

EXAMINATION REPORT

OF THE

CAMDEN FIRE INSURANCE ASSOCIATION

MOUNT LAUREL, NEW JERSEY 08054

AS AT

DECEMBER 31, 2006

NAIC COMPANY CODE 21946

NAIC GROUP CODE 1129

EXAMINATION WARRANT NUMBER P&C -08-(2007)

F I L E D

JUN 30 2008

**COMMISSIONER
NJ DEPT OF BANKING & INSURANCE**



State of New Jersey
DEPARTMENT OF BANKING AND INSURANCE
OFFICE OF SOLVENCY REGULATION
PO Box 325
TRENTON, NJ 08625-0325

JON S. CORZINE
Governor

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STEVEN M. GOLDMAN
Commissioner

January 29, 2008

Honorable Julie Mix McPeak
Secretary, Southeastern Zone
Executive Director
Kentucky Office of Insurance
215 West Main Street
Frankfort, Kentucky 40601

Honorable Merle D. Scheiber
Secretary, Midwestern Zone
Director
South Dakota Division of Insurance
Department of Revenue and
Regulation
445 East Capital Avenue, 1st Floor
Pierre, South Dakota 57501-3185

Honorable Kent Michie
Secretary, Western Zone
Commissioner of Insurance
Utah Department of Insurance
3110 State Office Building
Salt Lake City, Utah 84114-1201

Honorable Steven M. Goldman
Secretary, Northeastern Zone
Commissioner of Banking and
Insurance
New Jersey Department of Banking
and Insurance
20 West State Street
Trenton, New Jersey 08625-0325

Dear Commissioners:

In accordance with the authority vested in you, a financial examination has been made of the assets and liabilities, method of conducting business and other affairs of:

THE CAMDEN FIRE INSURANCE ASSOCIATION

400 FELLOWSHIP ROAD

MOUNT LAUREL, NEW JERSEY 08054

NAIC COMPANY CODE 21946

NAIC GROUP CODE 1129

EXAMINATION WARRANT NUMBER P&C – 08-(2007)

Hereinafter referred to as “Camden Fire” or the “Company”.

SCOPE OF THE EXAMINATION

This current examination of the Company was authorized in accordance with N.J.S.A. 17:23-22 and covers the five year period beginning January 1, 2002 and ending December 31, 2006.

In determining the emphasis placed on each item reported herein, consideration was given to the Company's accounting methods, internal controls, audits performed by certified public accountants for the period under review, financial analysis performed by the Financial Analysis Unit of the New Jersey Department of Banking and Insurance, and procedures specified by the National Association of Insurance Commissioners.

Based upon examination review, standard emphasis was placed on these balance sheet accounts:

Bonds
Other Invested Assets
Current Federal and Foreign Income Taxes

Based upon examination review, reduced emphasis was placed on these balance sheet accounts:

Short Term Investments
Investment Income Due and Accrued
Net Deferred Tax Asset
Guaranty Funds Receivable or on Deposit
Other Expenses
Payable to Parent, Subsidiaries and Affiliates
Aggregate Write-ins for Liabilities

This examination also encompasses a review of the insurers' corporate records, reinsurance agreements, and all relevant documentation in determining its financial condition.

This examination report was prepared in accordance with the alternate report format prescribed by the National Association of Insurance Commissioners.

This examination was conducted at the main administrative office of the Company located at One Beacon Lane, Canton, Massachusetts 02021-1030.

COMPLIANCE WITH PRIOR REPORT ON EXAMINATION RECOMMENDATIONS

In the prior examination report, it was recommended that the Company's Board of Directors amend the by-laws to reflect the correct name of the Company and correct location for the meetings of stockholders. The by-laws should be properly noted "as amended", to correctly reflect that changes to the by-laws have occurred. This examination has determined that the Company has complied with this recommendation.

In the prior examination report, it was recommended that the Company implement the necessary internal controls to ensure that all reinsurance agreements entered into be in compliance with the specific provisions of SSAP No. 62. This examination has determined that the Company has complied with this recommendation.

In the prior examination report, it was recommended that the Company prepare its annual statement, notes to the financial statements in accordance with NAIC Annual Statement Instructions. This examination has determined that the Company has complied with this recommendation.

In the prior examination report, it was recommended that the Company comply with N.J.S.A. 17:29B-4, by maintaining a complete, accurate and numbered Complaint Log listing complaints received since the date of its last examination. The Company's compliance with this recommendation was determined to be incomplete. As such, further comment is being made in the "Treatment of Policyholders" section of this report.

In the prior examination report, it was recommended that the Company conduct a comprehensive review of funds held balances to ensure that the amounts reported can be substantiated by sufficient documentation. The Company's compliance with this recommendation was determined to be moot because its participation under the Amended and Restated Reinsurance (Pooling) Agreement was terminated effective July 1, 2004.

In the prior examination report, it was recommended that the Company review its internal controls surrounding the reporting of reinsurance recoverable, and implement the necessary procedures to ensure accurate reporting. Also, it was recommended that the Company research all of its reinsurance recoverable balances and write-off against surplus, any balances that are determined to be unsubstantiated. The Company's compliance with these recommendations was determined to be moot because its participation under the Amended and Restated Reinsurance (Pooling) Agreement was terminated effective July 1, 2004.

In the prior examination report, it was recommended that the Company maintain complete and accurate claims files and records to enable the ability to verify the integrity in support of the data underlying its loss and loss adjustment expense reserves. This examination has determined that the Company has complied with this recommendation.

In the prior examination report, it was recommended that the Company review its reinsurance payables to identify any unsubstantiated balances and adjust the reported balances appropriately. It was recommended that the Company implement the proper internal controls to ensure the accurate financial reporting of all future balances related to reinsurance assumed business. In addition, it was recommended that the Company settle all outstanding reinsurance balances with ceding companies on a timely basis and in accordance with the terms and conditions of the underlying contracts. The Company's compliance with these recommendations was determined to be moot because its participation under

the Amended and Restated Reinsurance (Pooling) Agreement was terminated effective July 1, 2004.

In the prior examination report, it was recommended that the Company review its ceded reinsurance premium payables to identify and either adjust or write-off any balance determined to be inaccurate or invalid. It was recommended that the Company implement the proper internal controls to ensure the accurate financial reporting of all balances relating to reinsurance ceded business, in accordance with NAIC Annual Statement Instructions and Accounting Practices and Procedures Manual. The Company's compliance with these recommendations was determined to be moot because its participation under the Amended and Restated Reinsurance (Pooling) Agreement was terminated effective July 1, 2004.

In the prior examination report, it was recommended that the Company reclassify the reserve for uncollectible reinsurance to a separate liability account to more closely reflect the nature of the balance. It was recommended that the Company review its estimate for uncollectible reinsurance to determine its overall adequacy and validity. The Company's compliance with these recommendations was determined to be moot because its participation under the Amended and Restated Reinsurance (Pooling) Agreement was terminated effective July 1, 2004.

HISTORY AND KIND OF BUSINESS

The Company was originally incorporated as the "Camden Mutual Insurance Association" under a special act passed by the New Jersey Legislature on March 12, 1841 and commenced business on April 1, 1841.

In a supplement to its charter approved March 1, 1870, the Association was reorganized as a stock company.

Effective February 18, 1881, the name of the Association was changed to the "Camden Fire Insurance Association".

On June 2, 1998, Commercial Union, plc, the ultimate controlling person of the U.S. insurance group known as the Commercial Union Insurance Companies, acquired all of the common stock of General Accident, plc, the former ultimate controlling person of the U.S. insurance group known as the General Accident Insurance Companies, of which the Company was a member. The name of the ultimate controlling person was changed from Commercial Union, plc to CGU, plc.

On October 22, 1999, the Company's name was changed from "Camden Fire Insurance Association" to "CGU Insurance Company of New Jersey".

On June 1, 2001, the CGU Insurance Group was acquired by White Mountains Insurance Group, Ltd., domiciled in Bermuda, and subsequently renamed, the "OneBeacon Insurance Group". The Company's name was subsequently

changed from "CGU Insurance Company of New Jersey" to "The Camden Fire Insurance Association".

The authorized capital stock of the Company as of December 31, 2006, was 500,000 shares with a par value of \$8.40 per share for a total capital value of \$4,200,000. As of December 31, 2006, the Company is 100% owned by One Beacon Insurance Group, LLC, a Delaware corporation.

The Company is presently authorized to transact in the State of New Jersey, the kinds of insurance specified in paragraphs "a", "b", "e", "f", "g", "i", "j", "k", "l", "m", and "o-1"; "o-2" and "o-3", of N.J.S.A. 17:17-1 and health insurance as specified in N.J.S.A. 17B:17-4 et seq.

The Company's statutory home office in the State of New Jersey is located at 400 Fellowship Road, Mount Laurel, New Jersey 08054. Steven D. Cannon, located at 44 Whippany Road, Morristown, New Jersey 07960, is the agent upon whom legal process against the Company may be served in the State of New Jersey.

TERRITORY AND PLAN OF OPERATION

As of December 31, 2006, the Company is licensed to transact the business of insurance in all states and the District of Columbia, with the exception of the following: Alaska, Arkansas, Hawaii, Massachusetts, Vermont, and Wyoming.

All personnel, materials, facilities, and services necessary for the Company to transact the business of insurance in the State of New Jersey are provided by OneBeacon Insurance Company under the terms of a reinsurance agreement that became effective July 1, 2004.

The Company is a direct writer of both personal and commercial lines of business. Its major lines of business are homeowners, commercial liability, private passenger automobile liability, and commercial automobile liability.

REINSURANCE

Prior to July 1, 2004, the Company and certain affiliates ("Pool Participants") entered into an Amended and Restated Reinsurance (Pooling) Agreement by which each pool member cedes 100% of its direct underwriting activity to the lead company, OneBeacon Insurance Company (OBIC). Pursuant to this Agreement, the parties will pool all insurance risks of every nature whatsoever underwritten or assumed by the Companies and outstanding as of the effective date and to all such risks thereafter underwritten or assumed by the Companies during the continuance of this Agreement. The primary company will cede and transfer to each Company its respective percentage of all net liabilities in excess of reinsurance assumed from and ceded to third parties.

Effective July 1, 2004, Camden Fire terminated its participation in the Amended and Restated Reinsurance (Pooling) Agreement.

On July 1, 2004, Camden Fire entered into a new reinsurance agreement with OneBeacon Insurance Company (OBIC). The parties intend this agreement shall apply to all insurance risks of every nature whatsoever underwritten or assumed by the Company and outstanding as of the effective date and to all such risks thereafter underwritten or assumed by the Company during the continuance of this agreement. Under this agreement, the Company hereby cedes and transfers to OBIC, and OBIC hereby reinsures and assumes from the Company, all net liabilities incurred under or in connection with all contracts and policies of insurance issued by the Company on or prior to the effective date. Under this agreement, the Company hereby agrees to cede and transfer to OBIC, and OBIC hereby agrees to reinsure and assume from the Company, automatically from inception, all net liabilities of the Company incurred under or in connection with all contracts and policies of insurance issued by it after the effective date. Disclosure of this agreement was made by the Company in its registration statement filed with the New Jersey Department of Banking and Insurance.

Under this agreement, Camden Fire is responsible for certain separate company liabilities of a non-underwriting or administrative nature such as federal income taxes, expenses and taxes related to the ownership of real estate, liabilities incurred in connection with investment transactions, or liabilities for dividends to shareholders. This agreement does not specify the accounting treatment to be given the cost of state insurance department examinations. It is the position of this examination that state insurance department examination fees are a separate company cost and that the Company should establish a separate accrual in future annual statements under "Taxes, Licenses and Fees" for state insurance department examination fees.

PARENT, SUBSIDIARIES AND AFFILIATES

Camden Fire is a member of an insurance holding company system as defined by N.J.S.A. 17:27A-1. As such, Camden Fire does file a registration statement with the New Jersey Department of Banking and Insurance as required by N.J.S.A. 17:27A-3.

At December 31, 2006, Camden Fire was a wholly-owned subsidiary of OneBeacon Insurance Group, LLC (OBLLC), an insurance holding company domiciled in the State of Delaware. The following organizational chart shows that the ultimate controlling person is White Mountains Insurance Group, Ltd., an insurance holding company domiciled in Bermuda:

INTERCOMPANY AGREEMENTS

The Company's registration statement reported that Camden Fire was a signatory to three related party agreements. Examination review determined that Camden Fire was a party to the following agreements at the examination date: an investment management agreement with White Mountains Advisors, LLC; an insurance management services agreement with New Jersey Skylands Management, LLC; and a federal income tax allocation agreement with named members of the White Mountains Insurance Group, Ltd.

Investment Management Agreement

Effective November 14, 2006, the Company entered into a investment management services agreement with White Mountains Advisors, LLC. Pursuant to the agreement, White Mountains Advisors, LLC , agrees to supervise and direct the investments of the Company Investment Account in accordance with the investment objectives, policies, and restrictions described in the investment guidelines to be furnished by the Company.

Insurance Management Service Agreement

Effective January 1, 2003, the Company entered into a management services agreement with New Jersey Skylands Management, LLC to provide it with all necessary services in accordance with and in full compliance with all applicable laws, rules, and regulations governing the New Jersey personal lines insurance operations of the Company.

Tax Allocation Agreement

Effective December 31, 2001, the Company entered into a federal tax allocation agreement with Fund American Enterprises Holding, Inc. and its subsidiaries.

It is the intention of the parties that if such consolidated returns are filed, each of the subsidiaries should contribute its fair and equitable share to the taxes payable by the Affiliated Group. Separate federal income tax returns will be prepared for each subsidiary, taxes due or refunds determined will be paid to or receivable from Fund American Enterprises Holdings, Inc. The Company has indicated that the Agreement is in compliance with requirements of the Internal Revenue Code.

MANAGEMENT

The Board of Directors shall consist of not less than seven nor more than twenty directors as determined by the Board. At December 31, 2006, the following nine directors, constituting a full board, were elected and serving:

Name and Address

Principal Occupation

**Alex C. Archimedes
10 McKay Drive
Bridgewater, NJ 08807**

**Senior Vice President
OneBeacon Insurance Group**

**Andrew C. Carnase
5 Perigo Lane
Norfolk, MA 02056**

**Senior Vice President
OneBeacon Insurance Group**

**Mark K. Dorcus
521 State Street
Guilford, CT 06437**

**President
White Mountains Advisors, LLC**

**Thomas L. Forsyth
54 Walpole Street
Dover, MA 02080**

**Senior Vice President and
General Counsel
OneBeacon Insurance Group**

**Paul H. McDonough
21 Ordway Road
Wellesley, MA 02481**

**Senior Vice President and
Chief Financial Officer
OneBeacon Insurance Group**

**T. Michael Miller
6350 Summit Circle
Chanhassen, MN 55317**

**Chairman of the Board
OneBeacon Insurance Group**

**Brian D. Poole
565 Thurston Street
Wrentham, MA 02093**

**Senior Vice President and
Chief Actuary
OneBeacon Insurance Group**

**Thomas N. Schmitt
1010 Congress Street
Duxbury, MA 02331**

**Senior Vice President and Chief
Human Resources Officer
OneBeacon Insurance Group**

**Roger M. Singer
70 Clark Street
Belmont, MA 02478**

**Senior Vice President
OneBeacon Insurance Group.**

A review of the minutes of the stockholders and directors indicates that they adequately approve and support the Company's business transactions and events. This review also indicated that the prior examination report was distributed to and reviewed by the entire Board of Directors.

The principal officers of the Company elected and serving at December 31, 2006 were:

<u>Name</u>	<u>Title</u>
T. Michael Miller	Chairman of the Board, President Chief Executive Officer
Alex C. Archimedes	Senior Vice President
Carey D. Benson	Senior Vice President
Andrew C. Carnase	Senior Vice President
Michael J. Daly	Senior Vice President
Paul F. DiFrancesco	Senior Vice President
Thomas L. Forsyth	Senior Vice President and General Counsel
Dana P. Hendershott	Senior Vice President and Chief Administrative Officer
Michael R. Keane	Senior Vice President
Paul H. McDonough	Senior Vice President and Chief Financial Officer
Michael J. McSally	Senior Vice President
John M. Meuschke	Senior Vice President
Michael F. Natan	Senior Vice President and Chief Information Officer
Donald P. Nibouar	Senior Vice President
Brian D. Poole	Senior Vice President and Chief Actuary
Kevin J. Rehnberg	Senior Vice President
Thomas N. Schmitt	Senior Vice President and Chief Human Resources Officer
Kathleen M. Taylor	Senior Vice President
Donald G. Carnahan	Vice President
Phillip D. Gibson	Vice President
Ralph Marinello, Jr.	Vice President
Dennis R. Smith	Secretary
Frederick J. Turcotte	Vice President and Treasurer

Camden Fire does not have any Board committees.

Camden Fire was determined to be in compliance with N.J.S.A. 17:27A-4d(5) which reads, "The provisions of paragraphs (3) and (4) of this subsection d, shall not apply to a domestic insurer if the person controlling the insurer is an entity having a board of directors and committees thereof that substantially meet the requirements of those paragraphs." It was determined that the Company's ultimate controlling person, White Mountains Insurance Group, Ltd., satisfies the requirements of this statute.

POLICY ON CONFLICT OF INTEREST

All directors and key officers of Camden Fire are required to complete conflict of interest statements on an annual basis.

Each year, the Board of Directors receives a report detailing compliance with its conflict of interest policy. It was noted that no conflicts of interest were reported to the Board of Directors during the current examination period.

CONTINUITY OF OPERATIONS

As a member of the OneBeacon Insurance Group, Camden Fire relies upon the viability of various shared systems for its operation. The disaster recovery plan associated with these systems was reviewed during the concurrent examination of the OneBeacon Insurance Group. It was noted that OneBeacon routinely performs and documents testing of its disaster recovery plan.

Article II, Section 2.3 of the by-laws provide the Board of Directors with the authority, if permitted by law, to elect a new Director to fill any vacancy.

Article III, Section 3.3 of the by-laws provide the Board of Directors with the authority to fill vacancies in any office.

FIDELITY BOND AND OTHER INSURANCE COVERAGES

As a member of the OneBeacon Insurance Group, Camden Fire is a named party on a Standard Form No. 25 "Financial Institution Bond" issued to its parent, One Beacon Insurance Group, LLC.

The amount of fidelity coverage provided by this bond was determined to meet the suggested minimum amount recommended by the National Association of Insurance Commissioners at December 31, 2006.

EMPLOYEE WELFARE AND PENSION PLANS

The Company has no employees. The Company does not participate in retirement plans, or offer a deferred compensation plan, post-employment benefits or post-retirement benefits.

However, through the Amended and Restated Reinsurance (Pooling) Agreement discussed in this report under the heading "Reinsurance", it is serviced by the employees of OBIC who participate in the pension plans of said Company.

ACCOUNTS AND RECORDS

General Ledger

The Company's books and accounts are maintained by OBIC utilizing a web-based proprietary PeopleSoft general ledger system. The general ledger system was installed and fully implemented in 2004. The basic statutory financial statements for the Company were prepared using reports generated by the general ledger. These reports provide a direct audit trail back to the detail accounting data maintained in the general ledger. The statutory annual statement was prepared utilizing software produced by Financial Software Innovations, Inc.

Investment System

The investments of the Company are managed by White Mountains Advisors, LLC (WMA) subject to an Investment Management Agreement effective November 14, 2006. WMA utilizes the Bloomberg trading system. A daily trade file is sent from the Bloomberg system to the Princeton Asset Management (PAM) Software System and Mellon Bank, the Company's custodian. PAM is an internet application hosting service designed specifically for investment management and accounting departments and is owned by Princeton Financial Systems, a division of State Street Bank. A Type II SAS 70 report is issued on the PAM system annually. The PAM system is closed on a monthly basis and an upload file of the investment activities is posted to the Company's general ledger.

Claims

Claim transactions and reports are generated through ACTS (Automated Claims Transaction System). Authority levels for the reserving and paying of claims are assigned by the Home Office Line Managers and are authorized by the Claims Technical Officer in the home office. The system will automatically send any transaction in excess of an individual's assigned authority to the next level(s) of authority sufficient to approve the transaction.

A quality assurance team completes an underwriting and claims examination and report for each field office at least annually.

Premiums

Premium receipts are predominately received through lockbox facilities throughout the United States. Premiums are recorded through a direct bill or agency premium receivable application.

TREATMENT OF POLICYHOLDERS

The Company maintains a Complaint Log as required by N.J.S.A. 17:29B-4(10). However, the following observations were made during this current examination which were comparable to findings made during the previous examination:

- 1.) The complaints listed on the Complaint Log were not individually numbered.
- 2.) The total number of complaints received each year was not actually recorded on the Complaint Log.

It is again recommended that the Company number each individual complaint recorded on the Complaint Log, and record the total number of complaints received each year on the Complaint Log.

STATUTORY DEPOSITS

Camden Fire reported statutory deposits with state insurance departments as of December 31, 2006 as summarized:

<u>Location</u>	<u>Par Value</u>	<u>Fair Value</u>	<u>Book Value</u>
State of Arizona	\$110,000	\$139,076	\$140,372
State of California	25,000	126,433	127,611
State of Georgia	125,000	158,041	159,514
State of Louisiana	20,000	25,287	25,522
State of New Jersey	3,200,000	3,696,066	3,698,697
State of New Mexico	260,000	328,725	331,789
State of North Carolina	265,000	314,279	315,319
Commonwealth of Virginia	<u>100,000</u>	<u>126,433</u>	<u>127,611</u>
Total	<u>\$4,105,000</u>	<u>\$4,914,340</u>	<u>\$4,926,435</u>

Each special deposit was verified by direct confirmation. No exceptions were noted.

FINANCIAL STATEMENTS AND OTHER EXHIBITS

Exhibit A – Balance Sheet as of December 31, 2006 and December 31, 2001

Exhibit B – Statement of Income for the Five Year Examination Period Ended December 31, 2006

Exhibit C – Capital and Surplus Account for the Five Year Examination Period Ended December 31, 2006

THE CAMDEN FIRE INSURANCE ASSOCIATION: BALANCE SHEET -EXHIBIT A

	<u>2001</u>	<u>2006</u>	<u>Note</u>
<u>Assets</u>			
Bonds	\$ 166,087,962	\$ 60,801,950	1
Preferred Stocks	70,041,258	-	
Common Stocks	182,222,555	-	
Cash and Short Term Investments	240,402,479	631,627	
Other Invested Assets	-	15,129,864	
Receivable for Securities	108,583	-	
Agents' Balances in Course of Collection	3,468,699	-	
Deferred and Not Yet Due	64,714,979	-	
Accrued Retrospective Premiums	989,446	-	
Funds Held by or Deposited with Reinsurers	216,862	-	
Amounts Receivable under High Deductible Policies	935,044	-	
Amounts Recoverable from Reinsurers	4,612,149	-	
Federal and Foreign Income Taxes Recoverable	15,422,452	-	
Net Deferred Tax Asset	-	1,498,701	
Guaranty Funds Recoverable or on Deposit	34,483	14,752	
Electronic Data Processing Equipment	588,140	-	
Investment Income Due and Accrued	2,627,221	895,214	
Receivable from Parent, Subsidiaries and Affiliates	7,023,403	-	
Equities and Deposits in Pools & Associations	185,566	-	
Aggregate Write-ins	11,222,107	-	
Total Assets	<u>\$ 770,903,388</u>	<u>\$ 78,972,108</u>	
<u>Liabilities, Surplus and Other Funds</u>			
Losses	\$ 300,581,961	\$ -	2
Reinsurance Payable on Paid Losses	3,890,833	-	
Loss Adjustment Expenses	56,974,828	-	2
Commissions Payable	4,538,005	-	
Other Expenses	10,559,148	59,852	
Taxes, Licenses and Fees	4,734,712	-	3
Federal Income Taxes	212,496	5,239,000	
Unearned Premiums	98,874,571	-	
Dividends to Policyholders	266,335	-	
Ceded Reinsurance Premiums Payable	6,219,598	-	
Funds Held by Company under Reinsurance Treaties	3,171,851	-	
Amounts Withheld for Account of Others	19,448	-	
Drafts Outstanding	13,273,451	-	
Payable to Parent, Subsidiaries and Affiliates	-	14,718	
Payable for Securities	15,490,534	-	
Aggregate Write-ins	11,693,596	3,981	
Total Liabilities	<u>\$ 530,501,367</u>	<u>\$ 5,317,551</u>	
Common Capital Stock	\$ 4,200,000	\$ 4,200,000	4
Gross Paid In and Contributed Surplus	11,215,950	11,215,950	4
Unassigned Funds (Surplus)	224,986,071	58,238,607	4
Surplus as Regards Policyholders	<u>\$ 240,402,021</u>	<u>\$ 73,654,557</u>	
Total Liabilities, Surplus and Other Funds	<u>\$ 770,903,388</u>	<u>\$ 78,972,108</u>	

THE CAMDEN FIRE INSURANCE ASSOCIATION

STATEMENT OF INCOME FOR THE FIVE YEAR EXAMINATION PERIOD ENDED DECEMBER 31, 2006 - EXHIBIT B

	<u>2002</u>	<u>2003</u>	<u>2004</u>	<u>2005</u>	<u>2006</u>
<u>UNDERWRITING INCOME</u>					
Premiums Earned	\$ 184,808,761	\$ 133,046,045	\$ -	\$ -	\$ -
Deductions:					
Losses Incurred	\$ 136,915,726	\$ 68,461,720	\$ -	\$ -	\$ -
Loss Expenses Incurred	6,536,180	29,239,893	-	-	-
Other Underwriting Expenses Incurred	59,720,659	43,940,027	-	-	-
Aggregate Write-ins for Underwriting Deductions	<u>(4,441,875)</u>	<u>(4,497,190)</u>	-	-	-
Total Underwriting Deductions	\$ 198,730,690	\$ 137,144,450	\$ -	\$ -	\$ -
Net Income from Protected Cells	-	-	-	-	-
Net Underwriting Gain or (-) Loss	<u>\$ (13,921,929)</u>	<u>\$ (4,098,405)</u>	\$ -	\$ -	\$ -
<u>INVESTMENT INCOME</u>					
Net Investment Income Earned	\$ 20,294,947	\$ 17,731,153	\$ 16,895,916	\$ 2,092,592	\$ 2,999,220
Net Realized Capital Gains and (-) Losses	<u>6,091,844</u>	<u>34,775,428</u>	<u>87,178,455</u>	<u>(16,369,083)</u>	<u>(12,201,059)</u>
Net Investment Gain or (-) Loss	<u>\$ 26,386,791</u>	<u>\$ 52,506,581</u>	<u>\$ 104,074,371</u>	<u>\$ (14,276,491)</u>	<u>\$ (9,201,839)</u>
<u>OTHER INCOME</u>					
Net Gain or (Loss) from Agents' or Premium Balances Charged Off	\$ 1,702,031	\$ 1,258,991	\$ -	\$ -	\$ -
Finance and Service Charges Not Included in Premiums	977,085	848,681	-	-	-
Aggregate Write-ins for Miscellaneous Income	<u>707,724</u>	<u>6,510,873</u>	-	-	-
Total Other Income	\$ 3,386,840	\$ 8,618,545	\$ -	\$ -	\$ -
Net Income Before Dividends to Policyholders, After Capital Gains Tax and Before Federal Income Taxes	\$ 15,851,702	\$ 57,026,721	\$ 104,074,371	\$ (14,276,491)	\$ (9,201,839)
Dividends to Policyholders	<u>414,781</u>	<u>(58,352)</u>	-	-	-
Net Income After Dividends to Policyholders, After Capital Gains Tax and Before Federal Income Taxes	\$ 15,436,921	\$ 57,085,073	\$ 104,074,371	\$ (14,276,491)	\$ (9,201,839)
Federal and Foreign Income Taxes Incurred	<u>(7,733,358)</u>	-	<u>(1,784,376)</u>	<u>487,616</u>	<u>2,757,456</u>
Net Income	<u>\$ 23,170,279</u>	<u>\$ 57,085,073</u>	<u>\$ 105,858,747</u>	<u>\$ (14,764,107)</u>	<u>\$ (11,959,295)</u>

THE CAMDEN FIRE INSURANCE ASSOCIATION

CAPITAL AND SURPLUS ACCOUNT FOR THE FIVE YEAR EXAMINATION PERIOD ENDED DECEMBER 31, 2006 - EXHIBIT C

	<u>2002</u>	<u>2003</u>	<u>2004</u>	<u>2005</u>	<u>2006</u>
Surplus As Regards Policyholders, December 31, Prior Year	\$ 240,402,021	\$ 268,111,953	\$ 258,645,831	\$ 69,899,361	\$ 75,703,546
Net Income	\$ 23,170,279	\$ 57,085,073	\$ 105,858,747	\$ (14,764,107)	\$ (11,959,295)
Net Transfers to and from Protected Cells	-	-	-	-	-
Change in Net Unrealized Capital Gains or (Losses)	16,904,369	8,785,641	(56,151,914)	28,556,094	34,146
Change in Net Unrealized Foreign Exchange Capital					
Gain or Loss	-	34,977	(14,575)	(20,405)	-
Change in Net Deferred Income Tax	8,536,265	(27,922,241)	(18,840,383)	10,223,373	12,842,746
Change in Non-Admitted Assets	(9,173,472)	10,050,428	6,201,655	(18,190,770)	2,033,414
Change in Provision for Reinsurance	-	-	-	-	-
Reversal of 2001 Examination Changes	52,521,535	-	-	-	-
Change in Surplus Notes	-	-	-	-	-
Surplus Contributed or Withdrawn from Protected Cells	-	-	-	-	-
Cumulative Effect of Changes in Accounting Principles	-	-	-	-	-
Capital Changes:					
Paid In	-	-	-	-	-
Transferred from surplus (Stock Dividend)	-	-	-	-	-
Transferred to Surplus	-	-	-	-	-
Surplus Adjustments:					
Paid In	-	-	-	-	-
Transferred to capital (Stock Dividend)	-	-	-	-	-
Transferred from Capital	-	-	-	-	-
Net Remittances to and from the Home Office	-	-	-	-	-
Dividends to Stockholders	(57,500,000)	(57,500,000)	(225,800,000)	-	(5,000,000)
Change in Treasury Stock	-	-	-	-	-
Aggregate Write-ins for Gains and Losses in Surplus	(6,749,044)	-	-	-	-
Change in Surplus As Regards Policyholders for the Year	\$ 27,709,932	\$ (9,466,122)	\$ (188,746,470)	\$ 5,804,185	\$ (2,048,989)
Surplus As Regards Policyholders, December 31, Current Year	\$ 268,111,953	\$ 258,645,831	\$ 69,899,361	\$ 75,703,546	\$ 73,654,557

NOTES TO THE FINANCIAL STATEMENTS

Note 1 – Bonds

Camden Fire reported “Bonds” in the amount of \$60,801,950 at December 31, 2006 as summarized:

	<u>Par Value</u>	<u>Actual Cost</u>	<u>Admitted Value</u>
Government	\$27,938,000	\$30,757,708	\$29,755,873
Special Revenue	794,503	795,948	795,396
Industrial and Miscellaneous	<u>29,369,605</u>	<u>30,472,767</u>	<u>30,250,681</u>
 Total	 <u>\$58,102,108</u>	 <u>\$62,026,423</u>	 <u>\$60,801,950</u>

All securities, excluding those held as special deposits with state insurance departments, were held by Mellon Bank, N.A., Pittsburgh, Pennsylvania, 15258 at December 31, 2006. Mellon Bank, N.A. is an authorized custodian licensed by the New Jersey Department of Banking and Insurance.

In addition, the asset was verified by the performance of additional procedures which included confirmation of all statutory deposits with state insurance departments and a determination that the investments of the Company were valued in accordance with the investment regulations of the State of New Jersey and NAIC SSAP No. 26 “Bonds”. No exceptions were noted.

The asset has been accepted as stated for examination purposes.

Note 2 – Loss and Loss Adjustment Expenses

At December 31, 2006, the Company reported and this examination verified \$-0- for losses and \$-0- for loss adjustment expenses. The Company ceded 100% of direct premiums written to an affiliated company, OneBeacon Insurance Company.

It should be noted that an independent review of the Company’s reserves was not completed by the Property and Casualty Actuarial Division of the New Jersey Department of Banking and Insurance. However, based on a review of the KPMG actuarial report prepared for the Pennsylvania Insurance Department, the lead state on the zone financial examination of OneBeacon, the booked net and gross reserves of the Company are accepted without adjustments.

Note 3 – Taxes, Licenses and Fees

At December 31, 2006, the Company reported no liability for “Taxes, Licenses and Fees”. It is the position of this examination that the costs associated with state insurance department examination fees are a separate company cost and that the Company should establish a separate accrual in future annual statements under this liability for state insurance department examination fees. It is hereby recommended that the Company establish an accrual for state insurance department examination fees under “Taxes, Licenses and Fees” in future annual statements.

Note 4 – Capital and Surplus

Camden Fire reported surplus as regards policyholders in the amount of \$73,654,557 at December 31, 2006 as summarized:

Common Capital Stock	\$4,200,000
Gross Paid In and Contributed Surplus	11,215,950
Unassigned Funds (Surplus)	<u>58,238,607</u>
Total	<u>\$73,654,557</u>

The Company’s common capital stock consisted of 500,000 shares issued and outstanding each with a \$8.40 par value. The shares of the Company are owned by its controlling entity, OneBeacon Insurance Group, LLC.

The Company was determined to be in compliance with the statutory minimum capital and surplus requirements specified by N.J.S.A. 17:17-1 at December 31, 2006.

It was determined that the Company received no capital contributions during the current examination period.

The examination resulted in no material findings affecting the Company’s surplus as stated.

EXAMINATION RECOMMENDATIONS

<u>Page</u>	<u>Treatment of Policyholders</u>
12	It is again recommended that the Company number each individual complaint recorded on the Complaint Log and record the total number of complaints received each year on the Complaint Log.
	<u>Taxes, Licenses and Fees</u>
18	It is hereby recommended that the Company establish an accrual for state insurance department examination fees under "Taxes, Licenses and Fees" in future annual statements.

SUBSEQUENT EVENTS

The following events occurred subsequent to the examination date:

- Director Roger M. Singer resigned effective 1/1/2007
- The Board set the number of directors at (10) ten
- The following directors were appointed to serve until the next annual meeting: Dana P. Hendershott and Jennifer E. Lawrence
- Carey D. Benson, Senior Vice President resigned effective 1/1/2007
- Thomas L. Forsyth, General Counsel resigned effective 2/19/2007
- Approved new management investment agreements with White Mountains Advisors, LLC and Prospector Partners, LLC on 2/6/2007
- Approved changing the principal administrative office of the Company to OneBeacon Lane, Canton, Massachusetts 02021 effective 3/1/2007
- Approved investment guidelines to be part of the new management investment agreements with White Mountains Advisors, LLC and Prospector Partners, LLC on 8/1/2007
- The OneBeacon Insurance Group, subject to any required NJDOBI approval, is in the process of developing a strategic plan that will enable it to be competitive against similar insurers within the New Jersey marketplace. OneBeacon has consulted with the NJDOBI and plans to make a 2008 regulatory filing to describe the restructuring of its personal lines business.

CONCLUSION

This examination was conducted with the courteous cooperation of the officers and employees of the One Beacon Insurance Group (Camden Fire Insurance Association).

Respectfully Submitted,

/S/

Christopher A. Stein, CFE, CPA
Insurance Examiner 1

