multiple locations. The subject properties insured by IRI require specialized engineers, inspectors, and technical personnel to appraise and evaluate the risks. All of the IRI business is written by Westport and then ceded 100% to ERC. As of January 1, 2008 following the merger of ERC and Westport, Swiss Reinsurance America Corporation (SRAC) joined IRI association through a 99.5% ownership, with New Westport holding the remaining 0.5%. New Westport has assigned its rights, duties and obligations arising out of its membership interest to SRAC.

Effective January 1, 2008, Westport merged with and into ERC, with ERC as the surviving legal entity. Following the execution of the merger transactions, ERC changed its name to Westport

Insurance Corporation. Following this major subsequent event in the corporate life of ERC, the business of the new entity New Westport was also restructured. See the Subsequent Event section of this report for more details regarding these changes.

Policy Forms & Underwriting
Advertising & Sales Materials
Treatment of Policyholders

The DIFP has a market conduct staff that performs a review of these issues and generates a separate market conduct report. The last Market Conduct Examination [Report #0507-22-TGT] dated February 7, 2006, did not indicate any material issues.

There was also a market conduct rate and underwriting examination report dated September 16, 2004, by the California Department of Insurance. This report was addressed to the GE Insurance Solutions Corporation, which includes Westport Insurance Corporation, Employers Reinsurance Corporation, GE Reinsurance Corporation, and The Medical Protective Company. This report indicated some compliance issues involving premium rates, which resulted in a directive of $421,228 premium return to policyholders.

REINSURANCE

General

The Company's premium activity on a direct written, assumed and ceded basis, for the period under examination, is detailed below:

	2006	2005	2004
Direct Business	$223,062,562	$271,748,751	$343,755,534
Reinsurance Assumed:			
Affiliates	747,622,407	980,499,567	1,161,312,713
Non-affiliates	1,418,600,135	1,267,660,878	1,900,633,199
Reinsurance Ceded:			
Affiliates	(381,107,056)	(21,616,649)	(46,658,413)
Non-affiliates	(957,398,224)	(464,342,520)	(259,551,297)
Net Written Premiums	**$1,050,779,824**	**$2,033,950,027**	**$3,099,491,736**

Assumed

The table below lists the ceding companies with the largest percentage of ERC's 2006 assumed premiums and loss reserves as follows:

Name of Ceding Company	December 31, 2006 Assumed Premium	December 31, 2006 Assumed Case Losses and LAE
AFFILIATED:		
GE Frankona Ruckversicherung AG	$176,371,000	$1,206,310,000
Industrial Risk Insurers	279,452,000	503,684,000
GE Reinsurance Corporation	(39,089,000)	480,785,000
Westport Insurance Corporation	436,292,000	345,183,000
First Specialty Insurance Corporation	124,421,000	157,344,000
Subtotal	$977,447,000	$2,693,306,000
NON-AFFILIATED:		
CCC Insurance Corporation	0	207,879,000
Provident Life and Accident Insurance Company	0	151,374,000
American United Life Insurance Company	77,028,000	137,063,000
Hartford Life & Accident Insurance Company	(11,604,000)	115,380,000
Connecticut Mutual Life Insurance Company	0	113,816,000
UNUM Life Insurance Company of America	1,633,000	105,172,000
Travelers Indemnity Company	52,809,000	42,155,000
Landmark American Insurance Company	46,105,000	18,570,000
Subtotal	$165,971,000	$891,409,000
Totals All Significant Companies	$1,143,418,000	$3,584,715,000
Percentage of All Assumed Business	52.78%	58.36%

The Corporation assumed a significant amount of business from its subsidiaries, affiliates and non-affiliates. Large national, multinational and medium-sized regional, direct insurers are the Corporation's target market. Assumed risks are covered using quota share, excess of loss, and facultative treaties, depending on the lines of business.

Material Modifications of Assumed Business

On June 9, 2006, Swiss Reinsurance Company purchased the Corporation and certain of its affiliates from GE Insurance Solutions Corporation. Subsequent to Swiss Re's acquisition, there were many significant changes implemented in the Corporation's reinsurance program. In summary, efforts began following the acquisition to terminate existing assumed reinsurance agreements, including the significant assumed agreements in the table above. The business plan for the Corporation going forward is to operate as a direct writer ceding predominantly to affiliates within the Swiss Re Group. The following are significant assumed reinsurance by ceding company that was commuted, novated or terminated as of December 31, 2007, in line with the Corporation's decision to transition ERC from a major reinsurer to a commercial direct writer:

Name of Ceding Company	Net Dollar Value Of 2007 Significant Contracts **Commuted**	2006 Losses Payable Under Significant Contracts **Novated** in 2007	2006 Losses Payable Under Significant Contracts **Terminated** in 2007 or Prior
AFFILIATED:			
GE Frankona Ruckv. AG	$1,059,123,997	$0	$0
Industrial Risk Insurers	0	0	0
GE Reinsurance Corporation	35,886,000	247,017,000	0
Westport Insurance Corporation	1,563,000	0	584,650,000
First Specialty Insurance Corporation	58,200,000	0	214,183,000
NON-AFFILIATED:			
CCC Insurance Corporation	0	0	200,000,000
Provident Life and Accident Insurance Company	0	0	151,300,000
American United Life Insurance Company	0	137,925,000	0
Hartford Life & Accident Insurance Company	0	0	53,900,000
Connecticut Mutual Life Insurance Company	0	0	113,800,000
UNUM Life Insurance Company of America	0	0	87,800,000
Subtotals	$1,154,772,997	$384,942,000	$1,405,633,000
Total of all **Significant** Contracts Terminated, Novated or Commuted	$2,945,347,997		
Percentage to all Assumed Loss Payables December 31, 2006 ($7.2billion)	40.86%		

Note: the above numbers do not constitute the entire changes to the Corporation's assumed reinsurance program; it only depicts changes deemed significant by the examination.

Ceded

The Corporation is contingently liable for all reinsurance losses ceded to others. This contingent liability would become an actual liability in the event that an assuming reinsurer fails to perform its obligations under the reinsurance agreement.

The Corporation's largest reinsurers based upon ceded premiums and loss recoverables, as of December 31, 2006, were as follows:

Reinsurer	2006 Ceded Premiums	2006 Ceded Loss Recoverables
Centre Insurance Company	$ 13,303,000	$431,668,000
Employers Reassurance Corporation	679,378,000	1,088,345,000
National Indemnity Company	4,715,000	852,095,000
National Union Fire Ins. Co. of Pittsburgh	40,091,000	836,000
Scandinavian Re. Co., Ltd. (Bermuda)	6,816,000	97,001,000
Swiss Reinsurance Company	376,579,000	1,021,975,000
Underwriters Reinsurance Co. (Barbados)	34,079,000	485,003,000
Totals of Significant Reinsurers	$1,154,961,000	$3,976,923,000
Totals for All Ceded Business	$1,338,505,000	$5,355,057,000
Percentage of Total	86.29%	74.26%

ERC's ceded reinsurance programs were historically designed to support the three operating divisions: P&C Reinsurance, Commercial Insurance, and Life and Health. Following the acquisition of the Corporation by Swiss Re, which did not include a life and health subsidiary, Life and Health reinsurance activity stopped. In a bid to strengthen the reserves of the Corporation, ERC entered into an adverse development cover with its ultimate parent, Swiss Re, effective July 1, 2006. The agreement indemnified ERC up to $1.5 billion of net adverse loss development on loss and LAE reserves as of June 30, 2006, including a sub-limit of $375.0 million for asbestos and environmental claims. The Corporation ceded $1.021.7 million under this contract through December 31, 2006. The coverage limits were fully exhausted during the second quarter of 2007. On July 1, 2007, ERC entered into a second, similar adverse loss development agreement with Swiss Re on loss and LAE reserves as of June 30, 2007 with a $1.0 billion limit.

Material Modifications of Ceded Business

Effective January 1, 2007, ERC cancelled several treaty reinsurance agreements with certain affiliates as part of a planned move to transition from a reinsurance provider to primarily a direct writer of commercial insurance, with Swiss Reinsurance America Corporation replacing ERC in providing reinsurance coverage for its commercial insurance subsidiaries. All through 2007 and continuing in 2008, the Corporation terminated, novated and retroceded additional reinsurance business that was reported on its 2006 Annual Statement Schedule F. Listed below are significant ceded reinsurance contracts that were terminated, novated, or commuted subsequent to the examination date:

Reinsurer:	Net Dollar Value Of Significant Contracts **Commuted** 2007	2006 Loss Recoverables under Significant Contracts **Novated** in 2007	2006 Loss Recoverables Under Significant Contracts **Terminated** in 2007 or Prior
Centre Insurance Company	\$430,639,000	\$0	\$0
Core Reinsurance Corporation		247,017,000	
Employers Reassurance Corporation	0	137,925,000	0
National Indemnity Company	473,411,000	0	0
National Union Fire Insurance Company of Pittsburgh	788,808,000	0	0
Scandinavian Re. Co., Ltd. (Bermuda)	83,266,000	0	0
Swiss Reinsurance Company (Zurich)	0	0	1,021,699,000
Subtotals	\$1,776,124,000	\$384,942,000	\$1,021,699,000
Total of all Significant Contracts Terminated, Novated or Commuted	\$3,182,765,000		
Percentage to all Recoverables as of December 31, 2006 (\$6.0 billion)	52.76%		

Note: the above numbers do not constitute the entire changes to the Corporation's ceded reinsurance program; it only depicts changes deemed significant by the examination.

Additional significant changes in the Corporation's reinsurance program continued in 2008. See examination report section "Subsequent Events" under *Reinsurance* for additional details.

ACCOUNTS AND RECORDS

Independent Auditor

The Corporation's financial statements were audited by the CPA firm, PricewaterhouseCoopers, LLP, of Kansas City, Missouri, for the 2006 accounting year. For the years 2005 and 2004, the financial statements of the Corporation were audited by the CPA firm, KPMG, LLP, of Kansas City, Missouri.

Appointed Actuary

Loss and Loss Adjustment Expense reserves as of December 31, 2006, were reviewed and certified by Robert Giambo, FCAS, MAAA, who is employed by and is Managing Director and Head of Corporate Actuarial of Swiss Reinsurance America Corporation. Loss and Loss Adjustment Expense reserves as of December 31, 2005 and 2004 were reviewed and certified by John C. Narvell, FCAS, MAAA, who was employed by ERC as Senior Vice President and Chief Actuary.

FINANCIAL STATEMENTS

The following financial statements, with supporting exhibits, present the financial condition of ERC for the period ending December 31, 2006. Any examination adjustments to the amounts reported in the financial statements and/or comments regarding such are made in the "Notes to the Financial Statements." The failure of any column of numbers to add to its respective total is due to rounding or truncation.

There may have been additional differences found in the course of this examination, which are not shown in the "Notes to the Financial Statements." These differences were determined to be immaterial concerning their effect on the financial statements, and therefore were only communicated to the Corporation and noted in the workpapers for each individual Annual Statement item.

Assets

	Assets	Non-Admitted Assets	Net Admitted Assets
Bonds	$8,365,261,447	$0	$8,365,261,447
Preferred Stocks	64,555,159		64,555,159
Common Stocks	659,777,064		659,777,064
Mortgage Loans on Real Estate	18,896,479		18,896,479
Real Estate	584,161		584,161
Cash and Short-Term Investments	4,610,591,248		4,610,591,248
Other Invested Assets	65,666,405		65,666,405
Receivable for Securities	471,255		471,255
Investment Income Due and Accrued	102,985,995		102,985,995
Uncollected Premiums and Agents' Balances in the Course of Collection	532,919,483	13,765,466	519,154,017
Deferred Premiums, Agents' Balances Booked But Deferred and Not Yet Due	148,096,741		148,096,741
Accrued Retrospective Premiums	36,266,932	718,802	35,548,130
Amounts Recoverable from Reinsurers	523,653,662		523,653,662
Funds Held by or Deposited with Reinsured Companies	53,727,630	1,090,081	52,637,549
Other Amounts Receivable Under Reinsurance	43,168,170		43,168,170
Federal Income Tax Recoverable	42,449,268		42,449,268
Net Deferred Tax Asset	422,145,519	213,143,372	209,002,147
EDP Equipment and Software	333,136		333,136
Furniture and Equipment	2,317,457	2,317,457	0
Receivables from Parent, Sub., and Affiliaties	11,901,837		11,901,837
Aggregate Write-ins for Assets:			
Other Assets Non-admitted	30,654,215	30,654,215	0
Excess Ceding Commission	10,517,174		10,517,174
Other Receivable	2,793,156	0	2,793,156
TOTAL ASSETS	**$15,749,733,593**	**$261,689,393**	**$15,488,044,200**

Liabilities, Surplus and Other Funds

Losses	$ 6,827,565,913
Reinsurance Payable on Paid Loss and LAE	531,436,150
Loss Adjustment Expenses	802,967,834
Commissions Payable	94,580,236
Other Expenses	121,406,978
Taxes, Licenses and Fees	2,546,557
Unearned Premiums	685,047,202
Ceded Reinsurance Premiums Payable	37,726,815
Funds Held by Company Under Reinsurance Treaties	2,575,740,886
Amounts Withheld or Retained	268,892
Remittances and Items Not Allocated	(1,633,852)
Provision for Reinsurance	24,472,543
Net Adjustment Due to Foreign Exchange Rates	145,930,063
Payable for Securities	1,047,606
Aggregate Write-In Liabilities:	
Retroactive Reinsurance Reserve Assumed	7,279,213
Net Retrospective Premium Payable	25,357,628
TOTAL LIABILITIES	**$11,881,740,664**
Common Capital Stock	6,345,000
Preferred Capital Stock	27,500,000
Gross Paid In and Contributed Surplus	3,575,420,549
Unassigned Funds (Surplus)	(2,962,012)
Capital and Surplus	**$3,606,303,537**
TOTAL LIABILITIES AND SURPLUS	**$15,488,044,201**

Summary of Operations

Underwriting Income

Premiums Earned	**$1,543,517,772**
Losses Incurred	1,294,317,382
Loss Expenses Incurred	213,458,893
Other Underwriting Expenses Incurred	664,011,453
Aggregate Write-ins for Underwriting Deductions:	
Excess Ceding Commission	(10,517,174)
Total Underwriting Deductions	**$2,161,270,554**
Net Underwriting Gain/(Loss)	**($617,752,782)**

Investment Income

Net Investment Income Earned	1,140,098,772
Net Realized Capital Gains or (Losses)	(1,935,425,800)
Net Investment Gain or (Loss)	**($795,327,028)**

Other Income

Net Gain (Loss) from Agents' or Premium Balances Charged Off	(9,463,436)
Finance and Service Charges not Included in Premiums	202,305
Miscellaneous Other Income	(75,785,909)
Total Other Income	**($85,047,040)**
Net Income Before Dividends to Policyholders and Federal Income Taxes	($1,498,126,850)
Federal and Foreign Income Taxes Incurred	(147,087,834)
Net Income or (Loss)	**($1,351,039,016)**

Capital and Surplus Account

Capital and Surplus, December 31, 2005	$5,388,862,304
Net Income or (Loss)	(1,351,039,016)
Change in Net Unrealized Capital Gains or (Losses)	1,935,500,926
Change in Non-Admitted Assets	138,890,603
Change in Provision for Reinsurance	(4,360,808)
Change in Net Deferred Income Tax	(134,660,710)
Change in Net Unrealized Foreign Exchange Capital Gain (Loss)	9,876,916
Paid-in Surplus	405,000,000
Dividends to Stockholders	(2,803,323,678)
Aggregate Write-ins for Gains and Losses in Surplus	21,557,000
Net Change in Capital and Surplus	**($1,782,558,767)**
CAPITAL AND SURPLUS, DECEMBER 31, 2006	**$3,606,303,537**

NOTES TO THE FINANCIAL STATEMENTS

None

EXAMINATION CHANGES

None

GENERAL COMMENTS AND/OR RECOMMENDATIONS

None

SUBSEQUENT EVENTS

Following the acquisition of GE Insurance Solutions Corporation and certain of its subsidiaries including ERC in June 2006, additional material events occurred in the operations and holding company structure of ERC subsequent to the 2006 Annual Statement date. Such material subsequent events have been categorized as follows:

Holding Company, Subsidiaries and Affiliates

On January 1, 2008, Westport Insurance Corporation (Westport), a subsidiary of ERC merged with and into ERC with ERC as the surviving entity. Upon execution of the merger, ERC changed its named to Westport Insurance Corporation (New Westport). Pursuant to this merger and in line with Swiss Re's determination to streamline and simplify New Westport's corporate structure, ERC's ownership of 99.5% of IRI was transferred to Swiss Re America Corporation (SRAC) with New Westport holding the remaining 0.5% interest. New Westport subsequently assigned 100% of its rights, duties, and obligations arising out of its membership interest in IRI to SRAC.

On the basis of the merger between ERC and Westport as noted, all rights and obligations inherent in all agreements and business relationships involving Westport have been transferred to New Westport, unless such agreements and/or relationships were terminated as part of the merger or specifically so terminated following the merger.

Furthermore, as a result of this change in structure and other changes earlier in 2007 in the holding company system, the number of affiliates and subsidiaries of New Westport has significantly changed. See the holding company structure of New Westport in the Organizational Chart section of this report, depicted as of March 31, 2008.

Reinsurance

Effective January 1, 2008, New Westport and other Swiss Re Group carriers entered into a new quota share agreement with National Indemnity Company (NIC), in which 20% of substantially all risks incepting in the 5-year period between January 1, 2008 and December 31, 2012, will be ceded to NIC.

ERC and other Swiss Re entities entered into a series of commutation agreements during late 2007 and early 2008. The entity that is New Westport has determined to become primarily a direct writer of commercial insurance and has substantially ceased writing reinsurance business. New Westport has also determined to transfer out a significant amount of its external reinsurance reserves (reinsurance with non-affiliated entities) in a bid to reposition itself as strictly a primary commercial insurance provider. Currently, New Westport is still exploring the best method of effecting the reserve transfer, with consideration being given to utilizing loss portfolio transfers or entering into further intra-group (Swiss Re Group) retrocessions. The transfer is expected to be completed by the end of 2008 and has the potential to result in over $1 billion decrease in New Westport's capital requirements relative to its planned risk-based capital level. Additional changes in the Corporation's reinsurance program occurred in 2007, which are reported in more detail in the Reinsurance section of this report.

The purpose of these planned changes in New Westport's reinsurance program is to simplify the existing structure of intra-group reinsurance agreements and facultative certificates, particularly in relation to the reinsurance relationships amoung the former GE Insurance Solution Corporation entities, and to change New Westport to a primary insurance underwriter. Any of the planned reinsurance changes will first require regulatory approvals, possibly in more than one jurisdiction.

Territory and Plan of Operation

As noted in the Reinsurance subsection above, New Westport has made a deliberate decision to substantially cease reinsurance underwriting. Its focus will be core primary insurance underwriting. Although not exhaustive, New Westport's main line of business will be Workers Compensation, Other Liability – Claims Made, and Fire and Allied lines of business. New Westport will continue to operate in all jurisdictions where ERC was licensed prior to the January 1, 2008 merger and restructuring.

Investments

In line with the planned restructuring of New Westport, the Corporation plans to restructure its investment mix in order to earn higher returns. The planned restructuring envisions the Corporation transferring out approximately $1.4 billion of current investment instruments and mix to another entity to be replaced by an investment mix with ratings that are within industry averages, but below current investment mix ratings. New Westport's current investment mix is comprised heavily of highly rated conservative U.S. and other governmental obligation instruments. The Corporation's planned investment mix includes a mixture of governmental obligation instruments, corporate obligations and a small percentage of derivative instruments. This investment restructuring plan is currently waiting regulatory approval.

ACKNOWLEDGMENT

The assistance and cooperation extended by the officers and the employees of Employers Reinsurance Corporation during the course of this examination is hereby acknowledged and appreciated. In addition to the undersigned, Alvin Garon, CFE, Bernie Troop, CFE, Larry Kleffner, CFE, Shawn Hernandez, CFE, Leslie Nehring, CFE, CPA, Barbara Bartlett, CPA, CFE, Shannon Schmoeger, CFE and Karen Baldree, CPA, CFE, examiners for the Missouri Department of Insurance, Financial Institutions and Professional Registration also participated in this examination. Angela Campbell CFE, Computer Audit Specialist for the Missouri Department of Insurance, Financial Institutions and Professional Registration performed a review of the information system environment. Glenn Tobleman, FSA, MAAA of Lewis & Ellis, Inc. also participated as a consulting actuary.

VERIFICATION

State of Missouri)
)
County of)

I, Levi N. Nwasoria, CPA, CFE on my oath swear that to the best of my knowledge and belief the above examination report is true and accurate and is comprised of only facts appearing upon the books, records or other documents of the Corporation, its agents or other persons examined or as ascertained from the testimony of its officers or agents or other persons examined concerning its affairs and such conclusions and recommendations as the examiners find reasonably warranted from the facts.

Levi N. Nwasoria, CPA, CFE
Examiner-In-Charge
Missouri Department of Insurance, Financial Institutions and Professional Registration

Sworn to and subscribed before me this 18th day of June, 2008.

My commission expires: 3/7/2010

Janice Herron
Notary Public

JANICE HERRON
Notary Public - Notary Seal
STATE OF MISSOURI
County of Cole
My Commission Expires 3/7/2010
Commission # 06849417

SUPERVISION

The examination process has been monitored and supervised by the undersigned. The examination report and supporting workpapers have been reviewed and approved. Compliance with NAIC procedures and guidelines as contained in the Financial Condition Examiners Handbook has been confirmed.

Vicki L. Denton

Vicki L. Denton, CFE
Acting Audit Manager
Missouri Department of Insurance, Financial Institutions and Professional Registration

Swiss Re

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Overland Park, KS 66201
913-676-5200
913-676-5400
www.swissre.com

June 27, 2008

VIA EXPRESS MAIL SERVICE

Mr. Frederick Heese, CFE, CPA
Chief Financial Examiner
Division of Insurance Company Regulation
Missouri Department of Insurance, Financial Institutions
and Professional Regulation
301 West High Street, Room 530
Jefferson City, MO 65101

Re: Draft Report of Association Financial Examination (as of December 31, 2006)
Employers Reinsurance Corporation

Dear Mr. Heese:

Employers Reinsurance Corporation (n/k/a Westport Insurance Corporation) ("ERC") is in receipt of the above-captioned report dated June 18, 2008, and provided to us for review on June 20, 2008. ERC appreciates the opportunity to review the report and provide comments. Accordingly, ERC respectfully requests that this letter be incorporated into or attached to the final financial examination report of the Missouri Department of Insurance, Financial Institutions and Professional Registration ("DIFP").

Because the General Comments and/or Recommendations section of the draft examination report included no matters requiring correction or comment, ERC does not believe it is necessary to address this part of the report. ERC would like to state that while there are certain facts and descriptions within the examination report where we may have preferred a modified characterization or presentation, ERC does not take exception to the overall content of the report.

ERC would like to thank DIFP and its onsite team for the professionalism and candor that characterized this examination. If you have any comments or questions regarding this letter, please let us know.

Sincerely,

William J. Steilen
Managing Director and Chief Financial Officer