EXAMINATION REPORT
on
COLONY 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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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 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
Commissioner of Insurance

(SEAL)

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Richmond, Virginia
July 10, 2009

Honorable Alfred W. Gross
Commissioner of Insurance
Commonwealth of Virginia
Richmond, Virginia

Dear Sir:

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 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. This examination covers the period from January 1, 2006, through December 31, 2008.

HISTORY

The Company's stock was purchased by Waite Hill Assurance Ltd. in 1980. The Company was granted a license and commenced business in 1981. In 1983, Waite Hill Assurance Ltd. transferred the stock of the Company to its parent, Figgie International Inc., who in turn transferred the stock to one of its subsidiaries, Waite Hill Holdings, Inc. (Waite Hill).

The Company was licensed in Virginia on May 14, 1991 and redomiciled from Rhode Island to Virginia on May 31, 1991.

On January 28, 1992, Waite Hill transferred ownership of Cardinal Casualty Company (Cardinal), an affiliate, to the Company. In January 1995, Cardinal changed its name to Front Royal Insurance Company (FRIC) and in April 2002, FRIC changed its name to Colony Specialty Insurance Company (CSIC). CSIC is an Ohio domestic insurer and is approved as a surplus lines carrier in Virginia.

On December 30, 1994, the Company was purchased by Front Royal, Inc. (Front Royal), a North Carolina corporation.

In July 1998, the Company purchased 16.2% of the stock of its affiliate, PNIC Holdings, Inc., parent of Preferred National Insurance Company (PNIC), for $6,000,000. In July and December 1998, Front Royal contributed additional stock of PNIC Holdings, Inc. to the Company, which increased the Company's ownership of PNIC Holdings, Inc. to 32%. In 1999, PNIC Holdings, Inc. was dissolved and a 32% interest in PNIC was transferred directly to the Company. In April 2002, PNIC changed its name to Colony National Insurance Company (CNIC). In 2003, the Company purchased an additional 12.65% of CNIC from Front Royal.

On August 23, 2001, the Company's parent, 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.

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

On June 24, 2004, the Company amended its Articles of Incorporation to change the number of authorized shares to 350,000. Such shares shall have a par value of $10 per share. On June 29, 2004, the Company issued an additional 150,000 shares of common stock to Argonaut Group for a total of 350,000 shares.

In 2005, Argonaut Group entered into an agreement with Interstate Insurance Group, a subsidiary of Fireman's Fund Insurance Company, to acquire certain operating assets and renewal rights of its binding authority business segment. The operating assets consisted primarily of underwriting, claims, actuarial and operations personnel responsible for the acquisition and servicing of the renewal rights business and were assimilated into the Colony Group's operations.

During 2006 and 2007, the Company received surplus contributions of $20,000,000 and $37,000,000, respectively, from Argonaut Group.

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 CNIC to the Company. This transaction was valued at $27,648,228. Also in December 2008, the Company purchased a 29.43% interest in CNIC from Argonaut. This transaction was valued at $31,392,259. As a result, the Company now owns 100% of CNIC.

MANAGEMENT AND CONTROL

Management is vested in a board of directors, which shall consist of three 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.

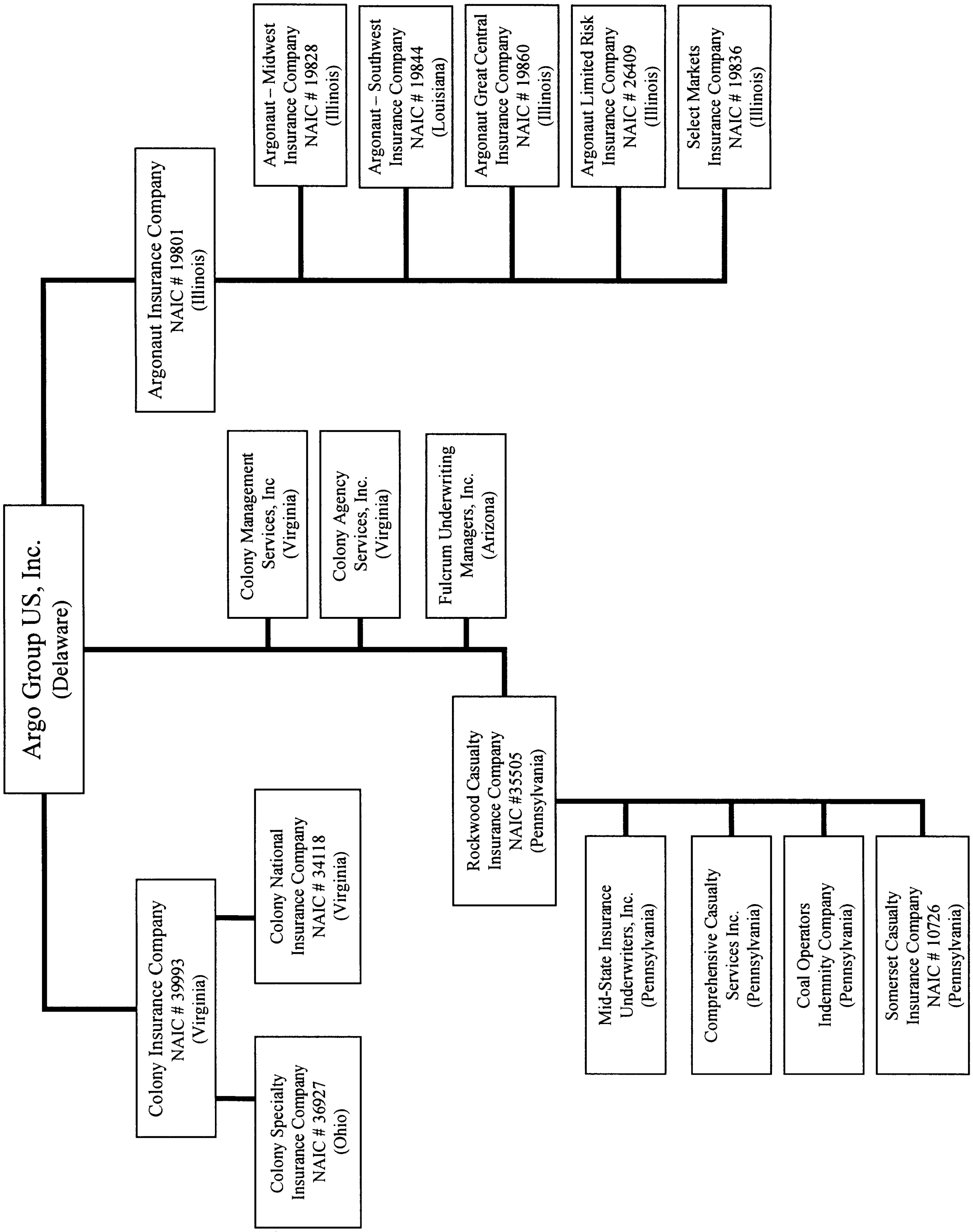
The bylaws provide for a president, a secretary and a treasurer. The board of directors or the president may appoint one or more vice presidents or other officers and assistant officers as deemed necessary. The president shall be the chief executive officer of the Company. Directors and officers at December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

Director:	Principal Business Affiliation:
Craig S. Comeaux	Vice President, Secretary 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 a wholly-owned subsidiary of the 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 December 30, 1994, 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 $29,477,956, $36,444,643 and $40,323,601, during 2006, 2007 and 2008 respectively.

On June 1, 1997, the Company entered into an agreement with CSIC. The purpose of this agreement was to have the Company act as the disbursing agent for CSIC. This agreement is a matter of convenience to both parties and the Company shall receive no cash compensation from CSIC for this service. CSIC will reimburse the Company in full within 30 days following the end of the month in which the Company disbursed funds on CSIC's behalf. The term of this agreement is continuous, subject to termination by either party, without cause, upon 30 days written notice. The Company entered into an identical agreement with CNIC on August 1, 1998.

Effective July 1, 2005, the Company and Argonaut entered into a claim checks disbursement services agreement. The purpose of this agreement is to have the Company act as the disbursing agent for certain claim checks written on behalf of Argonaut serviced policies. This agreement is a matter of convenience to both parties and the Company shall receive no cash compensation from Argonaut for this service. Argonaut will reimburse the Company within 30 days following the end of the month in which the Company's funds were disbursed to fund claims on behalf of the Argonaut serviced policies. 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 CSIC and CNIC, 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 the 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 both 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, which began with the 2001 tax year, Argo Group US files a 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 received no cash dividends during the period covered by this examination. The Company paid a dividend of $28,500,000 to Argo Group US in 2007.

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 was approved to write the following lines of business in Virginia:

Fire	Aircraft Liability
Miscellaneous Property and Casualty	Aircraft Physical Damage
Farmowners Multiple Peril	Fidelity
Homeowners Multiple Peril	Surety
Commercial Multiple Peril	Glass
Ocean Marine	Burglary and Theft
Inland Marine	Boiler and Machinery
Workers Compensation-Employers Liability	Animal
Liability Other Than Auto	Water Damage
Automobile Liability	Home Protection
Automobile Physical Damage	

In addition, the Company is approved for surplus lines in the District of Columbia, the Virgin Islands, and every state in the United States except for Rhode Island.

The Company primarily underwrites small to medium commercial business as an approved non-admitted surplus lines carrier. The Company's focus is on specialty excess and surplus lines. The Company deems small to medium commercial business to be exposures not exceeding $1,000,000 per occurrence for Casualty business, and $5,000,000 per occurrence for Property business.

Insurance operations are conducted throughout the United States through general agents, with ultimate 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%, 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	$104,114,198	$66,326,509	$2,000,000	$30,266,800	$5,520,889
2000	114,094,067	75,144,782	2,000,000	30,266,800	6,682,485
2001	132,469,584	87,510,210	2,000,000	30,266,800	12,692,574
2002	192,150,681	137,799,627	2,000,000	38,266,800	14,084,254
2003	332,628,844	238,527,851	2,000,000	62,766,800	29,334,193
2004	464,164,069	308,217,954	3,500,000	101,266,800	51,179,315
2005	624,065,563	427,419,462	3,500,000	121,266,800	71,879,301
2006	789,333,194	507,037,687	3,500,000	158,266,800	120,528,707
2007	878,933,866	563,833,935	3,500,000	158,266,800	153,333,131
2008	1,040,276,901	657,356,000	3,500,000	185,915,028	193,505,873

Year	Premiums Earned	Losses and Loss Adjustment Expenses Incurred	Other Underwriting Expenses	Net Underwriting Gain or (Loss)
1999	$32,793,487	$20,754,918	$11,561,189	$477,380
2000	35,723,494	22,077,796	13,552,395	93,303
2001	44,805,804	28,105,754	16,709,968	(9,918)
2002	68,530,706	43,482,404	28,240,339	(3,192,037)
2003	136,633,703	84,986,703	44,312,628	7,334,372
2004	157,119,803	102,527,817	43,762,942	10,829,044
2005	160,236,623	99,387,534	52,309,514	8,539,575
2006	238,678,527	129,927,558	81,068,701	27,682,268
2007	244,929,852	136,638,756	76,461,614	31,829,482
2008	141,719,508	73,484,914	50,802,194	17,432,400

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

Type of 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 CSIC and CNIC. Under the terms of this agreement, all business written since July 1, 1999, the unearned premium and unpaid loss adjustment 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 45% to the Company, 40% to CNIC and 15% to CSIC. All business was subject to this agreement and was pooled net of all other reinsurance. On October 1, 2003, the pooling agreement was amended to change the percentages to 55% for the Company, 30% for CNIC 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 $4,034,368.

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 NAIC *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	$718,824,711		$718,824,711
Common stocks	179,807,052		179,807,052
Cash and short-term investments	18,013,612		18,013,612
Other invested assets	3,423,433		3,423,433
Investment income due and accrued	7,627,932		7,627,932
Uncollected premiums and agents' balances	53,409,583	605,088	52,804,495
Amounts recoverable from reinsurers	29,554,438		29,554,438
Funds held by or deposited with reinsured companies	13,197,697		13,197,697
Other amounts receivable under reinsurance contracts	486,757		486,757
Net deferred tax asset	28,728,613	12,732,141	15,996,472
Receivables from parent, subsidiaries and affiliates	540,007		540,007
Aggregate write-ins for other than invested assets	295		295
Totals	$1,053,614,130	$13,337,229	$1,040,276,901

LIABILITIES, SURPLUS AND OTHER FUNDS

Losses		$279,851,000
Reinsurance payable on paid losses and loss adjustment expenses		1,329,663
Loss adjustment expenses		92,426,731
Commissions payable, contingent commissions and other similar charges		4,407,716
Taxes, licenses and fees		11,625
Current federal income taxes		882,511
Unearned premiums		126,229,748
Ceded reinsurance premiums payable		20,628,819
Funds held by company under reinsurance treaties		122,250,325
Amounts withheld or retained by company for account of others		3,316
Remittances and items not allocated		123
Provision for reinsurance		279,033
Payable to parent, subsidiaries and affiliates		9,055,390
Total liabilities		$657,356,000
Common capital stock	$3,500,000	
Gross paid in and contributed surplus	185,915,028	
Unassigned funds (surplus)	193,505,873	
Surplus as regards policyholders		382,920,901
Totals		$1,040,276,901

UNDERWRITING AND INVESTMENT EXHIBIT
STATEMENT OF INCOME

UNDERWRITING INCOME

Premiums earned	$141,719,508
Deductions:	
Losses incurred	$51,883,132
Loss expenses incurred	21,601,782
Other underwriting expenses incurred	50,802,194
Total underwriting deductions	$124,287,108
Net underwriting gain	$17,432,400

INVESTMENT INCOME

Net investment income earned	$30,580,263
Net realized capital losses	(6,134,048)
Net investment gain	$24,446,215

OTHER INCOME

Net loss from agents' or premium balances charged off	($760,997)
Aggregate write-ins for miscellaneous income	(2,390,464)
Total other income	($3,151,461)
Net income before federal income taxes	$38,727,154
Federal income taxes incurred	14,109,998
Net income	$24,617,156

RECONCILIATION OF CAPITAL AND SURPLUS FOR PERIOD UNDER REVIEW

	2006	2007	2008
Surplus as regards policyholders, December 31, previous year	$196,646,101	$282,295,507	$315,099,931
Net income	$26,171,935	$37,786,170	$24,617,156
Change in net unrealized capital gains	18,235,164	21,973,128	13,057,528
Change in net deferred income tax	5,580,267	2,349,987	2,200,193
Change in nonadmitted assets	(1,337,960)	(555,420)	327,457
Change in provision for reinsurance		(249,441)	(29,592)
Paid in surplus	37,000,000		27,648,228
Dividends to stockholders		(28,500,000)	
Change in surplus as regards policyholders for the year	$85,649,406	$32,804,424	$67,820,970
Surplus as regards policyholders, December 31, current year	$282,295,507	$315,099,931	$382,920,901

CASH FLOW

Cash From Operations

Premiums collected net of reinsurance	$147,346,646
Net investment income	32,826,103
Miscellaneous income	(3,320,425)
Total	$176,852,324
Benefit and loss related payments	$69,709,872
Commissions, expenses paid and aggregate write-ins for deductions	76,482,944
Federal income taxes paid	12,328,516
Total	$158,521,332
Net cash from operations	$18,330,992

Cash From Investments

Proceeds from investments sold, matured or repaid:	
Bonds	$107,018,167
Stocks	4,714,769
Net gains (losses) on cash, cash equivalents and short- term investments	16,795
Total investment proceeds	$111,749,731
Cost of investments acquired (long-term only):	
Bonds	$193,665,412
Stocks	63,741,834
Other invested assets	1,417,262
Total investments acquired	$258,824,508
Net cash from investments	($147,074,777)

Cash From Financing and Miscellaneous Sources

Cash provided (applied):	
Capital and paid in surplus, less treasury stock	$27,648,228
Other cash provided	107,163,047
Net cash from financing and miscellaneous sources	$134,811,275
Net change in cash and short-term investments	$6,067,490

RECONCILIATION OF CASH AND SHORT-TERM INVESTMENTS

Cash and short-term investments:	
Beginning of year	$11,946,122
End of year	18,013,612
Net change in cash and short-term investments	$6,067,490

SUBSEQUENT EVENTS

1. 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 CNIC and CSIC whereby CNIC and CSIC each will cede 100% of their existing and new business to the Company. This arrangement was approved by the Bureau.

2. On June 24, 2009, the Bureau approved the Company's request to pay an extraordinary cash dividend of $90,000,000 to Argo Group US. This dividend was paid on June 29, 2009.

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

COLONY
Member Argo Group

STATE CORP COMMISSION
BUREAU OF INSURANCE
09 SEP 21 AM 9:47

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 Insurance Company
Examination Report as of December 31, 2008

Dear Mr. Smith:

Management of Colony Insurance Company hereby acknowledges receipt of the Examination Report on Colony 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