STATE OF MISSOURI

DEPARTMENT OF INSURANCE, FINANCIAL INSTITUTIONS AND PROFESSIONAL REGISTRATION

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

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

ORDER

After full consideration and review of the report of the financial examination of Westport 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 Westport 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

WESTPORT 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

Westport Insurance Corporation

hereinafter referred to as such, as Westport, 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 Westport 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, 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).

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. Westport 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 will 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. Westport 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. Westport 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 $2 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. Westport 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: Westport agreed to report these transactions in accordance with the applicable SSAP.

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

Loss Reserving Practices

Comments: Westport'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 adverse loss development. Westport was directed to change its reserving philosophy to reduce the likelihood of future reserve deficiency.

Company's Response: Westport 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. Any deficiencies noted will be documented in the Notes to the Financial Statements section of this report.

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 Westport is summarized below.

- The Corporation was originally incorporated as The Manhattan Fire and Marine Insurance Company under the laws of the State of New York and began business on January 5, 1924.
- The Corporation's name was changed to Puritan Insurance Company on October 1, 1976.
- The Corporation re-domesticated from New York to Connecticut on December 31, 1977.
- The Corporation re-domesticated from Connecticut to Missouri, effective April 22, 1992.
- On October 1, 1992, all the outstanding capital stock of the Corporation was purchased by ERC from General Electric Capital Corporation, an affiliate, for $50,000,000. The Corporation was subsequently renamed Westport Insurance Corporation and became ultimately owned by General Electric Company (GE).
- Effective June 30, 1998, Puritan Excess and Surplus Lines Insurance Company, an affiliate, was merged into the Corporation, with Westport as the surviving entity. Westport paid an extraordinary dividend of $195,000,000 to ERC as consideration for the merger.
- Following changes in the identity of the owner of the parent company, Westport became part of 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 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 Articles of Incorporation, effective December 31, 2006, authorized the issue of 250,000 shares of common stock with a par value of $20 per share. As of December 31, 2006, all 250,000 shares of common stock were issued and outstanding for a total common capital stock account balance of $5,000,000. ERC owns 100% of Westport'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 Westport. All actions of the FRC Committee will be approved by the Westports'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, Westport'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 by the Board at the first regular meeting of the Board annually. 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
Patrick A. Wageman #	Vice President
Alan J. Goldman	Vice President
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 Westport to Swiss Re. The transaction closed on June 9, 2006, with ERC, the immediate parent of Westport 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 Westport. These are summarized as follows:

- Through June 9, 2006, ERC, together with its United States affiliates, including Westport 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.
- Effective January 1, 2007, Westport cancelled several reinsurance agreements with its parent, ERC and replaced them with a quota share (Q/S) agreement with Swiss Reinsurance America Corporation (SRAC). The Q/S agreements cancelled include the 100% Q/S agreement share covering the professional liability and certain workers compensation business. The new Q/S agreement with SRAC covers all business of Westport and is ceded at 80% with the exception of voluntary pool business which is ceded 100% to ERC.
- On March 30, 2007, Coregis Insurance Company merged with and into Westport, with Westport as the surviving entity. Prior to this transaction, on March 29, 2007, Coregis Group Inc., parent of Coregis Insurance Company merged into Employers Reinsurance Corporation.
- 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). As a result of this merger, Westport Insurance Corporation as constituted as of December 31, 2006 no longer exists as a separate legal entity. 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

Westport 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, Westport 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 Reinsurance 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.

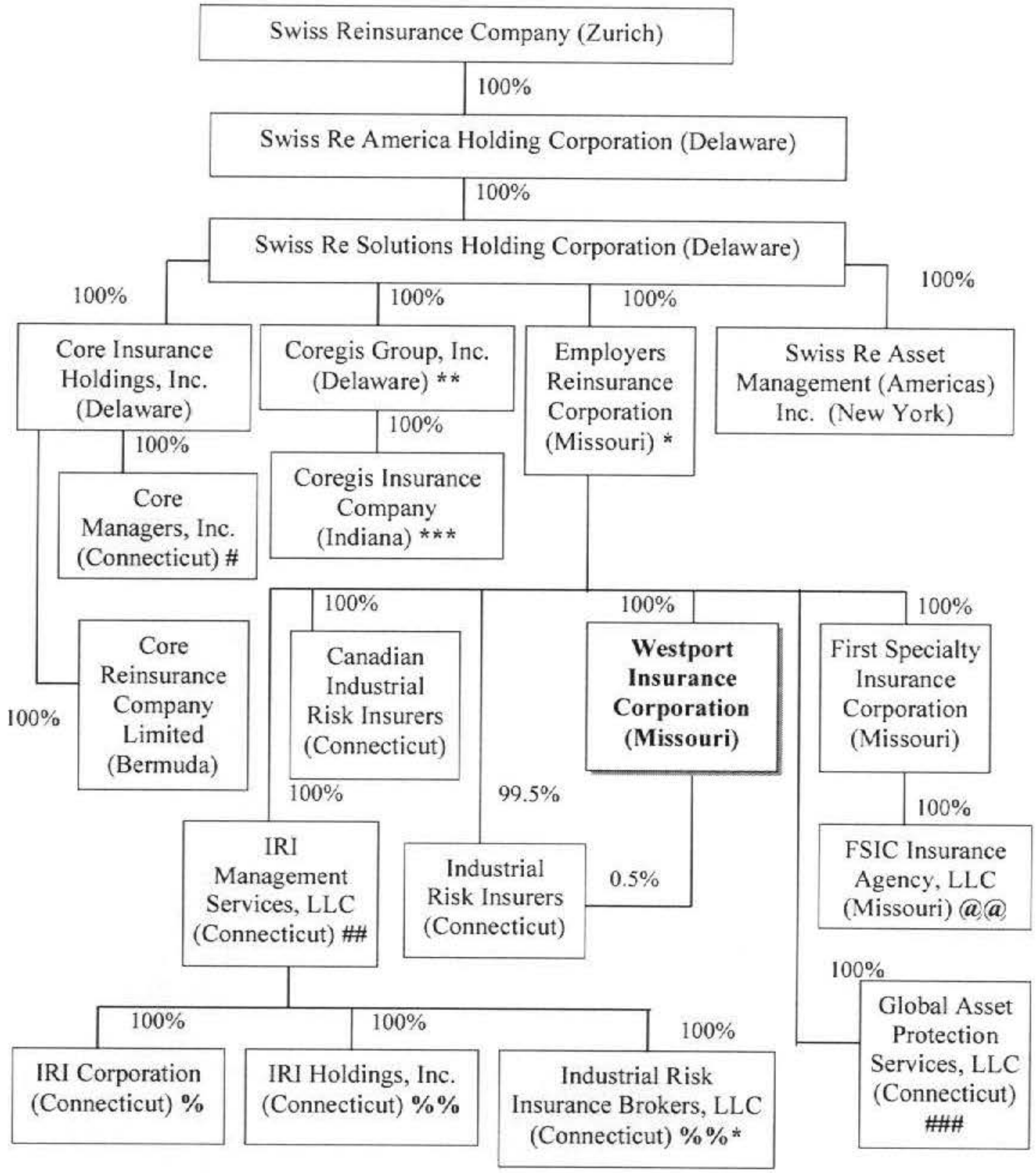
Within the holding company structure, Westport is wholly-owned by ERC, which in turn is wholly-owned by Swiss Re Solutions Holding Corporation (SRSHC), which in turn is wholly-owned by Swiss Re America Holding Corporation (SRAHC). SRAHC is wholly-owned by Swiss Re, the ultimate controlling person within 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, including Wsetport:

- 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 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 Westport and entities that have transactions with Westport are listed. The following organizational chart depicts the ownership of Westport 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.

As a result of the merger, as indicated, Westport no longer exist as a separate legal entity as of January 1, 2008. The new holding company structure of New Westport has been documented and summarized in the Affiliated Companies and Subsequent Events sections of ERC's report completed concurrently with this examination.

Intercompany Transactions

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

Note: Pursuant to the merger of ERC and Westport effective January 1, 2008, in which Westport was merged out of existence, unless otherwise specifically indicated, all rights and obligations arising from all the agreements summarized below for which Westport is a party have been transferred to New Westport as of the date of the merger.

1. **Type:** Service Agreement

   Parties: ERC, Employers Reassurance Corporation (ERAC), 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 number of employees and amount of assets, to allocate the various types of expenses.

   Note: As of January 1, 2008, this agreement is between the Corporation 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:** Underwriting Management Agreement

   Parties: Core Managers, Inc. and First Specialty

   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 transferred to Core Insurance Holdings, Inc.

3. **Type:** Guarantee

   Parties: ERC

   Effective: August 27, 1996

   Terms: Upon default by Westport, ERC guarantees to make payments due under any contract of insurance or reinsurance issued by the Westport.

Note: The Guarantee was terminated prospectively effective June 9, 2006.

4. Type: Master Outsourcing Agreement

Parties: GE Insurance Solutions Corporation, GECIS, First Specialty, ERC, 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 Westport 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	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
10	September 1, 2000	Record client reported data on the operating system
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 the SOWs have been incorporated into a Master Services Agreement with GECIS, which is an unaffiliated entity.

5. **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 grants a license to ERC to use the GE logo and other licensed marks. Westport 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 GEIS to Swiss Re on June 9, 2006.

6. **Type:** Service Agreement

   Parties: First Specialty

   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 First Specialty. 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 a First Specialty bank account.

7. **Type:** Service Agreement

   Parties: FSIC Insurance Agency, LLC (FSICIA)

   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 FSICIA. FSICIA 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 FSICIA and deposit the money in a FSICIA bank account.

8. **Type:** Computer Services Agreement

Parties: General Electric Company, ERC, First Specialty, 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 Westport and the other affiliates 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, including Westport on June 9, 2006.

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

Parties: GE Insurance Solutions Corporation, ERC, 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 GE Insurance Solutions Corporation and its subsidiaries on June 9, 2006.

10. **Type:** Investment Management and Services Agreement

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

11. Type: Service Agreement

Parties: Coregis Insurance Company (CIC)

Effective: June 1, 2002

Terms: Westport will provide various support services for the workers compensation policies written by CIC and 100% reinsured by Westport. The following services will be provided by Westport: data processing, computer services, accounting, actuarial, financial supervision, compliance, human resource, legal, policy pricing review, policy issuance systems and support, risk management, underwriting, claims and reinsurance related services necessary to conduct the business reinsured by Westport. CIC will reimburse Westport for its actual expenses incurred in rendering the services.

Note: Effective March 30, 2007, CIC was merged with and into Westport terminating the agreement.

12. Type: Services Agreement

Parties: ERC, GE Reinsurance Corporation (GE Re)

Effective: September 16, 2002

Terms: Westport 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 Westport 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, 2007, GE Re merged with and into Swiss Reinsurance America Corporation (SRAC) with SRAC as the surviving corporation.

13. Type: Consulting Agreement

Parties: iProcess International, LLC (iProcess), ERC, First Specialty, 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. Westport 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.

14. Type: Service Reimbursement Agreement

Parties: General Electric Company, ERC, 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.

15. Type: Guarantee

Parties: GE Insurance Solutions Corporation

Effective: December 30, 2004

Terms: GE Insurance Solutions Corporation agrees to pay Westport 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 Westport. The Guarantee is to be secured by a letter of credit naming Westport as the beneficiary.

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

16. Type: Tax Allocation Agreement

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

17. 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 Westport 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 the agreement.

18. Type: TSA Cost Allocation Agreement

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

19. Type: Securities Lending Agreement

Parties: SRAM

Effective: September 26, 2006

Terms: SRAM is appointed as an agent to Westport to lend securities from Westport'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. Westport 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 Westport 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, Westport 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 Westport and its affiliates, pursuant to the intercompany agreements summarized above:

Related Party	Agreement	Net Amount Incurred / (Earned) by Westport		
		2006	2005	2004
ERC	Service	19,229,328	17,960,566	17,233,323
GECIS	Various SOWs*	510,015	1,569,952	2,096,783
GE Insur. Solutions	Service Mark**	622,967	1,656,837	1,664,068
ERC	Federal Tax Allocation	(1,631,989)	(70,140,670)	(47,785,088)
GEAM	Investment Management #	260,891	452,818	515,270
GE	Service Reimbursement	9,152,598	19,352,228	23,833,073
SRAHC	Tax Allocation	3,333,495	N/A	N/A
SRAM	Investment Advisory	111,143	N/A	N/A
ERC	TSA Cost Allocation	8,530,443	N/A	N/A
TOTAL		$40,118,891	($29,148,269)	($2,442,571)

* *$1,170,507 was additionally incurred subsequent to June 9, 2006, when the provider was no longer a related party.*

** *$124,594 was additionally incurred subsequent to June 9, 2006, when the provider was no longer a related party.*

\# *$197,413 was additionally incurred subsequent to June 9, 2006, when the provider was no longer a related party.*

The Corporation received a capital contribution of $45 million from its immediate parent during 2004.

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 SRAM. ERC and First Specialty also participate in this agreement with 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 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. During 2007, the Corporation incurred fees of $1,094,046 under this agreement.

2. Admitted Insurance Business Service Agreement – Effective August 13, 2007, the Corporation entered into an agreement with North American Elite Insurance Company (NAE) and ERC. 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.

3. Admitted Insurance Business Service Agreement – Effective August 13, 2007, the Corporation entered into an agreement with North American Specialty Insurance Company (NAS) and ERC. 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, $217,596 has been earned performing services on behalf of NAS during 2007.

4. Insurance Services Agreement –Effective February 20, 2008, the Corporation entered into an agreement with Swiss Re International SE (SRI). Westport will provide various insurance related services to SRI and facilitate SRI's expansion of various lines of insurance business. The cost of the services provided by Westport shall be the cost of the service plus a 5% mark-up. This services provided under this agreement cannot be assigned to another party without written consent of both parties.

FIDELITY BOND AND OTHER INSURANCE

As of the December 31, 2006, Westport 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 Westport 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 Westport. 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

Westport 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) 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. Westport 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, Westport 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 Westport by Swiss Re.

Westport 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, Westport 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 Profession 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	$2,500,000	$2,505,475	$2,485,911

Deposits with Other States and Territories

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	$2,995,000	$2,999,081	$2,988,431
Arkansas	Bonds	200,000	200,438	198,873
California	Bonds	17,145,000	17,182,548	17,048,375
Delaware	Bonds	125,000	123,291	124,031
Georgia	Bonds	85,000	86,942	84,961
Idaho	Bonds	275,000	275,602	273,450
Louisiana	Bonds	80,000	80,447	80,558
Maine	Bonds	160,000	160,350	159,098
Massachusetts	Bonds	650,000	639,944	640,266
Nevada	Bonds	125,000	125,171	125,031
New Mexico	Bonds	465,000	466,444	466,762
North Carolina	Bonds	320,000	320,701	318,197
Oregon	Bonds	390,000	382,427	386,679
South Carolina	Bonds	280,000	266,734	276,572
Virginia	Bonds	550,000	540,051	545,413
Guam	Bonds	100,000	97,419	99,671
Puerto Rico	Bonds	595,000	681,846	667,051
US Virgin Islands	Bonds	525,000	524,323	516,500
Totals		$25,065,000	$25,153,759	$24,999,919

INSURANCE PRODUCTS AND RELATED PRACTICES

Territory and Plan of Operation

Westport Insurance Corporation is licensed as a property and casualty insurer by the Missouri Department of Insurance, Financial Institutions and Profession Registration under Chapter 379 RSMo (Insurance Other than Life). The Corporation is licensed and writes business in all fifty states, the District of Columbia, and Puerto Rico. The states with the largest percentage of direct written premiums as of December 31, 2006, were: Florida (11.9%), Pennsylvania (8.1%), California (7.2%), Texas (6%), and Georgia (6%).

Westport is primarily a direct insurer with limited assumed reinsurance business. Direct premiums represented 98.8% and assumed premiums represented only 1.2% of the total direct and assumed premiums as of December 31, 2006. The major lines of direct business, based upon 2006 written premiums, are as follows:

Line of Business	Percentage of Direct Written Premiums
Other Liability – Claims Made	34.26%
Fire and Allied Lines	27.05%
Workers' Compensation	19.67%
Earthquake	7.13%
Commerical Auto Liability	3.53%
Commercial Multiple Peril	2.91%
All Other	5.4%
Total	100.0%

During the last financial examination of the Corporation, Westport Insurance Corporation was solely owned by Employers Reinsurance Corporation (ERC) and ERC's ultimate parent was General Electric Company (GE). The Corporation was part of GE Insurance Solutions Corporation (GEIS), a unit of GE, and provided both primary insurance and reinsurance coverages. With the sale of GEIS to Swiss Re in June 2006, Westport along with ERC and First Specialty are now organized in accordance with Swiss Re's organizational structure and included as part of SRAHC's (P&C) Division. Westport is specifically included in the Swiss Re's Client Markets department. The Client Markets department is responsible for marketing, sales and account management. All of the Corporation's business is subject to the Swiss Re Group 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.

During the current examination period, Westport was primarily an underwriter for the following mix of insurance coverages on a direct basis: insurance agent/broker liability insurance, program business for lawyer's errors and omissions, life insurance agent's errors and omissions, and workers compensation. The workers compensation line of business was known as the CyberComp Program under the GEIS business model. The CyberComp unit provides mono-line workers compensation coverage in the U.S. through a web-based and 100 percent digitized platform. Westport writes only the standard workers compensation coverage. The agent/broker liability insurance coverage focuses on errors & omissions coverage for life insurance and property and casualty insurance agents. Westport is the endorsed carrier for the Independent Insurance Agents and Brokers of America (IIABA). The lawyer's liability coverage is focused on providing errors & omissions coverage for lawyers. Westport is an endorsed carrier by a variety of state and regional bar associations. The policies provide both defense and indemnification coverage and claims arising out of the rendition of, or failure to render, professional services to others. The policies are written both through administrators (in connection with an endorsement by a state or regional bar) or independent agents/brokers.

During the period under examination, Westport discontinued its agreements with the General Binding Authority Agents and the Managing General Underwriters. The current policies are produced by an agency force consisting of approximately 649 licensed independent agents that have minimum quoting and binding authority.

Westport continues to front 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 ceded 100% to ERC. IRI underwrites large property risks usually involving multiple locations. IRI's current focus is on Power & Utility distributions including pipelines, refineries, mining, and gas operations. The subject properties insured by IRI require specialized engineers, inspectors, and technical personnel to appraise and evaluate the risks. As of January 1, 2008, Swiss Reinsurance American Corporation (SRAC) joined the 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 in IRI 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 Westport, the business of 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 Missouri Department of Insurance, Financial Institutions and Profession Registration (DIFP) have a market conduct staff that performs a review of these issues and generates a separate market conduct report. There were no market conduct examination reports from the DIFP during the period under examination.

There was 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:

Premiums:	2006	2005	2004
Direct Business	$760,288,419	$747,574,748	$905,899,012
Reinsurance Assumed:			
Affiliates	(869,072)	5,633,674	37,229,219
Non-affiliates	9,274,001	11,515,658	11,217,365
Reinsurance Ceded:			
Affiliates	(436,597,533)	(402,733,000)	(451,707,300)
Non-Affiliates	(264,967,947)	(192,679,321)	(218,850,846)
Net Premiums Written	$67,127,868	$169,311,759	$283,787,450

Assumed

The Corporation has very limited amounts of assumed business. Assumed premiums in 2006 from National Workers Compensation Reinsurance Pool, a mandatory reinsurance pool, were $9,308,000, which represented over 100% of total, net assumed premiums. Assumed reserves for case losses and loss adjustment expenses from affiliate Coregis Insurance Company were $34,756,000, as of December 31, 2006, which was 31% of the total assumed case reserves. CIC was subsequently merged into Westport on March 30, 2007, resulting in a combination of accounts. There was no other significant assumed business in 2006.

Ceded

The Company 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 business reported as ceded to Westport's parent, ERC, and Industrial Risk Insurers (IRI), an affiliate, accounted for most of the total 2006 ceded premiums and the total ceded reserves, as of December 31, 2006. Below are the amounts reported by Westport:

Reinsurer	2006 Ceded Premiums	12/31/2006 Ceded Loss and LAE Reserves
Employers Reinsurance Corporation	$ 436,292,000	$696,000,000
Industrial Risk Insurers	248,176,000	484,000,000
Subtotal	$684,468,000	$1,180,000,000
Total for All Ceded Business	$701,565,000	$1,414,043,000
Percentage of Total	97.60%	83.50%

The Corporation has three separate Quota Share Reinsurance Agreements, all effective December 31, 2001, with ERC. Under the nearly identical terms of all three agreements, Westport cedes 100% of the premiums and losses for the following three lines of business: worker's compensation policies referred to as the "CyberComp" business program, lawyers' errors and omissions policies and insurance agents and brokers professional liability insurance policies. Westport receives a ceding commission, which ranges from 20% to 29%, under the terms of the agreements.

The Corporation restructured its reinsurance program effective from January 1, 2007, by entering into 80% quota share agreements with Swiss Reinsurance America Corporation. The three treaties noted above were effectively terminated effective January 1, 2008, resulting in a combination of accounts upon the merger with ERC.

The business reported by the Corporation as ceded to IRI functionally operates as direct business of its parent, ERC. IRI is a voluntary association that has only two members. ERC has a 99.5% membership interest and Westport has the remaining 0.5% membership interest. All of the policies issued by IRI are underwritten by Westport. However, Westport has an agreement with ERC that transfers the rights and obligations from its 0.5% membership interest to ERC. Thus, all 100% of the business produced by IRI is the responsibility of ERC. Therefore, Westport is essentially fronting the IRI business for ERC. There are no reinsurance agreements between ERC, IRI, or Westport, even though Westport reports premiums and loss reserves ceded to IRI in its Annual Statement.

There was other material subsequent activity that occurred effective January 1, 2008, with respect to the Corporation's reinsurance program. See the Subsequent Event section of this report for more 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 Steven 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 Westport 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	$631,056,989	$0	$631,056,989
Preferred Stocks	2,076,392	0	2,076,392
Cash and Short-Term Investments	144,091,361	0	144,091,361
Receivable for Securities	214,097	106,472	107,625
Investment Income Due and Accrued	5,489,526	0	5,489,526
Uncollected Premiums and Agents' Balances in the Course of Collection	79,457,014	12,587,322	66,869,692
Deferred Premiums, Agents' Balances Booked But Deferred and Not Yet Due	50,918,620	681,922	50,236,698
Amounts Recoverable from Reinsurers	76,684,028	0	76,684,028
Funds Held by or Deposited with Reinsured Companies	920,962	0	920,962
Net Deferred Tax Asset	34,518,623	16,836,579	17,682,044
Guaranty Funds Receivable or on Deposit	4,370,587	0	4,370,587
Receivables from Parent, Sub., and Affiliaties	630,561	0	630,561
Aggregate Write-ins – Other Assets, etc.	19,189,016	17,179,185	2,009,831
TOTAL ASSETS	**$1,049,617,776**	**$47,391,480**	**$1,002,226,296**

Liabilities, Surplus and Other Funds

Losses **(Note 1)**	$ 530,263,851
Reinsurance Payable on Paid Loss and LAE	18,294,054
Loss Adjustment Expenses **(Note 1)**	113,110,954
Commissions Payable	7,612,662
Other Expenses	5,703,449
Taxes, Licenses and Fees	7,774,797
Current Federal Income Taxes	5,033,513
Unearned Premiums	48,565,003
Dividends Declared and Unpaid: Policyholders	8,146
Ceded Reinsurance Premiums Payable	50,187,868
Funds Held by Company Under Reinsurance Treaties	74,382
Remittances and Items Not Allocated	14,200,449
Provision for Reinsurance	10,069,800
Payable to Parent, Subsidiaries and Affiliates	10,813,750
Aggregate Write-In Liabilities:	
Excess Ceding Commissions	8,733,066
TOTAL LIABILITIES	**$830,445,744**
Common Capital Stock	5,000,000
Gross Paid In and Contributed Surplus	412,583,825
Unassigned Funds (Surplus)	(245,803,272)
Capital and Surplus	**$171,780,553**
TOTAL LIABILITIES AND SURPLUS	**$1,002,226,297**

Summary of Operations

Underwriting Income

Premiums Earned	**$90,767,341**
Losses Incurred	275,426
Loss Expenses Incurred	43,953,634
Other Underwriting Expenses Incurred	56,255,536
Aggregate Write-ins for Underwriting Deductions:	
Excess Ceding Commissions	8,733,066
Total Underwriting Deductions	**$109,217,662**
Net Underwriting Gain/(Loss)	**($18,450,321)**

Investment Income

Net Investment Income Earned	33,593,703
Net Realized Capital Gains or (Losses)	117,492
Net Investment Gain or (Loss)	**$33,711,195**

Other Income

Net Gain (Loss) from Agents' or Premium Balances Charged Off	0
Finance and Service Charges not Included in Premiums	481,900
Miscellaneous Other Income	11,671
Total Other Income	**$493,571**
Net Income Before Dividends to Policyholders and Federal Income Taxes	$15,754,445
Dividends to Policyholders	40,178
Federal and Foreign Income Taxes Incurred	130,314
Net Income or (Loss)	**$15,583,953**

Capital and Surplus Account

Capital and Surplus, December 31, 2005	$271,228,866
Net Income or (Loss)	15,583,953
Change in Net Unrealized Capital Gains or (Losses)	33,820
Change in Provision for Reinsurance	(1,339,414)
Change in Net Deferred Income Tax	(120,986)
Change in Non-admitted Assets	(1,605,686)
Examination Changes	(112,000,000)
Net Change in Capital and Surplus	**($99,448,313)**
CAPITAL AND SURPLUS, DECEMBER 31, 2006	**$171,780,553**

NOTES TO THE FINANCIAL STATEMENTS

Note 1 - Losses **$530,263,851**
Loss Adjustment Expenses **$113,110,954**

The amount reported by Westport for its reserves for Losses and Loss Adjustments Expenses as of December 31, 2006, was increased by $95,200,000 and $16,800,000, respectively to the adjusted amounts reported above. The DIFP engaged the services of Lewis & Ellis, Actuaries and Consultants to review the reserves of the Corporation as part of the financial examination. Lewis & Ellis issued an actuarial opinion and report that determined that Westport's reported Loss and Loss Adjustment Expense reserves were deficient on a net basis by $112,000,000, consisting of $95,200,000 in loss reserves and $16,800,000 in loss adjustment expense reserves. The indicated deficiency was driven by two components. First, the development of the December 31, 2006 reserves through September 30, 2007 showed a deficiency of $108,600,000, on a net basis as reported in Westport's September 2007 Quarterly Statement. Second, Lewis & Ellis determined that the WEAGT business segment, which represents professional liability coverage for property and casualty agents in the United States, was deficient by $3,400,000 on a net basis.

Westport has had a long history of reporting reserve deficiencies as determined by prior examination of the Corporation. The management of the Corporation is hereby advised to address the long history of reserve deficiencies reported by reviewing actuarial assumptions and taking corrective actions necessary to reduce the likelihood of future reserve deficiencies. Management is further directed to ensure that the Loss and Loss Adjustment Expense reserves are estimated conservatively in adherence to the concept of conservatism that is explained in paragraphs 29 and 30 of the Preamble to the Accounting Practices and Procedures Manual of the NAIC.

EXAMINATION CHANGES

Capital and Surplus Per Corporation, December 31, 2006:	
Common Stock	$5,000,000
Gross Paid-in and Contributed Surplus	412,583,825
Unassigned Funds (Surplus)	(133,803,272)
Total Capital and Surplus Per Company	**$283,780,553**
Examination Changes	
Increase Losses **Note 1**	($95,200,000)
Increase Loss Adjustment Expenses **Note 1**	(16,800,000)
Total Examination Changes	**($112,000,000)**
Capital and Surplus Per Examination, December 31, 2006:	
Common Stock	$5,000,000
Gross Paid-in and Contributed Surplus	412,583,825
Unassigned Funds (Surplus)	($245,803,272)
Total Capital and Surplus Per Examination, December 31, 2006	**$171,780,553**

GENERAL COMMENTS AND/OR RECOMMENDATIONS

Losses and Loss Adjustment Expenses (page 24)

In accordance with the report and opinion of the consulting actuary engaged by the DIFP, the Corporation's reserves for Losses and Loss Adjustment Expenses as of December 31, 2006, were deficient by $112,000,000 on net of reinsurance basis. This determination of reserve deficiency follows a historical pattern, whereby Westport's reserves for Losses and Loss Adjustment Expenses have been determined to be deficient in several previous examinations performed by the DIFP. The management of Westport is hereby directed to review the Corporation's actuarial assumptions and employ the concept of conservatism in its loss reserving practices to reduce the likelihood of continuing future loss reserve deficiencies.

SUBSEQUENT EVENTS

Effectively January 1, 2008, Westport was merged out of existence, following its merger with and into ERC, with ERC as the surviving entity. Immediately following the merger agreement, ERC as the surviving entity changed is name to Westport Insurance Corporation (New Westport).

As a result of this merger, Westport is no longer a going-concern post the effective date of the merger. Consequently, all of Westport's prior rights and obligations have been transferred to New Westport, including primary and reinsurance obligations, rights and obligations emanating from related party agreements that did not terminate with the merger, pension and employee benefits obligations, etc.

The corporate structure and management, and plan of operation under which the New Westport will operate has been documented and summarized in ERC's examination report, which has been completed concurrently with this report.

ACKNOWLEDGMENT

The assistance and cooperation extended by the officers and the employees of Westport 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

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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)
Westport Insurance Corporation

Dear Mr. Heese:

Westport Insurance Corporation ("WIC") is in receipt of the above-captioned report dated June 18, 2008, and provided to us for review on June 20, 2008. WIC appreciates the opportunity to review the report and provide comments. Accordingly, WIC 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").

In providing comments, WIC discusses each item in the order in which it was presented in the General Comments and/or Recommendations section of the draft examination report:

Losses and Loss Adjustment Expenses: The draft report discussed DIFP's engagement of Lewis & Ellis, Inc. ("L&E") to perform an actuarial review of WIC's loss and loss adjustment expense ("LAE") reserves. L&E reported a loss and LAE reserve deficiency as of December 31, 2006 of $112,000,000, the amount by which the report makes corresponding examination changes. The report includes a draft directive for the management of WIC to address recent reserve deficiencies to reduce likelihood of future reserve deficiencies. In response, WIC believes that reserving actions taken in the third quarter of 2007, occurring prior to WIC's merger with and into Employers Reinsurance Corporation, addressed adequately any deficiency noted for the period under examination.

In addition, WIC 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, WIC does not take exception to the overall content of the report.

WIC would like to thank DIFP and its examination 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