ASSOCIATION EXAMINATION REPORT
on
COLONY NATIONAL INSURANCE COMPANY
Richmond, Virginia
as of
December 31, 2008

COMMONWEALTH OF VIRGINIA
STATE CORPORATION COMMISSION
BUREAU OF INSURANCE

COMMONWEALTH OF VIRGINIA

ALFRED W. GROSS
COMMISSIONER OF INSURANCE
STATE CORPORATION COMMISSION
BUREAU OF INSURANCE

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RICHMOND, VIRGINIA 23218
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http://www.scc.virginia.gov/division/boi

I, Alfred W. Gross, Commissioner of Insurance of the Commonwealth of Virginia, do hereby certify that the annexed copy of the Examination Report of Colony National Insurance Company as of December 31, 2008, is a true copy of the original report on file with this Bureau.

IN WITNESS WHEREOF, I have hereunto set my hand and affixed to the original the seal of the Bureau at the City of Richmond, Virginia this 7th day of October, 2009

Alfred W. Gross

Alfred W. Gross
Commissioner of Insurance

(SEAL)

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Richmond, Virginia
July 10, 2009

Honorable Alfred W. Gross
Chairman of the NAIC Financial
Condition (E) Committee
Commissioner of Insurance
Commonwealth of Virginia
Richmond, Virginia

Honorable James J. Donelon
Secretary-Southeastern Zone, NAIC
Commissioner of Insurance
State of Louisiana
Baton Rouge, Louisiana

Dear Sirs:

Pursuant to your instructions and by the authority of § 38.2-1317 of the Code of Virginia, a financial condition examination of the records and affairs of the

Colony National Insurance Company

Richmond, Virginia

hereinafter referred to as the Company, has been completed. The report thereon is submitted for your consideration.

DESCRIPTION

The Company is a stock property and casualty insurer and is licensed under and subject to the general insurance laws contained in Title 38.2 of the Code of Virginia. The Company was last examined by representatives of the State Corporation Commission's Bureau of Insurance (Bureau) as of December 31, 2005. The current examination, which was called under the auspices of the National Association of Insurance Commissioners, was made by the Bureau representing the Southeastern Zone and covers the period from January 1, 2006 through December 31, 2008.

HISTORY

On September 29, 1988, the Company was incorporated under the laws of the State of Florida as a stock property and casualty insurer. The Company commenced business on March 10, 1989 as Preferred National Insurance Company. Until 1996, the Company principally underwrote fidelity bonds and surety bonds. Since 1996, the Company has underwritten fire and allied lines, special multi-peril, professional liability and other liability insurance.

The Company was acquired from Preferred National Financial Corporation by PNIC Holdings, Inc. on July 31, 1998. At that time, PNIC Holdings, Inc. was owned by three wholly-owned subsidiaries of Front Royal, Inc (Front Royal). At December 31, 1998, the ownership percentages were Colony Holdings, Inc. with 12.65%, Rockwood Casualty Insurance Company (Rockwood) with 55.35%, and Colony Insurance Company (Colony) with 32%.

Effective October 1, 1999, Colony Holdings, Inc., and PNIC Holdings, Inc., were dissolved, and direct ownership of the Company was held by Colony (32%), Rockwood (55.35%) and Front Royal (12.65%). On December 11, 2000, the Company redomiciled from Florida to Virginia.

On August 23, 2001, Front Royal and its subsidiaries were acquired by Argonaut Group, Inc. (Argonaut Group). Pursuant to the transaction, Front Royal became a wholly-owned subsidiary of Argonaut Insurance Company (Argonaut), a California domestic insurer wholly owned by the Argonaut Group. Argonaut Group is engaged in the writing of property and casualty lines of business. This transaction received the necessary regulatory approval.

Effective April 1, 2002, the name of the Company was changed to Colony National Insurance Company.

In 2003, Colony purchased Front Royal's 12.65% direct ownership in the Company for $5,141,308.

On February 6, 2004 Argonaut paid a dividend to Argonaut Group in the form of Colony, Colony's 100% ownership interest in Colony Specialty Insurance Company (CSIC) and Colony's 44.65% ownership in the Company. Argonaut received permission from the California Department of Insurance to treat this dividend as a permitted practice effective December 31, 2003. The dividend had no financial impact on the Company.

In March 2004, Rockwood paid a common stock dividend of 610,687 shares of the Company to Front Royal. As a result, direct ownership of the Company was held by Colony (44.65%), Front Royal (29.43%) and Rockwood (25.92%). In 2006, Front Royal was dissolved and its 29.43% interest in the Company was assigned to Argonaut Group. In 2007, Rockwood Holding Company was dissolved and Rockwood's 25.92% share of the Company was assigned to Argonaut.

In March 2007, PXRE Group Ltd. (PXRE) and Argonaut Group entered into a merger agreement pursuant to which Argonaut Group became a wholly-owned subsidiary of PXRE on August 7, 2007. PXRE changed its name to Argo Group International Holdings, Ltd., a Bermuda corporation, upon completion of the merger. In 2008 the organization was restructured and the U.S. holding company was renamed Argo Group US, Inc. (Argo Group US).

In December 2008, Argo Group US contributed its 25.92% interest in the Company to Colony in the form of a surplus contribution in the amount of $27,648,228. Also in December 2008, Colony purchased Argonaut's 29.43% interest in the Company for $31,392,259. As a result of these transactions, the Company is now wholly-owned by Colony.

MANAGEMENT AND CONTROL

Management is vested in a board of directors, which shall consist of five members. Each director shall be elected to hold office until the next succeeding annual meeting of the shareholders or until his successor shall have been elected and qualified.

The bylaws provide for a president, a secretary and a treasurer. The board of directors or the president may appoint one or more vice presidents or other officers and assistant officers as deemed necessary. The president shall be the chief executive officer of the Company. Directors and officers at December 31, 2008 were as follows:

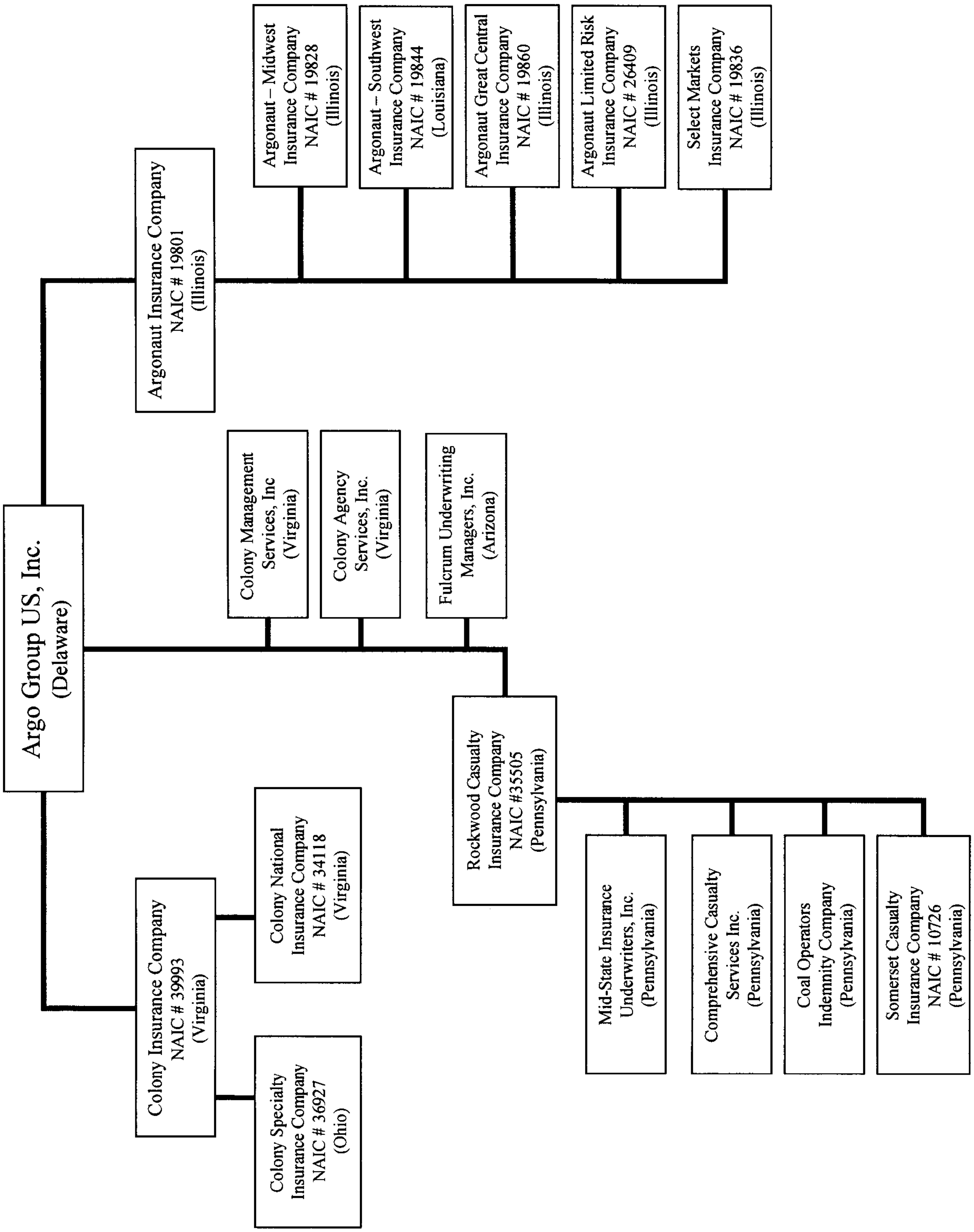
Director:	Principal Business Affiliation:
Michael E. Arledge	President, Commercial Specialty Argo Group US, Inc. San Antonio, Texas
Craig S. Comeaux	Vice President, Secretary and Deputy General Counsel Argo Group US, Inc. San Antonio, Texas

Daniel A. Cotter	Vice President and Deputy General Counsel Argo Group US, Inc. San Antonio, Texas
Mark W. Haushill	Senior Vice President and Chief Financial Officer Argo Group US, Inc. San Antonio, Texas
Dale H. Pilkington	President and Chief Executive Officer Argo Group US, Inc. San Antonio, Texas

Officers:

Dale H. Pilkington	President and Chief Executive Officer
Matthew R. Pollak	Senior Vice President, Treasurer and Chief Financial Officer
Samuel C. Anderson	Senior Vice President
Craig S. Comeaux	Vice President and Secretary
Daniel A. Cotter	Vice President and Assistant Secretary
Lynn K. Geurin	Vice President and Assistant Treasurer
W. Douglas Griffin	Vice President and Controller
Mark W. Haushill	Vice President
Gail T. Kimpfler	Vice President
Daniel G. Platt	Vice President
Barbara L. Sutherland	Vice President

The Company is wholly owned by Colony, which is a wholly owned subsidiary of Argo Group US. The following chart illustrates this insurance holding company system at December 31, 2008:


Argo Group US, Inc.
(Delaware)
Argonaut Insurance Company
NAIC # 19801
(Illinois)
Argonaut – Midwest
Insurance Company
NAIC # 19828
(Illinois)
Argonaut – Southwest
Insurance Company
NAIC # 19844
(Louisiana)
Argonaut Great Central
Insurance Company
NAIC # 19860
(Illinois)
Argonaut Limited Risk
Insurance Company
NAIC # 26409
(Illinois)
Select Markets
Insurance Company
NAIC # 19836
(Illinois)
Colony Management
Services, Inc
(Virginia)
Colony Agency
Services, Inc.
(Virginia)
Fulcrum Underwriting
Managers, Inc.
(Arizona)
Rockwood Casualty
Insurance Company
NAIC #35505
(Pennsylvania)
Mid-State Insurance
Underwriters, Inc.
(Pennsylvania)
Comprehensive Casualty
Services Inc.
(Pennsylvania)
Coal Operators
Indemnity Company
(Pennsylvania)
Somerset Casualty
Insurance Company
NAIC # 10726
(Pennsylvania)
Colony Insurance Company
NAIC # 39993
(Virginia)
Colony National
Insurance Company
NAIC # 34118
(Virginia)
Colony Specialty
Insurance Company
NAIC # 36927
(Ohio)

RELATED PARTY TRANSACTIONS

Service Agreements

Effective July 31, 1998, the Company entered into an agreement with Colony Management Services, Inc. (CMS), an affiliate. The agreement states that CMS shall provide various services to the Company, including but not limited to management, administration, claims, operations, accounting and personnel. In consideration of its services pursuant to this agreement, CMS shall receive a monthly reimbursement for said services at an amount which approximates their cost.

On June 1, 2002, the Company entered into an agreement with Fulcrum Underwriting Managers, Inc. (FUMI), an affiliate of the Company. The agreement states that FUMI shall provide underwriting services on business produced by the Fulcrum agency plant, including but not limited to, communicating policy contract terms to agents, evaluating risks, making agreed modifications to or cancellations of policies, facilitating collection of premiums and other such services as may be agreed upon between the parties from time to time. In consideration of its services pursuant to this agreement, FUMI shall receive a monthly reimbursement for said services at an amount which approximates their cost.

The Company paid fees for these services in the amount of $16,097,218, $19,878,897 and $21,994,692, during 2006, 2007 and 2008, respectively.

On August 1, 1998, the Company entered into an agreement with Colony. The purpose of this agreement was to have Colony act as the disbursing agent for the Company. This agreement is a matter of convenience to both parties and Colony shall receive no cash compensation from the Company. The Company will reimburse Colony in full within 30 days following the end of the month in which Colony disbursed funds on the Company's behalf. The term of this agreement is continuous, subject to termination by either party, without cause, upon 30 days written notice.

Premium Allocation Agreement

Effective December 31, 2007, the Company entered into an agreement with Colony and CSIC, collectively the Colony Companies, Argonaut-Midwest Insurance Company (Argonaut-Midwest) and Argonaut. Argonaut-Midwest and Argonaut each appoint the Colony Companies to provide services with respect to the management of the collection and transfer of premiums for designated policies of Argonaut and Argonaut-Midwest. In connection with the servicing of these designated Argonaut/Argonaut-Midwest policies, the Colony Companies shall collect premiums on behalf of Argonaut and Argonaut-Midwest from time to time. Such premiums are to be collected by the Colony Companies and deposited into the Colony Companies' bank accounts. Any such premiums collected by the Colony Companies shall be held in a fiduciary capacity. This agreement is a matter of convenience to the interested parties and the Colony Companies shall receive no cash compensation for these services from Argonaut or Argonaut-Midwest; provided, however, that with respect to CSIC, Argonaut and Argonaut-Midwest shall reimburse CSIC pursuant to this agreement in conformity with statutory accounting principles consistently applied. Such reimbursements, if any, shall be made within 45 days of the end of each calendar quarter.

Tax Allocation Agreement

On January 30, 2002, the Company entered into a tax allocation agreement with Argonaut Group (now Argo Group US). Under this agreement, Argo Group US files a consolidated federal income tax return. This agreement covers the 2001 tax year and for each year thereafter for which a consolidated return is filed. Only the results for transactions occurring on or after December 31, 2001 are to be included on the consolidated federal income tax return. All settlements for income tax payments to Argo Group US, or refunds to the Company, shall be made within 30 days after the date of filing the consolidated income tax return for each respective tax year.

Dividends

The Company paid no dividends during the period of this examination.

FIDELITY BOND AND OTHER INSURANCE

At December 31, 2008, the Company was a named insured on a financial institution bond providing coverage of $10,000,000 for a single loss. The Company was also a named insured on other insurance coverages as of December 31, 2008.

TERRITORY AND PLAN OF OPERATION

The Company is domiciled and licensed in the Commonwealth of Virginia. As of December 31, 2008, the Company is licensed to write the following lines of business in Virginia:

Fire	Glass
Miscellaneous Property and Casualty	Burglary and Theft
Commercial Multiple Peril	Automobile Liability
Inland Marine	Automobile Physical Damage
Liability Other Than Auto	

The Company is also licensed to write business in the States of Florida and Illinois. The Company is approved for surplus lines in the following jurisdictions:

Alabama	Louisiana	Oregon
Arizona	Maryland	Pennsylvania
Arkansas	Minnesota	South Carolina
California	Mississippi	South Dakota
Colorado	Missouri	Tennessee
Georgia	Montana	Texas
Hawaii	New Jersey	Utah
Iowa	Nebraska	Washington
Idaho	Nevada	West Virginia
Indiana	North Carolina	Wisconsin
Kansas	North Dakota	Wyoming
Kentucky	Ohio	District of Columbia

The Company underwrites small to medium commercial lines accounts as both an admitted carrier and as an approved non-admitted surplus lines carrier.

Insurance products are written throughout the United States through licensed surplus lines brokers, with underwriting authority maintained by the Company. Commissions vary between 15% and 20% and are based on the lines of business. Those brokers who have authority to bind policies on behalf of the Company also participate in a contingent commission plan, provided they meet certain production volume and loss ratio requirements and have made timely settlement of their accounts. The commissions range between ¾% and 11% percent, and are based on gross written premiums on contract property and casualty lines of business.

GROWTH OF THE COMPANY

The following data, obtained from Annual Statements filed with the Bureau, and from examination reports, indicates the growth of the Company for the ten-year period ending December 31, 2008:

Year	Admitted Assets	Liabilities	Common Capital Stock	Gross Paid In and Contributed Surplus	Unassigned Funds
1999	$82,677,830	$54,154,270	$3,500,000	$23,041,334	$1,982,226
2000	89,832,306	61,574,042	3,500,000	23,041,334	1,716,930
2001	103,816,978	71,790,683	3,500,000	23,041,334	5,484,961
2002	149,534,137	117,174,205	3,500,000	23,041,334	5,818,598
2003	166,762,940	124,561,592	3,500,000	23,041,334	15,660,014
2004	199,092,844	146,997,033	3,500,000	23,041,334	25,554,477
2005	253,723,391	193,545,469	3,500,000	23,041,334	33,636,588
2006	331,633,991	253,780,745	3,500,000	23,041,334	51,311,912
2007	388,334,754	289,494,503	3,500,000	23,041,334	72,298,917
2008	411,602,350	303,107,691	3,500,000	23,041,334	81,953,325

Year	Premiums Earned	Loss and Loss Adjustment Expenses Incurred	Other Underwriting Expenses	Net Underwriting Gain or (Loss)
1999	$30,957,009	$18,987,267	$10,131,185	$1,838,557
2000	31,754,208	19,624,714	12,046,569	82,925
2001	39,827,367	24,982,901	14,853,305	(8,839)
2002	60,916,186	38,651,007	25,102,521	(2,837,342)
2003	106,968,642	66,003,091	30,083,631	10,881,920
2004	85,701,711	55,924,261	23,870,697	5,906,753
2005	87,401,795	54,211,380	28,532,462	4,657,953
2006	130,188,292	70,869,579	44,219,291	15,099,422
2007	133,598,103	74,547,381	41,572,677	17,478,045
2008	77,301,542	42,434,787	26,886,436	7,980,319

REINSURANCE

The Company had the following reinsurance coverage in force at December 31, 2008:

Ceded to Non-Affiliated Reinsurers:

Type of Agreement	Class of Business	Company Retention	Reinsurer's Limits
Excess of Loss	Property	$1,000,000 each occurrence	$15,000,000 excess of $1,000,000 each occurrence including terrorism coverage
Excess of Loss	Property	$15,000,000 each risk, each occurrence	$45,000,000 excess of $15,000,000, each risk, each occurrence
Excess of Loss	Liability	$500,000 ultimate net loss	$500,000 ultimate net loss each loss occurrence
Quota Share	Primary Allied Medical and Errors and Omission	For policies with limits greater than $1,000,000: 25% of the ultimate net liability of the first $1,000,000 excess of $1,000,000; 0% of the ultimate net liability of the next $4,000,000 excess of $2,000,000	For policies with limits greater than $1,000,000: 75% of the ultimate net liability of the first $1,000,000 excess of $1,000,000; 100% of the ultimate net liability of the next $4,000,000 excess of $2,000,000

Type of Agreement	Class of Business	Company Retention	Reinsurer's Limits
	Allied Medical and Errors and Omission Excess	25% of the ultimate net liability of the first $1,000,000; 0% of the ultimate net liability of the next $4,000,000 excess of $1,000,000	75% of the ultimate net liability of the first $1,000,000; 100% of the ultimate net liability of the next $4,000,000 excess of $1,000,000
Excess of Loss	Business Auto Truckers	$500,000 each occurrence	$500,000 in excess of $500,000 each occurrence, subject to a limit of $500,000 each loss occurrence
Excess of Loss	Business Auto Truckers	$1,000,000	$1,000,000 in excess of $1,000,000
Quota Share (Excess Umbrella)	Commercial Umbrella and Excess General Liability	15% of the net retained liability in excess of the underlying policy	85% of the net retained liability in excess of the underlying policy
Excess of Loss	Environmental Liability on Washington State UST (underground storage tank) coverage	$75,000 each claim	$925,000 each claim in excess of company retention

Agreement	Class of Business	Company Retention	Reinsurer's Limits
Excess of Loss	Property Catastrophe	Layer 1 $7,500,000	$7,500,000 in excess of $7,500,000 each and every loss occurrence
		Layer 2 $15,000,000 and 5% of up to $15,000,000	95% of $15,000,000 excess of $15,000,000, each and every loss
		Layer 3 $30,000,000 and 5% of up to $30,000,000	95% of $30,000,000 excess of $30,000,000, each and every loss
		Layer 4 $60,000,000 and 5% of up to $40,000,000	95% of $40,000,000 excess of $60,000,000, each and every loss
		Layer 5 $100,000,000 and 5% of up to $50,000,000	95% of $50,000,000 excess of $100,000,000, each and every loss
		Layer 6 $150,000,000 and 5% of up to $20,000,000	95% of $20,000,000 excess of $150,000,000, each and every loss

Reinsurance-Related Parties

Effective October 1, 2007, the Company and certain affiliates entered into a quota share reinsurance agreement with Peleus Reinsurance, Ltd. (Peleus), a Bermuda based affiliated reinsurer. This agreement shall apply to business underwritten by the Company. Under the original terms of this agreement, the Company ceded 30% of premiums and losses (net of inuring unaffiliated reinsurance) to Peleus. The percentage was increased to 50% effective April 1, 2008. Peleus was subsequently renamed Argo Re, Ltd. As Argo Re, Ltd. is not authorized in Virginia, the Company holds funds on deposit in order to secure reinsurance recoverables from this entity.

Intercompany Pooling Agreement

On July 1, 1999, the Company entered into an intercompany reinsurance pooling agreement with Colony and CSIC. Under the terms of this agreement, all business written since July 1, 1999, the unearned premium and unpaid loss and loss adjustment expense reserves on that date for accident years 1996 and after, and the unpaid loss and loss adjusting expense reserve development on all losses incurred prior to 1996 were to be shared on the basis of 40% to the Company, 45% to Colony and 15% to CSIC. All business was subject to this agreement and was pooled net of reinsurance with non-affiliates. On October 1, 2003, the pooling agreement was amended to change the percentages to 30% for the Company, 55% for Colony and 15% for CSIC.

Commuted Reinsurance Agreement

Effective July 1, 2004, the Company entered into a quota share reinsurance arrangement with Argonaut, which was approved by the Bureau. Under the terms of this agreement, the Company will cede 12.5% of the premium, net of reinsurance with non-affiliates, to Argonaut. Effective January 1, 2006, the Company agreed to commute this quota share reinsurance agreement. As a result of the commutation, the Company reported a decline in surplus of $2,200,564.

SCOPE

This is a full scope financial condition examination initiated and conducted under the provisions of Article 4, Chapter 13 of Title 38.2 of the Code of Virginia. The examination covers the period from January 1, 2006, through December 31, 2008. Assets were verified and liabilities were established at December 31, 2008. A review of income and disbursements for the period was made to the extent deemed necessary.

The items comprising the Balance Sheet for which Specific Risk Analyses (SRA) were required had medium or low risk assessments as determined from the National Association of Insurance Commissioners *Financial Condition Examiners Handbook.* Analytical review procedures were applied for non-SRA items.

The services of Oliver Wyman Actuarial Consulting, Inc. were engaged pursuant to the provisions of Code of Virginia § 38.2-1318 E. This engagement was made to provide an actuarial report as to the reasonableness of the Company's total loss and loss adjustment expense reserves as of December 31, 2008.

In addition, the following items were reviewed, several of which are discussed separately under their respective captions in this report.

History
Company Records
Management and Control
Fidelity Bond and Other Insurance
Related Party Transactions
Territory and Plan of Operation
Conflict of Interest
Growth of the Company
Reinsurance
Welfare and Pension Plans
Accounts and Records
Financial Statements

FINANCIAL STATEMENTS

There follows a statement of financial condition as of December 31, 2008, a statement of income for the period ending December 31, 2008, a reconciliation of surplus for the period under review, and a statement of cash flow for the period ending December 31, 2008. The financial statements are presented in accordance with Statutory Accounting Principles.

ASSETS

	Assets	Nonadmitted Assets	Net Admitted Assets
Bonds	$350,275,867		$350,275,867
Common stocks	11,542,877		11,542,877
Cash and short-term investments	3,098,011		3,098,011
Other invested assets	454,044		454,044
Investment income due and accrued	3,859,082		3,859,082
Uncollected premiums and agents' balances	14,754,413	55,259	14,699,154
Amounts recoverable from reinsurers	7,872,242		7,872,242
Funds held by or deposited with reinsured companies	7,198,743		7,198,743
Other amounts receivable under reinsurance contracts	34,899		34,899
Current federal income tax recoverable and interest thereon	293,337		293,337
Net deferred tax asset	16,832,910	7,202,440	9,630,470
Receivables from parent, subsidiaries and affiliates	2,643,624		2,643,624
Totals	$418,860,049	$7,257,699	$411,602,350

LIABILITIES, SURPLUS AND OTHER FUNDS

Losses		$152,646,005
Reinsurance payable on paid losses and loss adjustment expenses		3,447,715
Loss adjustment expenses		51,863,401
Commissions payable, contingent commissions and other similar charges		1,189
Taxes, licenses and fees		(70)
Unearned premiums		68,852,592
Ceded reinsurance premiums payable		8,505,040
Funds held by company under reinsurance treaties		17,067,731
Amounts withheld or retained by company for account of others		5,000
Provision for reinsurance		332,215
Payable to parent, subsidiaries and affiliates		386,873
Total liabilities		$303,107,691
Common capital stock	$3,500,000	
Gross paid in and contributed surplus	23,041,334	
Unassigned funds (surplus)	81,953,325	
Surplus as regards policyholders		108,494,659
Totals		$411,602,350

UNDERWRITING AND INVESTMENT EXHIBIT
STATEMENT OF INCOME

UNDERWRITING INCOME

Premiums earned	$77,301,542
Deductions:	
Losses incurred	$28,299,899
Loss expenses incurred	14,134,888
Other underwriting expenses incurred	26,886,436
Total underwriting deductions	$69,321,223
Net underwriting gain	$7,980,319

INVESTMENT INCOME

Net investment income earned	$15,588,128
Net realized capital losses	(3,513,511)
Net investment gain	$12,074,617

OTHER INCOME

Net loss from agents' or premium balances charged off	($11,402)
Aggregate write-ins for miscellaneous income	(270,001)
Total other income	($281,403)
Net income before federal income taxes	$19,773,533
Federal income taxes incurred	7,471,120
Net income	$12,302,413

RECONCILIATION OF CAPITAL AND SURPLUS FOR PERIOD UNDER REVIEW

	2006	2007	2008
Surplus as regards policyholders, December 31, previous year	$60,177,922	$77,853,246	$98,840,251
Net income	$13,738,098	$20,119,354	$12,302,413
Change in net unrealized capital gains or (losses)	1,380,746	420,548	(3,237,883)
Change in net deferred income tax	3,278,541	1,255,229	1,745,481
Change in nonadmitted assets	(722,061)	(747,969)	(883,545)
Change in provision for reinsurance		(60,157)	(272,058)
Change in surplus as regards policyholders for the year	$17,675,324	$20,987,005	$9,654,408
Surplus as regards policyholders, December 31, current year	$77,853,246	$98,840,251	$108,494,659

CASH FLOW

Cash From Operations

Premiums collected net of reinsurance	$85,400,986
Net investment income	16,388,578
Miscellaneous income	(108,061)
Total	$101,681,503
Benefit and loss related payments	$36,942,241
Commissions, expenses paid and aggregate write-ins for deductions	39,894,421
Federal income taxes paid	8,363,466
Total	$85,200,128
Net cash from operations	$16,481,375

Cash From Investments

Proceeds from investments sold, matured or repaid:	
Bonds	$40,707,247
Stocks	4,807,870
Other invested assets	2,228,928
Total investment proceeds	$47,744,045
Cost of investments acquired (long-term only):	
Bonds	$71,996,199
Stocks	6,610,474
Total investments acquired	$78,606,673
Net cash from investments	($30,862,628)

Cash From Financing and Miscellaneous Sources

Cash provided (applied):	
Other cash provided	$10,610,324
Net cash from financing and miscellaneous sources	$10,610,324
Net change in cash and short-term investments	($3,770,929)

RECONCILIATION OF CASH AND SHORT-TERM INVESTMENTS

Cash and short-term investments:	
Beginning of year	$6,868,940
End of year	3,098,011
Net change in cash and short-term investments	($3,770,929)

SUBSEQUENT EVENT

Effective January 1, 2009, the Company terminated and commutated the intercompany reinsurance pooling agreement. Simultaneously, the Company entered into a 100% quota share reinsurance agreement with Colony and CSIC whereby the Company and CSIC each will cede 100% of their existing and new business to Colony. This arrangement was approved by the Bureau.

CONCLUSION

The courteous cooperation extended by the Company's officers and employees during the course of the examination is hereby gratefully acknowledged.

In addition to the undersigned, Jennifer K. Crawley, CFE, Mario A. Cuellar, CFE, Gina M. Gainer, Theresa C. Lewis, CFE and George E. Morgan, CFE, of the Bureau participated in the work of the examination.

Respectfully submitted,

T. Bradford Earley, Jr., AIAF, CFE, CPCU
Insurance Principal Financial Analyst
Commonwealth of Virginia
Representing the Southeastern Zone, NAIC

COLONY
Member Argo Group

September 18, 2009

David H. Smith, CFE, CPA, CPCU
Chief Examiner
State Corporation Commission
Bureau of Insurance
P. O. Box 1157
Richmond, Virginia 23218

Re: Colony National Insurance Company
Association Examination Report as of December 31, 2008

Dear Mr. Smith:

Management of Colony National Insurance Company hereby acknowledges receipt of the Association Examination Report on Colony National Insurance Company dated July 10, 2009. We appreciate the courteous and professional manner in which your staff conducted the examination and look forward to working with you and your team in the future.

Should you have any additional questions, comments, or concerns regarding this acknowledgement, please contact Melinda Thompson at mthompson@colonyins.com or via phone at (804) 560-4116.

Best regards,

Barbara L. Sutherland

Barbara L. Sutherland
President

Cc: Mathew R. Pollak
SVP, CFO and Treasurer
Colony Insurance Company

T. Bradford Earley, Jr.
Insurance Principal Financial Analyst
Virginia Bureau of Insurance

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