STATE OF MISSOURI

DEPARTMENT OF INSURANCE, FINANCIAL INSTITUTIONS AND PROFESSIONAL REGISTRATION

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

RE: Examination Report of First Specialty Insurance Corporation as of December 31, 2006

ORDER

After full consideration and review of the report of the financial examination of First Specialty Insurance 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 First Specialty Insurance 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

FIRST SPECIALTY INSURANCE CORPORATION

AS OF

DECEMBER 31, 2006

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

First Specialty Insurance Corporation

hereinafter referred to as such, as First Specialty, 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 First Specialty Insurance 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 parent, Employers Reinsurance Corporation (ERC) and an affiliate, Westport Insurance Corporation (Westport).

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).

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: All related party agreements reviewed during this examination were properly signed.

Intercompany Agreements with No Transactions

Comment: The prior examination report identified various agreements between the Corporation and named affiliates which did not result in actual transactions. First Specialty was directed to either amend the identified agreements to remove its participation or terminate the agreements.

Company's Response: The Corporation indicated that it was reviewing its related party agreements and would make necessary changes as appropriate.

Current Findings: All the agreements reviewed during this examination had on-going transactions or the prospective nature of the agreements as documented by the Corporation was adequate and satisfactory to the examination.

Intercompany Payments Reported on Schedule Y

Comment: The examination noted that the accuracy of the amount reported on Schedule Y – Part 2 of the Annual Statement could not be verified as the Corporation was unable to provide a reconciliation of the amounts reported on the Schedule. First Specialty was directed to implement accounting procedures to track specific payments/receipts reported on Schedule Y – Part 2 by individual agreements.

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

Current Findings: Although some improvements were noted in this area during the course of the examination, some additional reporting problems were also noted. This has been communicated to the Corporation's management in separate communication.

Fidelity Bond Insurance

Comment: The examination determined that a single loss deductible of $25 million, as provided by its then ultimate parent, General Electric Company (GE) was too excessive. First Specialty was directed to obtain an agreement of indemnification from GE for its fidelity exposures or obtain its own policy to cover its minimum amount of fidelity coverage of $1.25 million.

Company's Response: The Corporation agreed to review its fidelity insurance coverage and make changes as appropriate.

Current Findings: The Corporation is currently a named insured on a standard financial institution bond providing fidelity and crime coverage, purchased through ultimate parent in the United States, Swiss Re America Holding Corporation (SRAHC). See the Fidelity Bond and Other Insurance section of this report for more details.

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.

Reporting of Suspense Items

Comments: The examination noted that the Corporation incorrectly embedded unapplied or mismatched cash receipts in the Uncollected Premiums line of the Annual Statement. First Specialty was directed to report such transactions as part of Remittances and Items Not Allocated as required by the applicable NAIC's Statement of Statutory Accounting Principles (SSAP).

Company's Response: First Specialty agreed to report these transactions in accordance with the applicable SSAP.

Current Findings: Remittances and Items Not Allocated account was properly reported as of December 31, 2006.

Loss Reserving Practices

Comments: First Specialty's reported loss reserves were determined to be materially deficient on a gross basis according to the report of the DIFP's consulting actuary. The reported deficiency occurred on the FSGLP line of business due to the Corporation using development factors based on industry averages instead of development factors based on the historical development data for the FSGLP line of business. First Specialty was directed to reviews its loss reserving methodology for the FSGLP line of business and to employ the concept of conservatism in its loss reserving practices.

Company's Response: First Specialty responded that loss reserving practices were constantly under review to ensure that the Corporation possesses adequate reserves for its liabilities.

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.

Provision for Reinsurance

Comments: The examination noted that the amount reported by the Corporation for this account was materially understated due to incorrect reporting of "Other Allowed Offsets." The Corporation was directed to ensure accuracy of amounts reported on Schedule F of the Annual Statements.

Company's Response: First Specialty agreed to implement procedures to ensure accuracy of Schedule F reporting in the future.

Current Findings: Review of this account during the current examination did not reveal any additional issues.

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). First Specialty was incorporated on November 13, 1989 and commenced business on November 21, 1989. The Corporation has been a wholly owned subsidiary of ERC since its inception.

During the current examination period, specifically on November 18, 2005, General Electric Company (GE), the ultimate parent of GE Insurance Solutions Corporation (GEIS) 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 and all of its subsidiaries, including First Specialty.

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.

Capital Stock

The Corporation's Articles of Incorporation, effective December 31, 2006, allowed for the issuance of 5,000 shares of common stock with a par value of $1,000 per share. As of December 31, 2006, all 5,000 shares of common stock were issued and outstanding for a total common capital stock account balance of $5,000,000. ERC owns 100% of First Specialty's issued and outstanding common stock.

Dividends

No dividends or cash distributions were paid or declared during the examination period.

Management

The management of the Corporation is vested in a Board of Directors that are appointed by the shareholders. The Articles of Incorporation specify that the number of directors shall not be less than nine (9) and not more than twenty-five (25). The Board of Directors elected and serving, as of December 31, 2006, was as follows:

Name	Address	Business Affiliation
Robin P. Sterneck	Leawood, Kansas	President, Westport and First Specialty
Pierre L. Ozendo	Greenwich, Connecticut	President, ERC
John W. Attey	Shawnee, Kansas	Senior Vice President, ERC
Frederic J. Gindraux	Newtown, Connecticut	Senior Vice President, Swiss Reinsurance America Corporation
Mark P. Lescault #	Sandy Hook, Connecticut	Executive Vice President, Swiss Reinsurance America Corporation
Michael J. DeJoy	New York City, New York	Senior Vice President, Swiss Re Asset Management (Americas), Inc.
Patrick A. Wageman #	Overland Park, Kansas	Second Vice President, ERC
Robert M. Solitro	Manchester, New Hampshire	President and COO, North American Specialty Insurance Company
William J. Steilen	Overland Park, Kansas	Executive Vice President and CFO, ERC

Mark P. Lescault retired and Patrick A. Wageman resigned and were replaced by Craig R. Esses and Steven A. Kelner effective March 12, 2007.

The Corporation's Bylaws state that the Board of Directors shall elect an Executive Committee having no less than 3 or no 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 established committees and the members elected and serving as of December 31, 2006, were as follows:

Investment Committee	**Executive Committee**
Ronald D. Peters	Robin P. Sterneck
George Quinn	Robert M. Solitro
William J. Steilen	William J. Steilen
Chris Weihs	
Eric Thorlacius	

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, which includes First Specialty. All actions of the FRC Committee will be approved by the First Specialty's Board of Directors. The following members were appointed to the 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

With respect to good corporate governance practices, First Specialty'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 Bylaws state that the executive officers of the Corporation shall be the Chairman of the Board, the President, the Vice Presidents, the Treasurer and the Secretary, all of whom shall be elected annually by the Board of Directors at the first regular meeting of the Board of Directors. 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 Vice President, Treasurer and Secretary. The Board of Directors may appoint other officers as needed. The executive officers elected by the Board of Directors and serving as of December 31, 2006, were as follows:

Officers	**Position with the Corporation**
Robin P. Sterneck	President
Ann E. Thompson	Secretary and Vice President
Kenneth J. Holferty	Treasurer
Deryck M. Malone	Controller
Jill M. Hill	CFO and Vice President
Benjamin Meuli	Chief Investment Officer
Ronald D. Peters	Vice President
David Newkirk	Vice President

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 current Articles of Incorporation and Bylaws. Neither the Articles of Incorporation nor Bylaws were amended during the examination period.

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, which is the upstream parent of First Specialty to Swiss Re. The transaction closed on June 9, 2006, with ERC, the immediate parent of First Specialty becoming 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, including First Specialty. These are summarized as follows:

- Through June 9, 2006, ERC, together with its United States affiliates, including First Specialty 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.
- During 2007, First Specialty executed a commutation and release agreement with ERC, its parent. The commuted agreement covered reinsurance contracts ranging from 1998 through 2004 accident years. See the Reinsurance section of this report for more details.
- 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). As a result of this merger, New Westport is now the parent company of First Specialty.
- During 2007, First Specialty sold its wholly owned subsidiary, FSIC Insurance Agency, LLC to Swiss Re Solutions Holding Corporation, its upstream parent. The sale was pursuant to a Membership Interest Transfer Agreement with SRSHC. Pursuant to the terms of the agreement, First Specialty's 100% ownership FSIC Insurance Agency, LLC was transferred to SRSHC in exchange for $143,645 in cash.

Surplus Debentures

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

AFFILIATED COMPANIES

Holding Company, Subsidiaries and Affiliates

First Specialty Insurance 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 the Corporation's parent, ERC, on behalf of itself, First Specialty and ERC's other 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 Re Insurance Company (Swiss Re) for the acquisition of 100% of GEIS and all its insurance subsidiaries, including ERC and Westport. The purchase agreement was effective as of June 9, 2006.

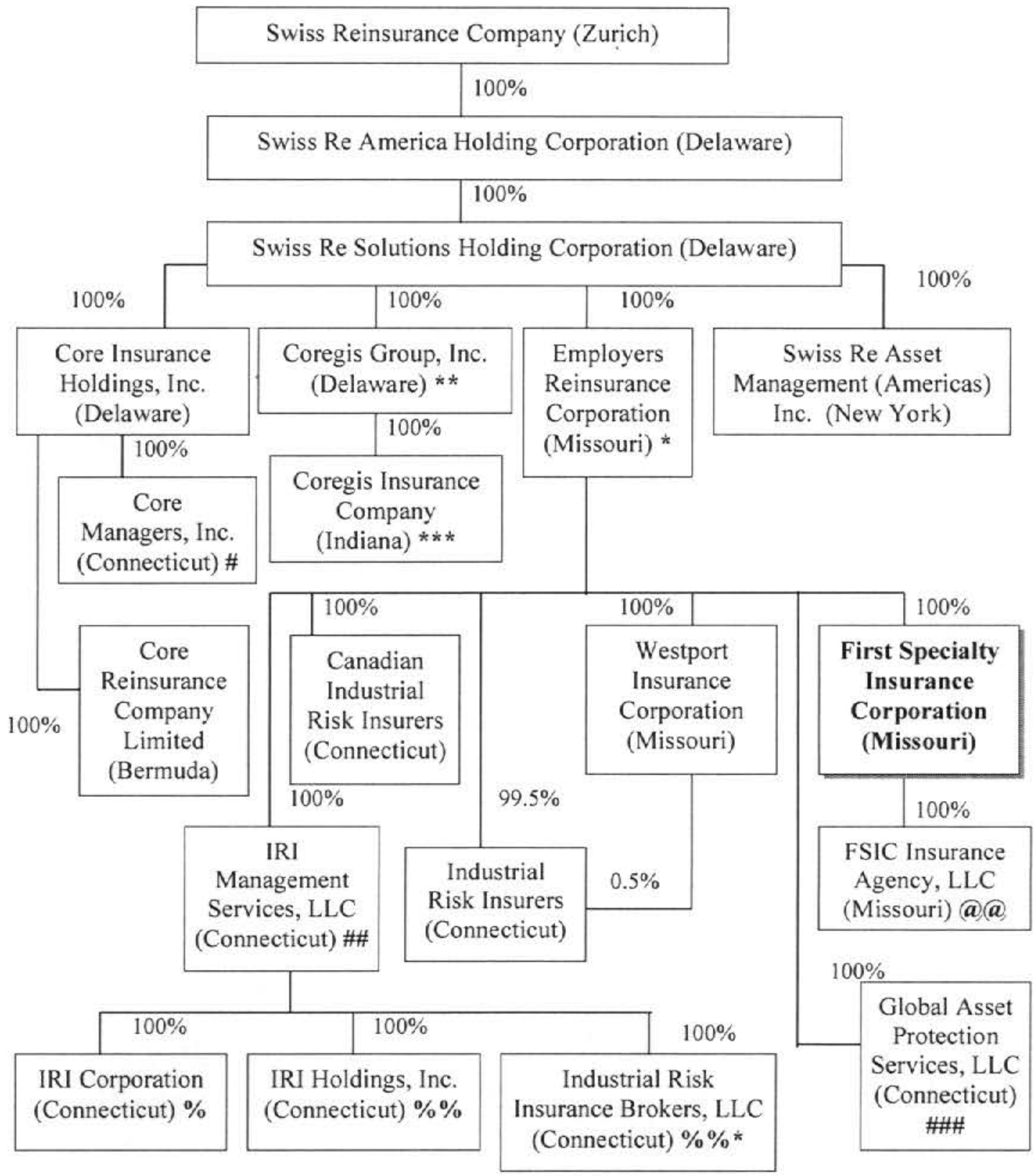
Within the holding company structure, First Specialty is wholly-owned by ERC, which in turn is wholly-owned by Swiss Re Solutions Holding Corporation (SRSHC), which in turn is wholly-owned by Swiss Re America Holding Corporation (SRAHC). SRAHC is wholly-owned by Swiss Re, the ultimate controlling person 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.
- 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 voluntary joint underwriting association 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 First Specialty and entities that have transactions with First Specialty are listed. The following organizational chart depicts the ownership of First Specialty 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.

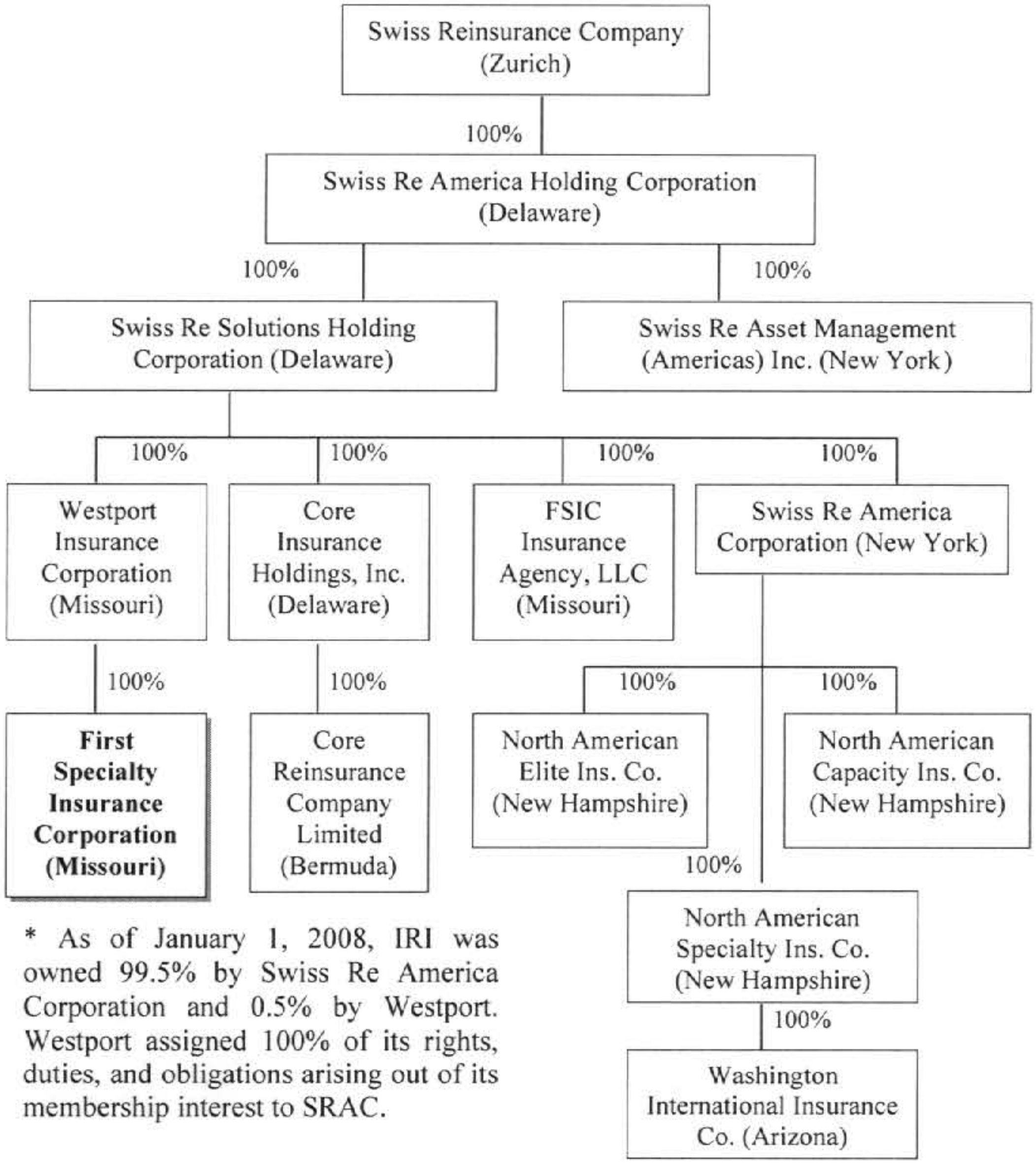
%% Effective August 10, 2007, IRI Holdings, Inc. merged with and into IRI Management Services, LLC.

%%* 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 (FSICIA) 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, including First Specialty, 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 January 1, 2008 merger of Westport into and with ERC, with the surviving entity renamed Westport Insurance Corporation (New Westport), all rights and obligations of Westport or ERC have been assigned to New Westport, unless otherwise noted.

1. **Type:** Service Agreement

   Parties: ERC

   Effective: December 7, 1989

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

2. **Type:** Underwriting Management Agreement

   Parties: Core Managers, Inc. and Westport

   Effective: June 1, 1996

   Terms: Core Managers, Inc. agrees to provide underwriting services to write various casualty lines of business for Westport and First Specialty. Core Managers, Inc. has the authority to solicit business, bind and write insurance contracts, determine premiums and brokerage commissions, and collect and account for premiums. Authorized lines of business include automobile liability, general liability, umbrella liability, workers' compensation, employers' liability, self-insured risks, captives, and risk retention groups. The maximum limits for policies written are $5 million per occurrence, except for workers compensation policies, which is $10 million per occurrence. Westport and First Specialty will pay Core Managers, Inc a monthly underwriting management fee that will be determined by mutual agreement among the parties.

   Note: Effective August 3, 2007, Core Managers, Inc. merged with and into its parent, Core Insurance Holdings, Inc. Under the terms of the Agreement and Plan of Merger, the rights and responsibilities of Core Managers, Inc. were succeeded to Core Insurance Holdings, Inc.

3. **Type:** Operating Agreement

   Parties: FSIC Insurance Agency, LLC (FSICIA)

   Effective: January 1, 1998

   Terms: FSICIA will provide the following services for First Specialty: bind and write contracts of insurance, determine premium and commission amounts, policy issuance, and collect premiums. First Specialty will pay FSICIA a monthly service fee equal to its monthly operating expenses incurred in providing services or producing business for the Corporation.

4. **Type:** Service Agreement

   Parties: The Medical Protective Company (Med Pro)

   Effective: January 1, 1999

   Terms: Med Pro will provide equipment and will provide the following services: data processing, computer services, accounting, financial, actuarial, executive, personnel, payroll, sales, underwriting, claims and related services necessary to conduct the business of First Specialty. First Specialty will reimburse Med Pro for the amount of Med Pro's budgeted expenses and overhead in connection with providing the services. Compensation paid by First Specialty shall be based upon a proportionate percentage of annual overhead, salary, and expenses of Med Pro personnel performing the services. Med Pro is also authorized to collect funds on behalf of the Corporation and deposit the money into a First Specialty bank account.

   Note: This agreement was terminated on June 30, 2005 due to the sale of Med Pro.

5. **Type:** Master Outsourcing Agreement

   Parties: GE Insurance Solutions Corporation, GECIS, ERC, 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 Parties: 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 the Corporation is a named party is listed in the table below.

SOW No.	Effective Date	Services Provided by GECIS
2	May 1, 2000	Claims and underwriting support services
3	May 1, 2000	Perform 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
5	April 1, 2000	Profitability and financial analysis
7	November 30, 2000	Data entry for filings with rate service organizations
9	December 1, 2000	Premium tax calculations and prepare accruals
11	December 1, 2000	Perform reconciliations for statutory reporting
12	March 1, 2001	Actuarial analysis and support processes
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
21	June 1, 2000	Catastrophe exposure analysis and modeling
22	October 31, 2001	Agent receivable reconciliations and collections
32	February 20, 2002	Research, analysis, modeling for risk factors in the Business operations
35	November 22, 2002	Pricing modeling, business portfolio analysis
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, the Corporation is no longer affiliated with GECIS. This agreement and all SOWs have been incorporated into a Master Services Agreement with GECIS, which is an unaffiliated entity.

6. **Type:** Service Mark Agreement

Parties: GE Insurance Solutions Corporation

Effective: January 1, 2000

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

Note: This Agreement was terminated as a result of the sale of ERC on June 9, 2006.

7. **Type:** Service Agreement

Parties: Westport

Effective: October 1, 2000

Terms: Westport will provide equipment and will provide the following services: data processing, computer services, accounting, financial, actuarial, legal, executive, personnel, payroll, sales, underwriting, claims and related services necessary to conduct the business of the Corporation. First Specialty will pay Westport a monthly service fee equal to Westport's monthly operating expenses incurred in rendering the services. Westport is also authorized to collect funds on behalf of First Specialty and deposit the money in First Specialty's bank account.

8. **Type:** Computer Services Agreement

Parties: General Electric Company, ERC, Westport, 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 the Corporation and the other Parties are based upon scheduled amounts listed in the agreement.

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

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

Parties: GE Insurance Solutions Corporation, Westport, 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:** Investment Management and Services Agreement

Parties: GE Asset Management Incorporated (GEAM), ERC, Westport

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.

11. Type: Consulting Agreement

Parties: iProcess International, LLC (iProcess), ERC, Westport, ERAC, The Medical Protective Company, 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 of the affiliates. First Specialty will reimburse ERC for its 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.

12. Type: Parental Guarantee

Parties: ERC

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 Corporation. ERC was paid $10,000 from First Specialty as consideration for the Guarantee.

13. Type: Service Reimbursement Agreement

Parties: General Electric Company, ERC, Westport, 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.

14. Type: Claims Service Agreement

Parties: Swiss Re Frankona Management Services (UK) Limited

Effective: September 22, 2005

Terms: Swiss Re Frankona Management Services (UK) Limited will provide First Specialty with various claims related services with respect to claims made against First Specialty under the Skywest Airlines Insurance Policy.

15. Type: Tax Allocation Agreement

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

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.

16. Type: Investment Advisory Agreement

Parties: 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 First Specialty as needed. In return for these services, the Corporation pays SRAM a fee that is computed in accordance to the Schedule of Fees included in this agreement.

17. Type: TSA Cost Allocation Agreement

Parties: Swiss Re America Holding Corporation (SRAHC), ERC, Westport, GE Reinsurance Corporation, 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. Payment for services flows from First Specialty to ERC to SRAHC.

Note: Effective November 30, 2007, GAPS was sold to an unaffiliated third party. GAPS participation in this agreement terminated effective November 30, 2007.

18. Type: Securities Lending Agreement

Parties: SRAM

Effective: September 26, 2006

Terms: SRAM is appointed as an agent to First Specialty to lend securities from First Specialty'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. First Specialty 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 First Specialty hereunder against the Account. SRAM will furnish the Corporation with monthly summary statements relating to loans and fees.

In addition to the above listed agreements, First Specialty has reinsurance agreements with ERC and other affiliates, which are described in the Reinsurance section of this report.

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

Related Party	Agreement	Net Amount Incurred / (Earned) by First Specialty		
		2006	2005	2004
ERC	Service	6,174,270	5,640,758	4,239,550
FSICIA	Operating Agreement	500,000	500,000	200,586
GECIS	Various SOWs *	231,842	893,040	631,498
GEIS	Service Mark	155,216	294,266	615,948
ERC	Federal Tax Allocation	4,402,722	103,315	(7,196,617)
GEAM	Investment Management **	44,348	54,190	70,166
ERC	Service Reimbursement	1,993,157	4,376,978	5,285,990
SRAHC	Tax Allocation	(514,157)	N/A	N/A
SRAM	Investment Advisory	19,678	N/A	N/A

ERC	TSA Cost Allocation	2,277,797	N/A	N/A
TOTAL		$15,284,873	$11,862,547	$3,847,134

* *Additional $587,865 was incurred subsequent to June 9, 2006, when the provider was no longer a related party.*

** *Additional $32,526 was incurred subsequent to June 9, 2006, when the provider was no longer a related party.*

The Corporation also paid an $8,500,000 cash dividend to ERC as of June 13, 2007.

The following are the intercompany agreements the Corporation entered into subsequent to the examination date.

1. Swiss Re Money Market Fund Agreement– Effective June 1, 2007, the Corporation entered into the Swiss Re Money Market Fund Agreement with ERC and Westport (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 purchases and sales. 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. During 2007, the Corporation incurred fees of $224,697 under this agreement.

2. Excess and Surplus Insurance Business Service Agreement– Effective August 13, 2007, the Corporation entered into the Excess and Surplus Insurance Business Service Agreement with ERC 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. According to the Corporation, no service was provided to NAC during 2007.

FIDELITY BOND AND OTHER INSURANCE

As of the December 31, 2006, First Specialty is a named insured on a standard financial institution bond providing fidelity and crime coverage, purchased through its upstream 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 First Specialty 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 First Specialty. 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

First Specialty employees are offered a defined contribution 401(k) Plan through its 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) Plan 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. First Specialty 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, First Specialty 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 GEIS and subsidiaries, including First Specialty by Swiss Re.

First Specialty 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, 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, First Specialty 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	$2,600,000	$2,605,694	$2,589,669

Deposits with Other States and Territories

The Corporation also has funds on deposit 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	$425,000	$425,931	$423,311
Louisiana	Bonds	100,000	95,262	98,776
Massachusetts	Bonds	700,000	701,533	697,218
New Hampshire	Bonds	1,550,000	1,552,352	1,533,217
New Jersey	Bonds	200,000	200,274	200,049
New Mexico	Bonds	125,000	125,171	125,031
New York	Bonds	2,950,000	2,956,722	2,940,100
South Carolina	Bonds	150,000	151,032	148,159
Totals		$6,200,000	$6,208,277	$6,165,861

INSURANCE PRODUCTS AND RELATED PRACTICES

Territory and Plan of Operation

First Specialty Insurance Corporation is licensed as a property and casualty insurer by the Missouri Department of Insurance, Financial Institutions and Professional Registration under Chapter 379 RSMo (Insurance Other than Life). The Corporation is not licensed in any other states. However, the Corporation is admitted and writes business in the other forty-nine states and the District of Columbia on an excess and surplus lines basis. The states with the largest percentage of direct written premiums in 2006 were California (32.2%), Nevada (6.4%), Arizona (6.0%) and Texas (5.7%).

The Corporation is a direct insurer only, with no assumed business. The major lines of direct business, based upon 2006 written premiums, are as follows:

Line of Business	Percentage of Direct Written Premiums
Other Liability – Occurrence	84.6%
Allied Lines	7.4%
Product Liability Occurrence	2.1%
Commercial Multiple Peril	0.8%
All Other	5.1%
Total	100.0%

During the last financial examination of the Corporation, First Specialty was a wholly-owned subsidiary of Employers Reinsurance Corporation (ERC), and ERC was a subsidiary of GE Insurance Solutions Corporation (GEIS), which was wholly-owned by General Electric Company (GE). GE Insurance Solutions Corporation was divided into three main divisions, Global Property and Casualty (P&C) (broker and direct reinsurance), Commercial Insurance (Direct Insurance) and Global Life and Health (Life and A&H reinsurance). Under the GEIS business model, First Specialty participated solely in underwriting Commercial Insurance.

As noted in the History section of this report, GEIS was sold to Swiss Re in 2006. With the sale to Swiss Re in 2006, ERC, Westport, and First Specialty are now organized in accordance with the Swiss Re organizational structure and business model. First Specialty is specifically included in the Swiss Re's Client Markets department. The Client Markets is part of SRAHC's (P&C) Division. Within SRAHC's P&C Division, First Specialty is writing business in the direct Commercial Insurance (CI) business unit. The Client Market department is responsible for marketing, sales and account management. All of the Corporation'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.

First Specialty writes primarily in the Individual Risk Excess & Surplus (E&S) Lines business segment of the CI group operations. The Corporation underwrites mid-sized commercial entities placed in the U.S. excess & surplus lines market, with a casualty product focus. The Corporation currently underwrites four lines of direct business – E&S Individual Risk, Program Business (for programs authorized to use First Specialty), and recently started products in E&S covers for Agents Errors and Omission and Lawyers Errors and Omission. With respect to Lawyers Errors and Omission, First Specialty focuses on law firms that practice in certain preferred areas, in select geographic areas, that have between 1 and 250 lawyers.

All of First Specialty's business is solicited from wholesale surplus lines brokers throughout the United States. In 2006, the Corporation eliminated its general binding authority agents and its third-party administrators that handled claims. The Corporation's business is currently written through Swiss Re Program Managers that are third party Managing General Underwriters (MGUs). The MGUs have the authority to underwrite and issue general liability, property, and umbrella policies. The Program Managers administer the programs and work directly with independent insurance agents. For 2006 the Corporation had an agency/broker force consisting of 302 licensed independent agents or brokers. The Corporation also owns a captive agency, formerly known as GE Insurance Solutions Agency, LLC, which was renamed FSIC Insurance Agency, LLC following the acquisition of GEIS by Swiss Re. Effective December 10, 2007, and pursuant to a Membership Interest Transfer Agreement with SRSHC, 100% ownership of FSIC Insurance Agency, LLC (FSICIA) was transferred to SRSHC in exchange for $143,645.

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. There were no market conduct examinations completed during the examination period and a cursory review of these areas during the course of this examination did not indicate any material problems.

REINSURANCE

General

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

	2006	2005	2004
Direct Business	$160,134,246	$212,110,117	$331,010,553
Reinsurance Assumed:			
Affiliates	0	0	0
Non-affiliates	0	0	0
Reinsurance Ceded:			
Affiliates	(124,838,016)	(175,175,884)	(249,049,585)
Non-affiliates	(4,114,933)	1,330,532	(36,926,384)
Net Written Premiums	**$ 31,181,297**	**$ 38,264,765**	**$45,034,584**

Assumed

First Specialty does not assume any business.

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.

First Specialty retains limited amounts of risk on its direct business. Its parent, ERC, accounted for most of the ceded premiums and reserves, as of December 31, 2006 as shown below.

Description	Amount	Percentage Of Total
2006 Premiums Ceded to ERC	$124,421,000	96.5%
Loss and LAE Reserves Ceded to ERC	503,037,000	85.3%

Significant reinsurance activity between First Specialty and ERC during the examination period was primarily contained in an 80% quota share agreement, facultative certificates, and an aggregate excess of loss cover. All significant agreements were effective from prior periods.

Material Modifications of Ceded Business

On June 9, 2006, Swiss Re completed the acquisition of GE Insurance Solutions Corporation and certain of its consolidated subsidiaries including the Corporation. Subsequent changes to the reinsurance program followed including: a restructuring of the reinsurance program; the commutation of certain reinsurance with ERC; and a new quota share agreement with National Indemnity Company.

The Corporation cancelled its 80% quota share agreements with its parent, ERC, and replaced it effective January 1, 2007, with an 80% quota share agreement on all business with SRAC.

The Corporation executed a commutation and release agreement in 2007 with its parent, ERC, covering various reinsurance contracts ranging from 1998 through 2004 accident years. The effect of the transaction resulted in a cash settlement benefitting First Specialty in the amount of $58,213,994 and a net profit and loss of $0.

Effective January 1, 2008, First Specialty 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.

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 Steven M. Book, FCAS, MAAA, who is employed by and is Managing Actuary of Employers Reinsurance Corporation. Loss and Loss Adjustment Expense reserves as of December 31, 2005 were reviewed and certified by Mark A. Gorham, ACAS, MAAA, who was employed by ERC as Senior Actuary and Loss and Loss Adjustment Expense reserves as of December 31, 2004 were reviewed and certified by Roger A. Atkinson, III, FCAS, MAAA. Mr. Atkinson was employed by the Corporation as Chief Actuary.

FINANCIAL STATEMENTS

The following financial statements, with supporting exhibits, present the financial condition of First Specialty 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	$124,568,535	$0	$124,568,535
Cash and Short-term Investments	22,661,217	0	22,661,217
Other Invested Assets	110,122	0	110,122
Receivable for Securities	3,656	3,656	0
Investment Income Due and Accrued	1,378,098	0	1,378,098
Uncollected Premiums and Agents' Balances In the Course of Collection	22,388,238	7,382,644	15,005,594
Deferred Premiums, Agents' Balances Booked But Deferred and Not Yet Due	320,286	406	319,880
Amounts Recoverable from Reinsurers	4,955,767	0	4,955,767
Federal Income Tax Recoverable	466,276	0	466,276
Net Deferred Tax Asset	8,782,713	2,164,043	6,618,670
Aggregate Write-ins – Other Assets, etc.	1,550,977	1,171,744	379,233
TOTAL ASSETS	**$187,185,885**	**$10,722,493**	**$176,463,392**

Liabilities, Surplus and Other Funds

Losses	$ 40,791,494
Loss Adjustment Expenses	13,371,982
Commissions Payable	2,069,384
Other Expenses	1,411,979
Unearned Premiums	12,274,719
Ceded Reinsurance Premiums Payable	10,293,631
Funds Held by Company Under Reinsurance Treaties	479,482
Remittances and Items Not Allocated	5,934,551
Provision for Reinsurance	456,163
Payable to Parent, Subsidiaries and Affiliates	2,225,820
Aggregate Write-In Liabilities:	
Excess Ceding Commissions	1,784,108
TOTAL LIABILITIES	**$91,093,313**
Common Capital Stock	5,000,000
Gross Paid In and Contributed Surplus	41,000,000
Unassigned Funds (Surplus)	39,370,079
Capital and Surplus	**$85,370,079**
TOTAL LIABILITIES AND SURPLUS	**$176,463,392**

Summary of Operations

Underwriting Income

Premiums Earned	**$32,689,209**
Losses Incurred	27,034,662
Loss Expenses Incurred	8,693,246
Other Underwriting Expenses Incurred	8,064,395
Aggregate Write-ins for Underwriting Deductions:	
Excess Ceding Commissions	1,784,108
Total Underwriting Deductions	**$45,576,411**
Net Underwriting Gain/(Loss)	**($12,887,202)**

Investment Income

Net Investment Income Earned	6,466,905
Net Realized Capital Gains or (Losses)	236,382
Net Investment Gain or (Loss)	**$6,703,287**

Other Income

Miscellaneous Other Income	(164,886)
Total Other Income	**($164,886)**
Net Income Before Dividends to Policyholders and Federal Income Taxes	($6,348,801)
Federal and Foreign Income Taxes Incurred	(494,985)
Net Income or (Loss)	**($5,853,816)**

Capital and Surplus Account

Capital and Surplus, December 31, 2005	\$89,665,270
Net Income or (Loss)	(5,853,816)
Change in Net Unrealized Capital Gains or (Losses)	43,012
Change in Provision for Reinsurance	469,627
Change in Net Deferred Income Tax	2,538,222
Change in Non-admitted Assets	(1,492,236)
Net Change in Capital and Surplus	**(\$4,295,191)**
CAPITAL AND SURPLUS, DECEMBER 31, 2006	**\$85,370,079**

NOTES TO THE FINANCIAL STATEMENTS

None

EXAMINATION CHANGES

None

GENERAL COMMENTS AND/OR RECOMMENDATIONS

None

SUBSEQUENT EVENTS

The immediate parent of First Specialty, ERC was the subject of a merger effective January 1, 2008. Pursuant to the merger agreement, Westport Insurance Corporation was merged into and with ERC, with ERC as the surviving entity. Immediately following the merger, ERC changed its name to Westport Insurance Corporation (New Westport).

As a result of the above merger and name change, effective January 1, 2008, First Specialty is now wholly-owned by New Westport within New Westport's holding company system and structure. The previous entity named Westport (Old Westport) is no longer a going concern as it has been merged out of existence.

On the basis of the foregoing, all agreements and business relationships between First Specialty and Old Westport and ERC have been transferred to New Westport, unless such agreements and/or relationships were terminated as part of the merger.

Effective December 10, 2007, First Specialty's wholly-owned subsidiary, FSIC Insurance Agency, LLC was transferred to Swiss Re Solutions Holding Corporation (SRSHC) pursuant to a Membership Interest Transfer Agreement executed between the parties. First Specialty received $143,645 cash in consideration.

As noted in the Ceded Reinsurance section of this report, First Specialty is party to 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.

ACKNOWLEDGMENT

The assistance and cooperation extended by the officers and the employees of First Specialty Insurance 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

First Specialty Insurance Corporation
5200 Metcalf
Overland Park, KS 66201
913-676-3162
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)
First Specialty Insurance Corporation

Dear Mr. Heese:

First Specialty Insurance Corporation ("FSIC") is in receipt of the above-captioned report dated June 18, 2008, and provided to us for review on June 20, 2008. FSIC appreciates the opportunity to review the report and provide comments. Accordingly, FSIC 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, FSIC does not believe it is necessary to address this part of the report. FSIC 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, FSIC does not take exception to the overall content of the report.

FSIC 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