REPORT ON EXAMINATION AS TO THE CONDITION OF
REDLAND INSURANCE COMPANY
PRINCETON, NEW JERSEY
AS OF DECEMBER 31, 2007

NAIC GROUP CODE 0796
NAIC COMPANY CODE 37303

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SALUTATION

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Santa Fe, NM 87504-1269

January 16, 2009

Commissioners:
In accordance with the plan adopted by the National Association of Insurance Commissioners for association examination of insurance companies, a financial condition examination has been made of:
Redland Insurance Company
Princeton, New Jersey
NAIC Group Code 0796 NAIC Company Code 37303

Hereinafter referred to as the “Company”.

SUMMARY

1. The Company is not in compliance with N.J.S.A. 17:24-12 (g), which states in its most pertinent part “that all securities of domestic insurers shall be held for safekeeping within the geographical limits of this State, except, as long as they are held for safekeeping within the geographical limits of this State securities having a value of not less than $50,000,000, any other debt securities which are publicly traded”. The Company custodian is Brown Brothers Harriman & Co. and does not have any primary office in the State of New Jersey.

2. A significant deficiency was determined to exist by KPMG, Inc. as it relates to the Company’s extensive usage of worksheets. “These spreadsheets are utilized to accumulate or calculate certain gross and ceded revenue, losses, expenses, and asset and liability balance for transactions entered into by the Company’s managing general agents and processed by the program accounting group. Due to the extensive use of spreadsheet the Company is not able to design and implement sufficient internal controls over access, program development and program change controls over these spreadsheets.” Commentary is included under the “Accounting Records and Procedures” sub caption to this report.

SCOPE OF THE EXAMINATION

This financial condition examination was called by the Commissioner of Banking and Insurance of the State of New Jersey pursuant to the authority granted by N.J.S.A. 17:23-22.
The examination was conducted at the Company's main administrative office located at 88 Pine Street, 16th Floor, Wall Street Plaza , New York, New York 10005-1801. The examination was conducted in accordance with the Association Plan of Examination guidelines established by the National Association of Insurance Commissioners. The State of California (Western Zone), participated in the examination.

The examination was conducted in accordance with the 2008 NAIC Financial Condition Examiners Handbook (guidance for the Handbook was adopted by the NAIC as of December 2006). The Handbook requires that we plan and perform the examination to evaluate the financial condition and identify prospective risks of the Company by obtaining information about the Company including corporate governance, identifying and assessing inherent risks within the Company and evaluating system controls and procedures used to mitigate those risks. An examination also includes assessing the principles and used significant estimates made by management, as well as evaluating the overall financial statement presentation, management's compliance with Statutory Accounting Principles and annual statement instructions when applicable to domestic state regulations. All accounts and activities of the Company were considered in accordance with the risk-focused examination process as defined in the 2007 NAIC Financial Condition Examiners Handbook.
In addition, a review or audit was also made of the following items:

Policy on Conflicts of Interest
Corporate Records
Fidelity Bond and Other Insurance Coverage's
History and Kind of Business
Management and Control
Continuity of Operations
Territory and Plan of Operation
Treatment of Policyholders
Accounts and Records
Reinsurance
Parent Subsidiaries and Affiliates
Intercompany agreements.
Information system review

Surplus as regards policyholders determined by the examination, at the examination date, consisted of the following:

Common Capital Stock	$ 3,500,000
Gross Paid in and Contributed Surplus	52,092,208
Unassigned Funds	7,165,316
Surplus as Regards Policyholders	**$ 62,757,524**

The change in assets, liabilities and surplus for the period covered by this examination is detailed below.

*Amounts differ from the financial statements for the year ended Dec. 31, 2004.

	12/31/2007	12/31/2006	12/31/2005	12/31/2004* (Per Exam)
Assets	$ 170,634,752	$ 149,539,054	$ 125,824,171	$ 119,299,141
Liabilities	$ 107,877,228	$ 111,475,954	$ 98,574,382	$ 93,441,164
Surplus	$ 62,757,524	$ 38,063,100	$ 27,249,789	$ 25,858,977

HISTORY AND KIND OF BUSINESS

The Company was incorporated under the laws of the State of Iowa on December 21, 1978. It was acquired by Clarendon Insurance Group on July 1, 2000. It re-domiciled to the State of New Jersey on December 31, 2001. The Company was a wholly-owned subsidiary of Clarendon National Insurance Company, which in turn was owned by Clarendon Insurance Group, a Delaware holding company owned by Hannover Finance Inc. The Company's ultimate parent was Hannover Ruckversicherung AG, hereinafter referred to as "Hannover Re".
Effective July 1, 2005, Clarendon National Insurance Company (CNIC), the former parent of Praetorian Insurance Company (PIC) and Redlands Insurance Company (Company), sold the entities to Hanover Finance Inc. (HFI), the ultimate parent company of CNIC. HFI subsequently contributed PIC and RIC to Praetorian Financial Group, Inc. (PFG) which was formed by HFI on October 26, 2005.

In June 2007, PFG's direct parent was Hannover Finance, Inc. (HFI) and the ultimate parent was Hannover Re. In June 2007, PFG was acquired by QBE Holdings, Inc. (QBE). QBE is an Australian-based general insurance and reinsurance group established in 1886, and one of the world's 25 largest insurers and reinsurers measured by net written premium.

The capital structure of the Company includes 35,000 authorized and ordinary shares of common stock with $ 100 par value issued and outstanding totaling $3,500,000. The Company's capital also includes $52,092,208 Gross Paid in and Contributed Surplus, as well as unassigned funds in the amount of $7,165,316.

The Company's statutory home office is located at 601 Ewing Street, Suite C-8, Princeton , New Jersey 08540. The registered agent upon whom process may be served is Morris, Manning & Martin, L.L.P. who are located at the Company's statutory home office.

An amended Certificate of Authority dated August 7, 2006 authorized the Company to transact the business of insurance specified in paragraphs "a", "b", "e", "f", "g", "j", "k", "l", "m", "n" and "o" of N.J.S.A. 17:17-1 et seq.

TERRITORY AND PLAN OF OPERATIONS

As of December 31, 2007, the Company was licensed to write business in 45 states and the District of Columbia. It writes a full line of property and casualty insurance, the largest premium writings were in the following areas:

	Direct	Net
Commercial Auto Liability	$ 67,555,452	$ 6,600,188
Inland Marine	$ 31,448,762	$ 4,211,909
Auto Physical Damage	$ 29,335,052	$ 2,699,397
Private Passenger Auto Liability	$ 25,140,105	$ 1,910,662

The Company's direct written business is primarily program business, which consists of homogeneous books of business dedicated to a well defined market segment. Many of these programs have been recommended to the Company by various reinsurers who desire to participate in the program through quota share treaties.

The Company uses reinsurance intermediary brokers to negotiate its reinsurance. These brokers are licensed either in New Jersey or in other accredited states having similar laws to the State of New Jersey.

The Company primarily uses managing general agents (MGAs), general agents (GAs) and third party administrators (TPAs) to actively manage its various programs. These parties conduct a substantial portion of the administrative work associated with premium and claims processing functions, backup supporting records, and reconciliation to Company bank accounts established for their use.

These firms have contracts with the Company, whereby their responsibilities and authority are delineated. The Company requires that their MGAs obtain fidelity bond insurance as required under N.J.S.A. 17:22-(2-7).

REINSURANCE

Inter-company Pooling Arrangement

The Company participates in a reinsurance pooling arrangement whereby it cedes 100% of its net premiums, losses and loss adjustment expense and certain underwriting expenses to PIC net of third party reinsurance. PIC retrocedes an amount back to the Company based on each company's share of combined surplus as of the most recent reported annual financial statements. The percentage retroceded to the Company as of December 31, 2007 was 8.71%.

Assumed Reinsurance

Effective July 1, 2005, the Company assumed 100% of all policy liabilities for certain programs on an indemnity basis from Clarendon America Insurance Company.

Ceded Reinsurance

The Company participates in the corporate covers as follows:

Workers' Compensation

The Company's primary business is covered under a reinsurance agreement providing coverage of $2M in excess of $3M, with an additional two treaties providing a $5M in excess of $5M layer (one on a per person basis and one on a per occurrence basis), with total coverage of $10M. The Company then maintains workers compensation catastrophe coverage for $25M in excess of $10M and $40M in excess of $35M.

Casualty Umbrella

The Company maintains 80% quota share casualty umbrella contract for certain programs for the first $5M of excess umbrella policy limit per occurrence per policy.

Property Excess of Loss

The Company's retention is $1M with layers covering risks up to $20M. There are four layers of coverage, $2M in excess of $1M, $2M in excess of $3M, $5M in excess of $5M, and $10M in excess of $10M. The first layer was placed 80%. The remaining layers were placed 100%.

Corporate Catastrophe Excess of Loss

The Company's retention is $20M with layers covering risks up to $340M. There are five layers of coverage, $30M in excess of $20M, $50M in excess of $50M, and $50M in excess of $100M, $100M in excess of $150M, $90M in excess of $250M. The layers are placed 100%. The Company also has a reinstatement premium protection reinsurance contract for catastrophe reinstatement premiums.

Commutations

Prior to the acquisition of Praetorian Financial Group (PFG) by QBE, PFG was owned by Hannover Re. PFG (RIC and PIC) had certain reinsurance agreements with its parent which were commuted as a result of the sale. Effective January 1, 2007, the following contracts were commuted:

Hannover Re 30% Quota Share effective 1/1/04
Hannover Re 30% Quota Share effective 7/1/06
Hannover Re Ireland 20% Quota Share effective 1/1/06
Hannover Re Ireland 20% Quota Share effective 7/1/06

Affiliated Loss Portfolio Transfer and Quota Share

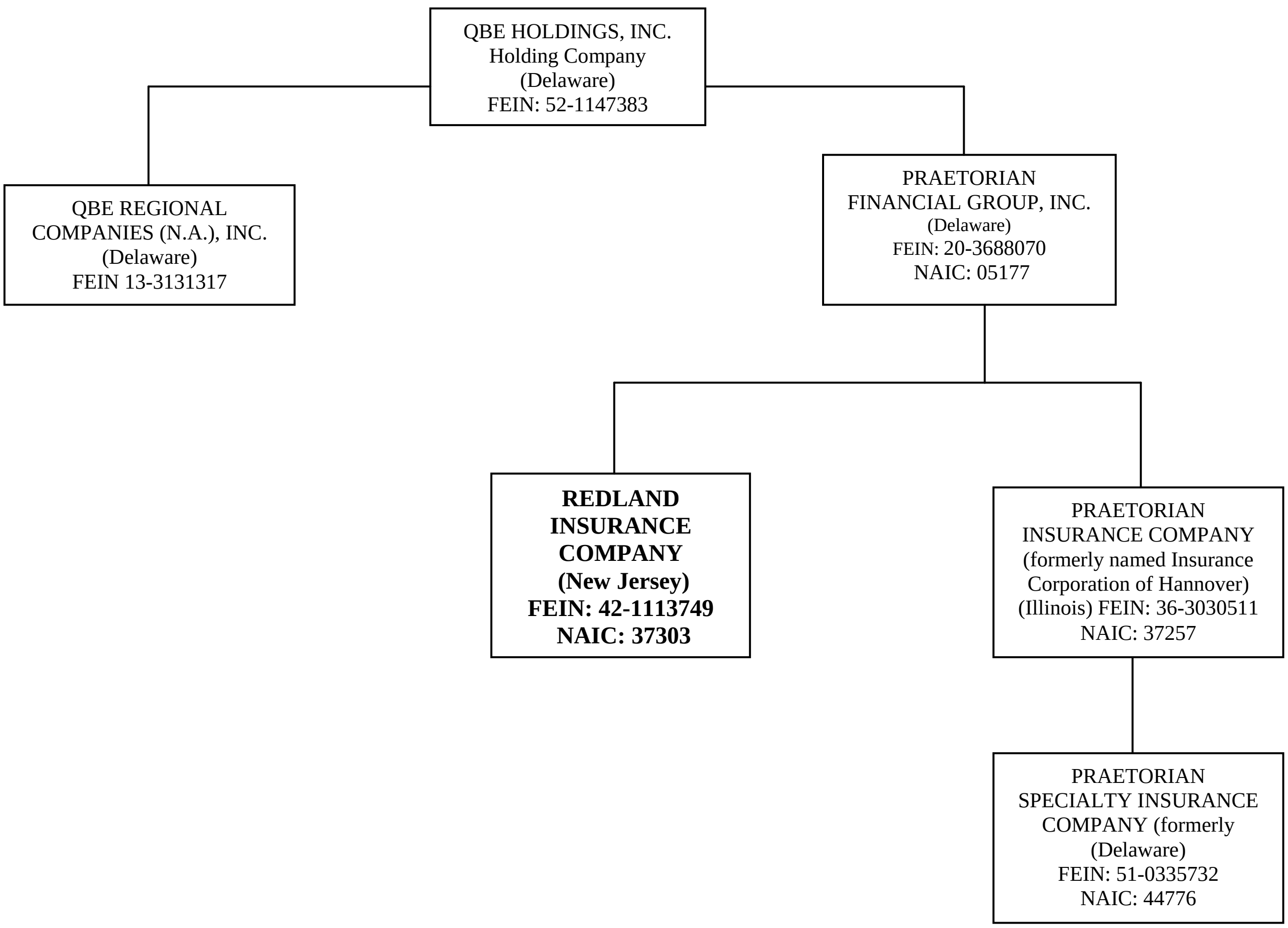
Effective January 1, 2007, the Company entered into a loss portfolio transfer agreement with Equator Re Limited (Equator Re), a Bermuda domiciled affiliate as a result of the above commutation of the Hannover Re contracts. Equator Re is an unauthorized affiliated reinsurer. Effective January 1, 2007, the Company also entered into a retrospective quota share agreement with Equator Re to reinsure 50% of the Company's net liability. This contract expired on June 30, 2007 and the Company entered into a new quota share contract reinsuring 50% of the Company's net liability with Equator Re effective June 30, 2007.

The quota share agreement effective January 1, 2002 and terminated on a cut-off basis on January 1, 2006 between RIC and Clarendon National Insurance Company was commuted effective July 1, 2007.

PARENT, SUBSIDIARIES AND AFFILIATES

The Company is a member of an insurance company holding system as defined in N.J.S.A. 17:27A-1 et seq. Accordingly, the Company has registered with the State of New Jersey under the registration it filed as required and is in compliance with N.J.S.A. 17:27A-3. A chart of the holding company system, as it relates to the Company follows (all ownership is 100%):

A chart of the United States holding company system, as it relates to the Company follows (all ownership is 100%):



INTERCOMPANY AGREEMENTS

Federal Income Tax Allocation and Settlement Policy Agreement

The Company is party to a written tax allocation agreement ("Agreement") with QBE Investments (North America), Inc. ("Parent") and the direct and indirect subsidiaries of its Parent. Pursuant to the Agreement, the Company makes payments or receives refunds using separate company return calculations resulting in a tax liability or refund equal to the amount the Company would have paid or received if it had filed on the separate return basis instead of on a consolidated return basis. Current losses or credits generated by the Company result in refunds under the Agreement to the extent and for those periods in which they are utilized by other members of the consolidated group.

Expense Allocation Agreement

The Company is party to a service agreement with certain members of its holding company group, whereby the Company has agreed to provide and/or receives services to/from one or more of the other members of the holding company group. Such services can include:

a) Information services, including shared third party software
b) Human resources
c) Financial
d) Tax
e) Actuarial
f) Communication
g) Corporate service (e.g. facilities management
h) Internal audit
i) Risk management
j) Claims
k) Underwriting and processing
l) Customer service
m) Office services (e.g. printing and mailing)
n) File and record keeping
o) Third-party vendor services
p) Any other services as requested

The cost for such services shall be charged to the Company or other members of the holding company group based on an allocation of the actual costs incurred by the provider of the service. The allocation shall be calculated as agreed by the parties in good faith and in accordance with Statement of Statutory Accounting Principles No. 70, Allocation of Expenses.

Investment Management Agreement

Effective November 1, 2007, the Company entered into an internal investment management agreement with its affiliate Minster Court Asset management Ltd to manage the Company's invested assets. The Company is charged for these services at fair value.

MANAGEMENT AND CONTROL

At December 31, 2007, the Company was the wholly owned subsidiary of Praetorian Financial Group Inc. The Company's ultimate parent is QBE Insurance Group Limited which indirectly owns 100% of Praetorian Financial Group Inc.

Shareholders

The By-laws provide for an annual meeting of the shareholders to be held on the second week of March in the New York City, New York. The purpose of the meeting is to elect the Board of Directors and for the completion of any other business concerned with the Corporation.

The By-laws also state that special meetings, of the shareholders, may be called by the Chief Executive Operating Officer, President or the Secretary upon written request to the Board of Directors.

A quorum at all shareholder meetings shall be a majority of the outstanding shares of the Corporation, entitled to vote, represented either in person or by proxy. In the absence of a quorum, a majority of the represented shares may adjourn the meeting without further notice.

Directors

The affairs of the Corporation are managed by its Board of Directors. The number of Directors shall be not less than seven. The by-laws specify the process for filling Board of Director vacancies. Each Director holds office until the next annual shareholders meeting or until his successor shall have been elected and qualified. The by-laws also specify that not less than 1/3 of the Board of Directors must be persons who are not officers or employees of the Company or any entity controlling, controlled by or under common control with the Company.

Meetings of the Board of Directors

The By-laws specify that the regular meeting of the Board shall be held either within or outside the State of New Jersey. It also permits members of the Board of Directors to participate via teleconference and allows for actions via written consent.
The First meeting of the Board of Directors is to be determined by the Stockholders at the annual meeting. A quorum is comprised of a majority of the Board of Directors.

Committees of the Board of Directors

The By-Laws provide that the Board of Directors may designate one or more committees, each consisting of two or more directors who may exercise all the powers and authority of the Board of Directors. Committees must be composed by one third individuals who are not employees or of any entity controlling, controlled by or under common control with the Company.
One or more committees must be established comprised solely of Directors who are not officers or employees of the Company or any controlling entity.

The By-Laws go on to say that "this requirement does apply if the entity controlling the Company has a committee composed on the same manner as required in this section. The controlling company has committees composed in the same manner as required by the By-Laws.

At December 31, 2007, the Board of Directors was comprised of the following members:

Name and Address of Director	**Principal Occupation**
Timothy Michael Kenny Northport, New York	President and Chief Executive Officer QBE Reinsurance Corp.
Christopher Colin Fish Hillsdale, New Jersey	Senior VP, Chief Financial Officer & Treasurer QBE Reinsurance Corp.
James Justin Fiore Bardonia , NY	Executive Vice President & Chief Underwriting Officer QBE Reinsurance Corp.
Susan Rivera Newtown, PA	Insurance Executive and Actuary QBE of the Americas
Laura Kirkpatrick Hinson Dallas TX	Chief Financial Officer QBE of the Americas
Stephen Fitzpatrick Bartlett, IL	Senior Vice President QBE of the Americas
John Carmine LaCava Rockville Centre, New York	Senior Vice President & Chief Information Officer QBE Insurance Corp.

As of December 31, 2007, the principal officers of the Company were as follows:

Name	**Title**
Timothy Michael Kenny	Chief Executive Officer
James Justin Fiore	Chief Operating Officer
Susan Rivera	President
John Carmine LaCava	Chief Administrative Officer

CONTINUITY OF OPERATIONS

The Company stores its paper files, backup tapes and other important physical documentation at:

SunGard Data Center
Carlstadt, New Jersey

The Company uses a well-developed structure of tiered emergency management plans based on a documented Business Continuity Management Strategy. The levels include a Divisional Emergency Management Plan, Premises Continuity Plans, the Group Emergency Management Plan and individual Business Unit Continuity Plans. The business plans are based on documented business impact analyses.

Plans include roles and responsibilities, means of identifying and reporting emergencies and communications methods. Recovery times, restoration priorities, required supplies and manual workarounds are defined in the plans. The IT disaster recovery plan identifies critical components for recovery.

Managers receive copies of the plan to store offsite and are required to sign a log indicating they have the plan. Data and software are backed up to tape and sent to Recall for offsite storage. SunGard provides an alternate processing location for QBE and Blue Hill Data Services provides an alternate location for Praetorian.

ACCOUNTS AND RECORDS

Investment transactions are administered by Conning Asset Management Company, a third party vendor, in accordance with the terms of an investment services agreement. Reports and data are provided to the Company which serves as the basis for manual journal entries which are then posted to Oracle, the Company's general ledger system.

Policy and claims detailed transactions are also primarily administered through contracts executed with third party vendors, as described under the "TERRITORY AND PLAN OF OPERATION" section of this report. The Company obtains applicable information on a monthly basis through a variety of means such as reports, tapes and other electronic media. This information is then downloaded or entered, as applicable, into excel spreadsheets that in turn flow into other spreadsheets and eventually the data is uploaded, on a quarterly basis, into Oracle. The Company utilizes an early cut-off of 2 months for the recording of its premium/claim data, primarily due to its reliance on third party administrators/managers and the timing of the receipt of this data, and also due to the timing necessary to be able to report Company data upstream to its parent in Australia.

It is noted that KPMG, Inc., as part of its Internal Control Letter issued in conjunction with its 2007 audit, determined that a significant deficiency existed related to the Company's usage of spreadsheets. The letter indicates "The Company extensively uses Excel Spreadsheets throughout its organization in the compilation and preparation of its underwriting results. Although the Company improved the handling of the spreadsheets by developing a new standardized template and converting approximately 80% for the programs into a new format in the first Quarter 2007, the spreadsheets are complex and require the manual input of data. These spreadsheets are utilized to accumulate or calculate certain gross and ceded revenue, losses, expenses, and asset and liability balance for transactions entered into by the Company's managing general agents and processed by the program accounting group. Due to the extensive use of spreadsheet the Company is not able to design and implement sufficient internal controls over access, program development and program change controls over these spreadsheets. As a result, we determined that a significant deficiency exist as it relates to the Company's use of spreadsheet." It is recommended that the company make an effort to reduce its extensive use of reporting information on spreadsheets.

INFORMATION SYSTEMS CONTROL REVIEW

During the examination of the Company as of December 31, 2007, INS Services, Inc (INS) was engaged to perform an extensive review and assessment of the Information Systems area. This was a combined engagement with INS reviewing the total PFG/QBE environment. These work papers, together with recommendations for resolving deficiencies, were made available to the state examiners at the conclusion of the INS audit. INS identified deficiencies in the control environment, formulated recommendations to improve the controls and passed that information to management, which responded to each recommendation within an agreed timeframe. All conclusions by the financial examination staff with respect to the Company's information systems general control environment are the result of that review.

It is noted that the Company in 2007 and currently utilize primarily manual processes related to administration of their premium, loss and reinsurance transactions.

Based upon the scope of work performed and usage of various information received from the Company and other sources, the assessment of the overall control risk related to information systems controls was determined to be **MODERATE** for those policies and procedures that had been in place during the period from January 1, 2007 to December 31, 2007, and until the date of the INS report. An overall **MODERATE** assessment conveys that the IT controls predominantly mitigate risks arising out of its IT activities. However, it also reflects that some control deficiencies exist, which are not considered significant deficiencies or material weaknesses.

Regarding the Operations Controls area, INS reviewed a sample of operational failures to determine if there was evidence of determination of the underlying/root cause of the failure, and noted that in many instances there was none. Additionally, it was noted that there are no documented procedures for determining the underlying cause and long-term resolution of operational failures. Although the Company indicated that procedures for evaluating and resolving root cause of such operational failures are built into weekly Network Operations Leadership meetings, review of the evidence provided indicated that the meetings described only address problem resolution and did not include root cause analysis, and that regardless any policies or procedures remain undocumented.

It was also noted that the Updated Expert Database version in use at the Company is not the current database needed to view the latest patches (the Update Expert database is the tool responsible for checking and maintaining all system security patches). Regular patch management does not appear to have been institutionalized for the Company, and generally it was noted that the Company applied patches only related to a new server or desktop build. Poor change controls could lead to accidental changes to computer systems and/or insufficient quality in services and solutions, resulting in faults, rework and increased costs. The Company indicated that its Security Administrator is in the process of assessing and evaluating the security of the computing environments, and through this process, is developing a patch management program. However, the Company also stated that the technology used to create the NEXUS infrastructure doesn't necessitate desktop security patches to effectively protect Company assets, as the user desktop is inherently protected through Citrix and AppSense. It is noted that while use of Citrix and AppSense may replace anti-virus controls, they cannot replace the need for current system patches.

FIDELITY BOND AND OTHER INSURANCE COVERAGES

The Company is covered under a Financial Institution Bond (Bond) issued through National Union Fire Insurance Company of Pittsburg, PA

In addition to the coverage above, the Company was included as a named insured under policies providing the following coverage at December 31, 2007:

Property & General Liability
Workers' Compensation
Commercial General Liability
Commercial Umbrella
Earthquake
Primary Employment Practices Liability

**Comparative Statement of Assets,
Liabilities, Surplus and Other Funds at
December 31, 2007 and December 31, 2004** **Exhibit A**

Assets:	12/31/2007	12/31/2004 *	Note
Bonds	$ 59,260,432	$ 73,670,347	1
Common stocks		25,000	1
Cash & Short term investments	52,312,964	3,165,710	
Receivable for securities	8,963,000	100,000	
Investment Income due and accrued	1,120,016	459,630	
Uncollected premiums and agents' balances in course of collection	25,626,424	20,973,125	
Deferred premiums and agents' balances and installments booked but deferred and not yet due	8,558,575	10,316,062	Previous exam adj.
Amounts recoverable from reinsurers	9,956,040	9,894,486	
Funds held by or deposited with reinsured companies		8,452	
Net deferred tax asset	4,837,301	614,954	
Reinsurance recoverable on loss payments			
Interest, dividends and real estate income due & accrued			
Equities and deposits in pools and Associations		71,375	
Total Assets	$170,634,752	$119,299,141	
Liabilities, Surplus and Other Funds:			
Losses	$ 54,004,493	$ 9,821,261	2
Reinsurance payable on paid loss and Loss Adjustment Expenses	(865,482)	(2,087,411)	
Loss adjustment expenses	4,641,489	244,924	2
Commission payable, contingent commissions and other similar charges	1,179,048	2,673,455	
Other expenses (excluding taxes, licenses & fees)	(67,111)	358,290	
Taxes, licenses and fees	2,770,681	(113,269)	
Current federal and foreign income taxes	522,371	551,485	
Net deferred tax liability	25,335		
Unearned premiums	17,961,452	6,923,236	
Ceded reinsurance premiums payable	9,363,102	45,059,129	
Funds held by company under reinsurance treaties	965,268	19,695,698	
Amounts withheld or retained by company for account of others	436,184		
Remittances and items not allocated	1,628,691		
Provision for reinsurance	834,292	154,367	
Agent credit balance		671,866	Previous exam adj.
Payable to parent, subsidiaries and affiliates	10,367,029	7,047,392	
Payable for securities			
Aggregate write-ins for liabilities/Commission holdback	4,110,386	2,440,737	
Total Liabilities	$ 107,877,228	$ 93,441,164	
Common capital stock	3,500,000	4,303,440	
Gross paid in and contributed surplus	52,092,208	16,288,768	
Unassigned Funds	7,165,316	5,265,769	
Surplus as regards policyholders	62,757,524	25,857,977	
Total Liabilities and Surplus and Other Funds	$ 170,634,752	$ 119,299,141	

- For presentational purposes the Statement of Assets, Liabilities, Surplus and Other Funds as of December 31, 2004 after exam adjustments.

Underwriting and Investment Exhibit
for the period
December 31, 2004 to December 31, 2007

Exhibit B

	2007	2006	2005	2004
Premiums earned	$42,284,754	$ 43,698,147	$ 17,978,707	$14,514,145
Deductions:				
Losses incurred	21,020,784	24,325,492	640,704	10,631,435
Loss expenses incurred	7,663,442	6,895,413	3,037,584	2,648,815
Other underwriting expenses incurred	13,654,200	(2,694,670)	19,472,029	1,854,550
Aggregate write-ins for underwriting deductions			0	0
Total underwriting deductions	42,338,426	28,526,235	23,150,317	15,134,800
Net underwriting gain or loss	(53,672)	15,171,913	(5,171,610)	(620,655)
Investment income				
Net investment income earned	6,532,001	1,562,576	1,835,944	755,821
Net realized capital gains (losses) less capital gain tax	(87,551)	(503,117)	(980,328)	567,577
Net investment gain (loss)	6,444,450	1,059,459	855,616	1,323,397
Other income				
Net gain or (loss) from agents' or premium balances charged off	(1,302,342)		(1)	(101,984)
Aggregate write-ins for miscellaneous income	(614,285)	(609,349)	(49)	0
Total other income	(1,916,627)	(609,349)	(50)	(101,984)
Net income before dividends to policyholders, after capital gains tax and before federal and foreign income taxes	4,474,151	15,622,023	(4,316,044)	600,758
Less: Federal & foreign income taxes incurred	1,683,674	7,276,592	(1,070,971)	551,485
Net income	**$ 2,790,477**	**$ 8,345,431**	**$ (3,245,073)**	**$ 49,273**

CAPITAL AND SURPLUS
For the period December 31, 2004
to December 31, 2007

Exhibit C

	2007	2006	2005	2004
Gains and losses in surplus:				
Net income or (loss)	$ 2,790,477	$ 8,345,431	$ (3,245,073)	$ 49,273
Net unrealized capital gains or losses				
Change in net deferred income tax	13,906,496	1,814,956	1,925,412	945,196
Change in non-admitted assets	(14,153,733)	150,581	(5,955,076)	(1,021,695)
Change in provision for reinsurance	151,183	502,344	(1,333,451)	(153,766)
Change in excess of statutory reserves over statement reserves				
Capital changes:				
Paid In				
Transferred from surplus				
Transfer to Surplus			(803,440)	
Surplus adjustments:				
Paid In	25,000,000		10,000,000	
Transferred to capital (stock dividend)	(3,000,000)		803,440	
Dividends to stockholders				
Extraordinary amounts of taxes for prior year				
Aggregate write-ins for gains and losses in surplus				
Change in surplus as regards policyholders for the year	24,694,424	10,813,312	1,391,812	(180,991)
Surplus at beginning of the period	38,063,100	27,249,789	25,857,977	26,038,968
Examination Adjustment				
Surplus at end of period	$ 62,757,524	$ 38,063,100	$ 27,249,789	$ 25,857,977

NOTES TO FINANCIAL STATEMENTS

1. **Bonds and Common Stocks**

The Company is not in compliance with N.J.S.A. 17:24-12 (g), which states in its most pertinent part "that all securities of domestic insurers shall be held for safekeeping within the geographical limits of this State, except, as long as they are held for safekeeping within the geographical limits of this State securities having a value of not less than $50,000,000, any other debt securities which are publicly traded". The Company custodian is Brown Brothers Harriman & Co. and does not have any primary office in the State of New Jersey.

2. **Losses and Loss Adjustment Expense**

The Company reported a reserve for losses, net of reinsurance, in the amount of $54,004,493 and loss adjustment expense reserves of $4,641,489. During this examination, these reserves were reviewed by the actuarial unit of INS Consultants. The work performed by INS was reviewed by actuarial staff from the New Jersey Department of Banking and Insurance Solvency Regulation Division. It was determined that the reserve for losses and loss adjustment expenses are fairly stated.

In addition to, and in support of this examination's actuarial review, Claim files were chosen for review at two Program Manager Offices from detail Company data.
The claims file data reconciled with Company reported paid and unpaid claims data.

Loss and Loss Adjustment Expense Reserves-Statement by New Jersey Department of Banking and Insurance Actuary

I, Boris Privman, FCAS, MAAA, Managing Property and Casualty Actuary for the New Jersey Department of Banking and Insurance, have reviewed the actuarial review performed by INS Consultants as of the December 31, 2007 reported loss and loss adjustment expense reserves for the Redland Insurance Company. Based upon this review the Company's booked gross and net loss reserves should be accepted without adjustments.

Actuarial findings as stated above and in this examination report are the sole responsibility of the New Jersey Department of Banking and Insurance's Property and Casualty Actuarial Unit of the Office of Solvency Regulation.

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Boris Privman-Managing Actuary

EXAMINATION RECOMMENDATIONS

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12 **Accounts and Records**

A significant deficiency was determined to exist by KPMG, Inc. as it relates to the Company's extensive usage of worksheets. "These spreadsheets are utilized to accumulate or calculate certain gross and ceded revenue, losses, expenses, and asset and liability balance for transactions entered into by the Company's managing general agents and processed by the program accounting group. Due to the extensive use of spreadsheet the Company is not able to design and implement sufficient internal controls over access, program development and program change controls over these spreadsheets." Commentary is included under the "Accounting Records and Procedures" sub caption to this report.

It is recommended that the company make an effort to reduce its extensive use of reporting information on spreadsheets.

17 **Bonds and Stocks**

The Company is not in compliance with N.J.S.A. 17:24-12 (g), which states in its most pertinent part "that all securities of domestic insurers shall be held for safekeeping within the geographical limits of this State, except, as long as they are held for safekeeping within the geographical limits of this State securities having a value of not less than $50,000,000, any other debt securities which are publicly traded". The Company custodian is Brown Brothers Harriman & Co. and does not have any primary office in the State of New Jersey.

At December 31, 2007 the Company's custodial agreement was not in compliance with the standards imposed by NAIC guidelines. Subsequent to the examination the Company amended its custodial agreement with its custodial bank Brown Brothers Harriman & Co. (BBH). Redland Insurance Company will be one of the subsidiary companies listed on the agreement. The new agreement meets the standards imposed by the NAIC guidelines.

It is recommended that the company comply with N.J.S.A.17:24-12 (g)

CONCLUSION

I, Nancy Lee Chice, do solemnly swear that the foregoing report of examination is hereby presented to be a full and true statement of the condition and affairs of the Redland Insurance Company as of December 31, 2007 to the best of my knowledge and belief.

Respectfully submitted,

/S/

Nancy Lee Chice, CFE
Examiner-In-Charge
Representing State of New Jersey

/S/

David Carter, CFE
Representing State of California
Western Zone

State of New Jersey
County of Mercer

Subscribed and sworn to before me.
On this 16th day of February, 2008,

/S/

Tina Sinoploi
Notary Public of New Jersey
My commission expires August 9th, 2009