

Harbor Point Reinsurance U.S., Inc.

Financial Statements for the Year
Ended December 31, 2007, and
Independent Auditors' Report

INDEPENDENT AUDITORS' REPORT

To the Board of Directors and Stockholder's of
Harbor Point Reinsurance U.S., Inc.

We have audited the accompanying balance sheet of Harbor Point Reinsurance U.S., Inc (the "Company") as of December 31, 2007, and the related statements of operations and comprehensive income, changes in stockholder's equity, and cash flows for the year then ended. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control over financial reporting. Accordingly, we express no such opinion. An audit also includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, such financial statements present fairly, in all material respects, the financial position of the Company as of December 31, 2007, and the results of its operations and its cash flows for the year then ended in conformity with accounting principles generally accepted in the United States of America.

Deloitte & Touche LLP

April 11, 2008

HARBOR POINT REINSURANCE U.S., INC.

BALANCE SHEET

AS OF DECEMBER 31, 2007

(Expressed in thousands of U.S. dollars, except share amounts)

ASSETS

INVESTMENTS:

Fixed maturities, available for sale at fair value (amortized cost: \$308,619)	\$ 313,134
Short-term investments, at fair value (amortized cost: \$10,746)	<u>10,746</u>

Total investments	323,880
-------------------	---------

CASH AND CASH EQUIVALENTS	189,597
---------------------------	---------

ACCRUED INTEREST RECEIVABLE	2,572
-----------------------------	-------

RECEIVABLE FOR INVESTMENTS SOLD	82
---------------------------------	----

REINSURANCE BALANCES RECEIVABLE	10,826
---------------------------------	--------

DEFERRED ACQUISITION COSTS	834
----------------------------	-----

PREPAID REINSURANCE PREMIUMS	11,873
------------------------------	--------

REINSURANCE BALANCES RECOVERABLE	1,954
----------------------------------	-------

INTANGIBLE ASSETS	6,200
-------------------	-------

OTHER ASSETS	<u>72</u>
--------------	-----------

TOTAL	<u>\$ 547,890</u>
-------	-------------------

LIABILITIES AND STOCKHOLDER'S EQUITY

LIABILITIES:

Reserve for losses and loss expenses	\$ 1,977
--------------------------------------	----------

Unearned premiums	14,841
-------------------	--------

Accounts payable and accrued expenses	2,218
---------------------------------------	-------

Reinsurance balances payable	8,661
------------------------------	-------

Payable to parent under tax sharing agreement	1,229
---	-------

Payable to parent under service agreement	539
---	-----

Deferred tax liabilities	<u>1,163</u>
--------------------------	--------------

Total liabilities	<u>30,628</u>
-------------------	---------------

STOCKHOLDER'S EQUITY:

Common stock, par value \$100 per share; issued and outstanding 50,000	5,000
---	-------

Additional paid-in capital	507,865
----------------------------	---------

Accumulated other comprehensive income	2,935
--	-------

Retained earnings	<u>1,462</u>
-------------------	--------------

Total stockholder's equity	<u>517,262</u>
----------------------------	----------------

TOTAL	<u>\$ 547,890</u>
-------	-------------------

See accompanying notes to financial statements.

HARBOR POINT REINSURANCE U.S., INC.

STATEMENT OF OPERATIONS AND COMPREHENSIVE INCOME FOR THE YEAR ENDED DECEMBER 31, 2007 (Expressed in thousands of U.S. dollars)

REVENUES:	
Gross premiums written	\$ 15,047
Premiums ceded	<u>(12,037)</u>
Net premiums written	3,010
Change in net unearned premiums	<u>(2,968)</u>
Net premiums earned	42
Net investment income	7,366
Net realized investment gains	<u>179</u>
Total revenues	<u>7,587</u>
EXPENSES:	
Net loss and loss expenses	23
Acquisition costs	12
General and administrative expenses	<u>5,521</u>
Total expenses	<u>5,556</u>
INCOME BEFORE INCOME TAXES	2,031
INCOME TAX EXPENSE	<u>(569)</u>
Net income	1,462
OTHER COMPREHENSIVE INCOME (Loss):	
Unrealized gains on investments arising during the period — net of tax	<u>2,935</u>
COMPREHENSIVE INCOME	<u>\$ 4,397</u>

See accompanying notes to financial statements.

HARBOR POINT REINSURANCE U.S., INC.

STATEMENT OF CHANGES IN STOCKHOLDER'S EQUITY FOR THE YEAR ENDED DECEMBER 31, 2007 (Expressed in thousands of U.S. dollars)

COMMON STOCK —	
Balance at beginning and end of year	<u>\$ 5,000</u>
ADDITIONAL PAID-IN CAPITAL	
Balance — beginning of year	16,060
Purchase price adjustments	6,467
Contribution from parent	485,205
Stock compensation expense, net of tax	451
Other, net	<u>(318)</u>
Balance — end of year	<u>507,865</u>
ACCUMULATED OTHER COMPREHENSIVE INCOME (LOSS):	
Balance at beginning of year	-
Change in unrealized gain (loss) on investments, net of tax	<u>2,935</u>
Balance at end of year	<u>2,935</u>
RETAINED EARNINGS	
Balance at beginning of year	-
Net income	<u>1,462</u>
Balance — end of year	<u>1,462</u>
TOTAL STOCKHOLDER'S EQUITY	<u><u>\$ 517,262</u></u>

See accompanying notes to financial statements.

HARBOR POINT REINSURANCE U.S., INC.

STATEMENTS OF CASH FLOWS FOR THE YEAR ENDED DECEMBER 31, 2007 (Expressed in thousands of U.S. dollars)

CASH FLOWS PROVIDED BY (USED IN) OPERATING ACTIVITIES:	
Net income	\$ 1,462
Adjustments to reconcile net income to net cash provided by (used in) operating activities:	
Net realized investment (gains) losses	(179)
Net accretion on fixed maturities	(8)
Stock compensation expense	694
Deferred tax benefit associated with stock compensation expense	(243)
Change in:	
Accrued interest receivable	(2,438)
Reinsurance balances receivable	(10,639)
Deferred acquisition costs	(834)
Prepaid reinsurance premiums	(10,717)
Reinsurance balances recoverable	1,723
Other assets	(72)
Reserve for losses and loss expenses	(1,700)
Unearned premiums	13,685
Accounts payable and accrued expenses	2,218
Reinsurance balances payable	8,474
Payable to parent under tax sharing agreement	1,229
Payable to parent under service agreement	536
Deferred tax liabilities	<u>(725)</u>
Net cash provided by operating activities	<u>2,466</u>
CASH FLOWS PROVIDED BY (USED IN) INVESTING ACTIVITIES:	
Purchase of fixed maturity investments	(343,162)
Proceeds from sale of fixed maturity investments	42,554
Purchase of short-term investments	(367,119)
Proceeds from sale of short-term investments	<u>369,653</u>
Net cash used in investing activities	<u>(298,074)</u>
CASH FLOWS PROVIDED BY FINANCING ACTIVITIES — Contribution from parent	485,205
NET INCREASE IN CASH AND CASH EQUIVALENTS	189,597
CASH AND CASH EQUIVALENTS — Beginning of the year	<u>-</u>
CASH AND CASH EQUIVALENTS — End of the year	<u>\$ 189,597</u>

See accompanying notes to financial statements.

HARBOR POINT REINSURANCE U.S., INC.

NOTES TO FINANCIAL STATEMENTS FOR THE YEAR ENDED DECEMBER 31, 2007

1. ORGANIZATION

Harbor Point Reinsurance U.S., Inc. (“HPREUS” or the “Company”) was incorporated on April 21, 1997, and is a wholly owned subsidiary of Harbor Point U.S. Holdings, Inc., (“Harbor Point US”). The Company’s ultimate parent company is Harbor Point Limited (“Harbor Point”) a holding company organized under the laws of Bermuda. The Company is a broadly licensed insurance company acquired in January 2007 to write reinsurance in the United States.

Effective December 15, 2005, Harbor Point acquired the continuing operations and certain assets of Chubb Re, Inc. (“Chubb Re”), the assumed reinsurance division of The Chubb Corporation (“Chubb”), including the renewal rights to the in-force assumed reinsurance business underwritten, placed and serviced by Chubb Re on behalf of Federal Insurance Company (“Federal”), the principal operating subsidiary of Chubb. Harbor Point did not acquire any of the in-force business or related reserves of Chubb Re. Chubb remains an investor in Harbor Point.

Harbor Point Re Limited (“Harbor Point Re”), a wholly owned subsidiary of Harbor Point, was incorporated on October 28, 2005, and is licensed as a Class 4 insurance company in Bermuda. Harbor Point Europe Investments Limited (“HPEIL”) was incorporated in December 2006 in Ireland as the holding company for all of Harbor Point’s non-Bermuda operations.

Harbor Point US, a wholly owned subsidiary of HPEIL, acts as a holding company for Harbor Point’s United States operations. Harbor Point Services is a wholly owned subsidiary of Harbor Point US and provides certain reinsurance services to HPREUS and to Federal through service agreements including underwriting, actuarial and claims management.

On January 2, 2007, Harbor Point US completed the acquisition of all of the issued and outstanding capital stock of the Company formerly know as Quadrant Indemnity Company (“Quadrant”), a Connecticut-domiciled property-casualty insurer and, prior to closing, a wholly-owned subsidiary of Chubb. Effective April 17, 2007, the name of the Company was changed to Harbor Point Reinsurance U.S., Inc. The Company is currently licensed as an insurer in 44 states plus the District of Columbia and accredited as a reinsurer in six additional states.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Basis of presentation — These financial statements have been prepared in accordance with accounting principles generally accepted in the United States of America (“U.S. GAAP”). The preparation of these financial statements in conformity with U.S. GAAP requires management to make estimates and assumptions that affect the reported amount of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period.

Actual results could differ significantly from those estimates. The major estimates reflected in the Company’s financial statements include premium estimates for business written on a quota share basis, the reserve for losses and loss expenses and the estimate of reinsurance balances recoverable. The terms

“FAS” and “FASB” used in these notes refer to Statements of Financial Accounting Standards issued by the United States Financial Accounting Standards Board.

Cash and Investments —

Cash and Cash Equivalents — Cash and cash equivalents include fixed interest deposits, money market funds and commercial paper with a maturity of less than ninety days when purchased. Cash and cash equivalents are valued at cost which approximates fair value.

Short-term Investments — Short-term investments, which are managed as part of the Company’s investment portfolio and have a maturity of one year or less when purchased, are carried at fair value. The fair market value of short-term investments is based upon quoted market values.

Investments Available for Sale — Investments that are considered to be “available for sale” under the definition included in FAS No. 115, Accounting for Certain Investments in Debt and Equity Securities (“FAS 115”) are reported at fair market value. The fair market value of investments is based upon quoted market values. The Company uses established third party pricing services in valuing its portfolio of available for sale investments. The Company considers prices for exchange traded securities and actively traded treasury securities to be derived based on quoted prices in active markets for identical assets. The Company considers securities priced via vendors, indices or broker dealers to be derived based on inputs that are observable for the asset, either directly or indirectly. The Company does not have any available for sale investments that are being valued based on unobservable inputs.

The net unrealized gain or loss on investments is included in accumulated other comprehensive loss in stockholders’ equity, net of applicable taxes. All of the Company’s investments are currently designated as available for sale.

Purchases and sales of investments are recorded on a trade date basis. Realized gains or losses on sales of investments are determined based on the specific identification method. Net investment income includes interest and dividend income together with amortization of market premiums and discounts and is net of investment fees. For mortgage-backed securities and any other holdings for which there is a prepayment risk, prepayment assumptions are evaluated and revised as necessary. Any adjustments required due to the change in effective yields and maturities are recognized on a prospective basis through yield adjustments.

Other Than Temporary Impairment in Investments — The Company performs a monthly review of its investments to assess whether declines in fair value represent impairments that are other than temporary. The Company, with the assistance of its investment advisors, applies both quantitative and qualitative factors in the assessment of a security, including (i) the time period during which there has been a significant decline below cost, (ii) the extent of the decline below cost, (iii) the potential for the security to recover in value, (iv) the Company’s intent and ability to hold the security until recovery, (v) an analysis of the financial condition of the issuer, and (vi) an analysis of the collateral structure and credit support of the security, if applicable. Where the Company has determined that there is an other than temporary impairment in the fair value of the security, the cost of the security is written down to the fair value and the unrealized loss at the time of the determination is charged to income.

Premiums and acquisition costs — For excess of loss contracts, the Company records an estimated ultimate premium, which is generally the deposit premium as written at the inception of the contract, and records premium adjustments in the period in which they are reasonably determinable. For quota share contracts, management estimates the ultimate premium and records the estimate at the inception of the contract. The Company actively monitors the emergence of actual premium on quota share contracts and

adjusts its estimates of written premium as information becomes available. Premiums are earned over the term of the contract in proportion to the risks covered, which is generally one to two years, depending upon whether the reinsurance contracts are written on an excess of loss basis or a quota share basis. Unearned premiums represent the portion of reinsurance premiums written that is applicable to the unexpired portion of the contracts in force.

Acquisition costs, primarily ceding commissions, brokerage, fronting fees and taxes, which vary with and are directly related to the acquisition of policies, are deferred and amortized over the period in which the related premiums are earned. Deferred acquisition costs are reviewed to determine if they are recoverable from future income, including investment income. If such costs are determined to be unrecoverable, they are expensed.

Reinsurance — In the normal course of business, the Company seeks to reduce the loss that may arise from events that could cause unfavorable underwriting results by reinsuring certain levels of risk with other reinsurers. Reinsurance premiums ceded are expensed over the period of the reinsurance coverage. Prepaid reinsurance premiums represent the portion of premiums ceded on the unexpired term of the policies in force. Reinsurance losses recoverable are based on contracts in force and are presented net of any reserve for uncollectible reinsurance. The method for determining the reinsurance losses recoverable is based on management's estimates of the underlying reserve for losses and loss expenses.

Losses and loss expenses — Reserves for losses and loss expenses include unpaid reported losses and loss expenses and losses incurred but not reported ("IBNR"). IBNR reserves have been estimated by management based on ultimate loss ratio projections determined by reference to the Company's underwriting and pricing practices, industry statistics and exposure, premium and loss data reported by the ceding companies.

Inherent in the estimates of ultimate losses and loss expenses are expected trends in claims severity and frequency and other factors that may vary significantly as claims are settled. Accordingly, the ultimate cost to settle unpaid losses may differ materially from the amounts recorded in the consolidated financial statements. The methods of determining such estimates and establishing the resulting reserves are reviewed regularly and any adjustments are reflected in income in the period in which they become known.

Foreign currency translation — The functional currency of the Company and its subsidiaries is the U.S. dollar. Monetary assets and liabilities denominated in foreign currencies are translated at year end exchange rates, with the resulting foreign exchange gains and losses recognized in the consolidated statements of operations and comprehensive income. Revenues and operating expenses are translated at average rates during the year.

Intangible assets — Identifiable intangible assets that arise from business combinations are accounted for in accordance with FAS No. 141, *Business Combinations* and FAS No. 142, *Goodwill and Other Intangible Assets*.

The insurance licenses acquired were recorded at their estimated fair value. This intangible asset has an indefinite useful life and is not being amortized. Rather, its value is adjusted for impairment, if appropriate.

Taxation — The Company utilizes the liability method of accounting for Federal income taxes. Current and deferred income taxes are provided based upon enacted tax laws and rates. Deferred income taxes are provided on all temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for income tax purposes.

A valuation allowance against deferred tax assets is recorded when management's assessment indicates that it is more likely than not that a portion of the deferred tax asset will not be realized in the foreseeable future.

Stock-based employee compensation plans — Harbor Point Re accounts for stock-based compensation awards in accordance with FAS No. 123 (R), *Share-Based Payment*. FAS No. 123 (R) requires that Harbor Point recognize compensation expense related to all share-based compensation transactions with employees, including incentive stock options and restricted stock awards. The amount of compensation cost is measured based on the grant-date fair value of such awards and is recognized over the period during which the employee is required to provide service in exchange for the award — the requisite service period. Compensation cost for awards with a graded vesting schedule is recognized on a straight-line basis over the requisite service period for each separately vesting portion of the award. That portion of total stock compensation expense related to the Company's employees is allocated to the Company by Harbor Point Re and accounted for by Harbor Point Re as an additional investment in the Company. The stock compensation expense allocated to the Company is recorded as an expense and an increase to additional paid in capital.

Fair value of financial instruments — The carrying value of cash and cash equivalents, receivables, accounts payable and accrued liabilities and any financial instruments included in other assets approximate their fair values principally because of the short-term maturities of these instruments. Generally, the fair value of investments is considered to be the market value, which is based on quoted market prices

3. RECENT ACCOUNTING PRONOUNCEMENTS

In June 2006, the FASB issued FASB Interpretation No. 48, *Accounting for Uncertainty in Income Taxes* ("FIN 48"). FIN 48 prescribes detailed guidance for the financial statement recognition, measurement and disclosure of uncertain tax positions recognized in an enterprise's financial statements in accordance with FAS No. 109, *Accounting for Income Taxes*. Tax positions must meet a more-likely-than-not recognition threshold at the effective date to be recognized upon the adoption of FIN 48 and in subsequent periods. FIN 48 is effective for publicly traded entities for fiscal years beginning after December 15, 2006. For non-public entities, the FASB has deferred FIN 48 until fiscal years beginning after December 15, 2007. The Company does not believe that FIN 48 will have a material effect on its statements of operations or financial condition.

In September 2006, the FASB issued FAS No. 157, *Fair Value Measurements* ("FAS 157"), which defines fair value, establishes a framework for measuring fair value and expands disclosure requirements related to fair value measurements. FAS 157 defines fair value as the price received to transfer an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date reflecting the highest and best use valuation concepts. FAS 157 requires disclosure of balances presented at fair value by level within the fair value hierarchy. FAS 157 is applicable in conjunction with existing accounting pronouncements that require or permit fair value measurements but does not require any new fair value measurements. FAS 157 is effective for fiscal years beginning after November 15, 2007. The Company is currently assessing the impact of adopting FAS 157 on its financial position and results of operations.

In February 2007, the FASB issued FAS No. 159, *The Fair Value Option for Financial Assets and Financial Liabilities* ("FAS 159"), which provides companies with an option to report certain financial assets and financial liabilities at fair value. FAS 159 amended FAS 115 and applies to all entities with available-for-sale and trading securities. FAS 159 is effective for fiscal years beginning after November 15, 2007. The Company has elected to fair value its fixed maturity investments and short-

term investments upon adoption of FAS 159 which would require that changes in unrealized gains and losses are included in net income. The Company currently reports changes in unrealized gains and losses associated with its fixed maturity investments and short-term investments as changes in other comprehensive income. As a result, the adoption of FAS 159 could have a material impact on the Company's financial statements. On January 1, 2008, the Company recorded a cumulative effect adjustment to reclassify the net unrealized gain on investments of \$2.9 million to retained earnings.

4. ACQUISITION OF THE COMPANY BY HARBOR POINT US

On January 2, 2007, Harbor Point US completed the acquisition of all of the issued and outstanding capital stock of the Company formerly know as Quadrant Indemnity Company ("Quadrant"), a Connecticut-domiciled property-casualty insurer and, prior to closing, a wholly-owned subsidiary of Chubb. Harbor Point US paid a purchase price of \$27.5 million. Quadrant was fully licensed as an insurer in 44 states and was an accredited reinsurer in an additional four states at the time of purchase. Effective April 17, 2007, the name of the Company was changed to Harbor Point Reinsurance U.S., Inc.

The following table summarizes the fair values of the net assets acquired (amounts in 000's):

Investments:	
U.S. Treasury securities	\$ 7,930
Short-term investments	13,281
Accrued interest	130
Intangible assets with an indefinite life:	
Insurance licenses	6,200
Assumed loss and loss expenses	(3,000)
Losses recoverable from Chubb	<u>3,000</u>
	<u>\$ 27,541</u>

The acquisition of the Company has been accounted for under the purchase method of accounting. The fair values of the assets acquired as indicated above were reflected in the accounts of the Company as of the acquisition date. There was no goodwill associated with this purchase. Prior to closing, Chubb transferred or cancelled essentially all of the existing insurance policies. Chubb has indemnified the Company via a reinsurance agreement for any development on the small amount of pre-acquisition business that remains in HP Re US. The primary reason for the transaction was to acquire the licenses in order to establish a U.S. based reinsurance operating company.

5. INVESTMENTS

Net investment income — Net investment income for the year ended December 31, 2007 is derived from the following sources (amounts in 000's):

Fixed maturities and cash equivalents	\$ 4,388
Short-term investments	739
Cash equivalents	2,446
Net investment expenses	<u>(207)</u>
Net investment income	<u>\$ 7,366</u>

The following represents an analysis of gross realized gains (losses) and the change in unrealized gains (losses) on investments included within other comprehensive income (loss) for the years ended December 31, 2007 (amounts in 000's):

Gross realized gains	\$ 186
Gross realized losses, excluding other than temporary impairments	(7)
Other than temporary impairments	<u>-</u>
Net realized losses on investments	<u>\$ 179</u>
Change in unrealized gains (losses) on fixed maturities	<u>\$ 4,515</u>

Fixed Maturity Investments — All fixed maturity investments are held as available for sale. The amortized cost and fair market value as of December 31, 2007 are as follows (amounts in 000's):

	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Market Value
U.S. government and agency securities	\$ 63,429	\$ 995	\$ -	\$ 64,424
Corporate debt securities	37,467	408	(47)	37,828
Mortgage-backed securities	184,390	3,029	(4)	187,415
Asset-backed securities	<u>23,333</u>	<u>135</u>	<u>(1)</u>	<u>23,467</u>
	<u>\$308,619</u>	<u>\$4,567</u>	<u>\$ (52)</u>	<u>\$313,134</u>

The following table sets forth certain information regarding the credit ratings of the Company's fixed income portfolio as of December 31, 2007 (amounts in 000's):

Ratings	Amortized Cost	Fair Market Value	Percentage of total fair market value
AAA	\$ 278,599	\$ 282,847	90.3 %
AA	12,068	12,179	3.9
A	9,278	9,329	3.0
BBB	<u>8,674</u>	<u>8,779</u>	<u>2.8</u>
Total	<u>\$ 308,619</u>	<u>\$ 313,134</u>	<u>100.0 %</u>

The contractual maturities of fixed maturity investments as of December 31, 2007 are shown below (amounts in 000's). Actual maturities may differ from contractual maturities because borrowers may have the right to call or prepay obligations with or without call or prepayment penalties.

	Amortized Cost	Fair Market Value	Percentage of Total Fair Market Value
Due in one year or less	\$ 9,900	\$ 9,938	3.2 %
Due in 1-5 years	68,128	69,060	22.1
Due in 5-10 years	22,209	22,619	7.2
Due after ten years	<u>659</u>	<u>635</u>	<u>0.2</u>
	100,896	102,252	32.7
Mortgage-backed securities	184,390	187,415	59.8
Asset-backed securities	<u>23,333</u>	<u>23,467</u>	<u>7.5</u>
Total	<u>\$ 308,619</u>	<u>\$ 313,134</u>	<u>100.0 %</u>

Mortgage-backed securities include \$122.3 million of residential and \$65.1 million of commercial mortgage-backed securities. The Company's investment guidelines restrict the portfolio to a maximum of 45% residential mortgage-backed securities and 25% commercial mortgage-backed securities. As of December 31, 2007, the Company's investment manager was in compliance with its investment guidelines.

The following is an analysis of how long each of the fixed maturity investments held as of December 31, 2007 has been in a continued unrealized loss position (amounts in 000's):

	12 months or greater		Less than 12 months		Total	
	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses
December 31, 2007						
U.S. government and agency securities	\$ -	\$ -	\$ 5,000	\$ -	\$ 5,000	\$ -
Corporate debt securities	-	-	5,128	(47)	5,128	(47)
Mortgage-backed securities	6,801	(4)	-	-	6,801	(4)
Asset-backed securities	<u>-</u>	<u>-</u>	<u>4,626</u>	<u>(1)</u>	<u>4,626</u>	<u>(1)</u>
Total fixed maturity investments	<u>\$ 6,801</u>	<u>\$ (4)</u>	<u>\$ 14,754</u>	<u>\$ (48)</u>	<u>\$ 21,555</u>	<u>\$ (52)</u>

As of December 31, 2007, there were 8 securities in an unrealized loss position. Of these securities, there are 2 securities that have been in an unrealized loss position for 12 months or greater. In determining that any securities in an unrealized loss position did not require that the Company record an other than temporary impairment charge, the Company considered the amount of the unrealized loss relative to its amortized cost, the time expected to recover and the credit rating of the issuer. In addition, the Company does have the ability and the intent to hold all of the securities in an unrealized loss position until recovery. The unrealized losses from these securities were not a result of credit, collateral or structural issues.

During the year ended December 31, 2007, the Company recorded no other than temporary impairment charges.

6. LOSSES AND LOSS EXPENSES

The reserve for losses and loss expenses as of December 31, 2007 includes (amounts in 000's):

Reported but unpaid losses and loss expenses	\$ 791
Losses incurred but not reported	<u>1,186</u>
	<u>\$ 1,977</u>

Net loss and loss expenses for the years ended December 31, 2007 includes (amounts in 000's):

Loss and loss expenses paid	\$ 2,271
Loss and loss expenses recovered	(2,271)
Change in unpaid loss and loss expenses	(1,700)
Change in reinsurance losses recoverable	<u>1,723</u>
	<u>\$ 23</u>

The following table represents an analysis of paid and unpaid losses and a reconciliation of the beginning and ending unpaid losses and loss expenses for the year ended December 31, 2007 (amounts in 000's):

	Direct and Assumed	Ceded	Net
Reserve for losses and loss expenses — beginning of the year	\$ 3,677	\$ 3,677	\$ -
Loss and loss expenses in respect of losses occurring in:			
Current year	116	93	23
Prior years	<u>455</u>	<u>455</u>	<u>-</u>
	<u>571</u>	<u>548</u>	<u>23</u>
Loss and loss expenses paid in respect of losses occurring in:			
Current year			
Prior years	<u>2,271</u>	<u>2,271</u>	<u>-</u>
	<u>2,271</u>	<u>2,271</u>	<u>-</u>
Reserve for losses and loss related expenses — the end of year	<u>\$ 1,977</u>	<u>\$ 1,954</u>	<u>\$ 23</u>

As referenced in Note 4, Chubb has indemnified the Company with respect to reserve development on all in force policies written by the Company prior to January 2, 2007 under a 100% quota share reinsurance agreement. Accordingly, there is no net development of prior year reserves reflected in operations in 2007.

7. REINSURANCE

In addition to the 100% quota share cession of pre-acquisition business to Chubb as described in Note 6, the Company has entered into a quota share reinsurance agreement with Harbor Point Re whereby 80% of all reinsurance contracts written by the Company are ceded to Harbor Point Re. The Company remains liable to the extent that reinsurers do not meet their obligations under these agreements either due to solvency issues, contractual disputes or other reasons. Harbor Point Re has provided the Company with a letter of credit in the amount of \$3.3 million securing all recoverable balances in excess of amounts payable by the Company to Harbor Point Re.

Gross premiums written, ceded and net amounts of premium written and premiums earned for the year ended December 31, 2007 are as follows (amounts in 000's):

	<u>2007</u>		
	<u>Premiums Written</u>	<u>Premiums Earned</u>	<u>Losses Incurred</u>
Gross	\$ 15,047	\$ 1,362	\$ 571
Ceded	<u>(12,037)</u>	<u>(1,320)</u>	<u>(548)</u>
Net	<u>\$ 3,010</u>	<u>\$ 42</u>	<u>\$ 23</u>

All of the gross written and earned premium and \$116,000 of the gross losses incurred relate to new reinsurance business written by the Company in 2007.

8. CREDIT FACILITY

On June 12, 2007, Harbor Point entered into an \$850 million five-year senior unsecured credit facility amending and replacing its previous \$500 million three-year unsecured credit facility. The credit facility allows Harbor Point and its subsidiaries, including the Company, to issue letters of credit up to the full amount of the facility and to borrow up to \$250 million for general corporate purposes. In addition, there is a \$50 million sublimit for the issuance of secured letters of credit for Harbor Point's investment affiliates. Total usage under the credit facility is limited to \$850 million. Harbor Point may request an increase in the credit facility of up to \$150 million, subject to there being sufficient participation by the syndicate of participating banks. As of December 31, 2007, Harbor Point had unsecured letters of credit of \$317.7 million and secured letters of credit of \$30 million outstanding. Also, of December 31, 2007, Harbor Point had one outstanding loan of \$200 million. The credit facility contains various covenants with which Harbor Point was in compliance as of December 31, 2007. The Company has not used the credit facility as of December 31, 2007.

9. BENEFIT PLANS

The Company participates in the equity compensation plan of Harbor Point (the "Equity Plan") which provides for the issuance of stock options and restricted shares of Harbor Point common stock. Under the Equity Plan, additional options may be granted for a total of 400,500 shares of Harbor Point's common stock. As of December 31, 2007, 599,500 shares of Harbor Point's common stock were subject to options granted under the Equity Plan with a weighted average option price of \$100.60 of which 192,750 were allocated to employees of the Company. During 2007 no shares of Harbor Point's common stock were exercised under options subject to the Equity Plan. Also, as of December 31, 2007 under the Equity Plan, Harbor Point has issued 437,450 restricted shares of its common stock of which 144,175 restricted shares were allocated to employees of the Company. During the year ended December 31, 2007 the Company recorded stock compensation expense and additional paid in capital of \$694,000 for costs allocated to it by Harbor Point.

The Company also provides its employees with a Company-matched 401(k) plan and other defined contribution retirement plans. A total of 9% of eligible compensation is contributed to these plans totaling \$255,000 for the years ended December 31, 2007.

10. TAXATION

The provision for federal income taxes has been determined under the provisions of the United States Internal Revenue Code and Regulations thereunder. The Company is included in the consolidated U. S. tax return of Harbor Point US, along with Harbor Point Services. The Company also files separate company income tax returns in Louisiana and New York.

Income tax expense (benefit) for the year ended December 31, 2007 was as follows (amounts in 000's):

Current income tax expense	<u>\$ 1,229</u>
Deferred income tax expense	297
Deferred income tax benefit	<u>(957)</u>
Net deferred income tax benefit	<u>(660)</u>
Income tax expense	<u>\$ 569</u>

Deferred income tax expense relates primarily to the change in deferred acquisition expenses. The portion of deferred income tax benefit related to stock-based compensation of \$243,000 was recorded as a reduction to additional paid in capital. Of the remaining deferred income tax benefit, \$506,000 relates to incentive compensation expense, and \$208,000 relates to unearned premiums and loss reserve discounting. An additional deferred tax liability of \$1,580,000 related to the net unrealized gains on available for sale securities held by the Company has been included in accumulated other comprehensive income in the Balance Sheet.

A reconciliation between the expected tax expense (benefit) based on income (loss) before taxes at the U.S. statutory federal rate of 35% and the provision for income taxes in the accompanying consolidated financial statements is provided below (amounts in 000's):

Tax on pre-tax (loss) income at U.S. statutory federal rate of 35%	\$ 711
Expected tax on permanent differences:	
Amortization of insurance licenses	(145)
Nondeductible expenses	<u>3</u>
Income tax expense	<u>\$ 569</u>

The Company is a party to a tax sharing agreement with Harbor Point US as is Harbor Point Services. The tax sharing agreements provide for an allocation of consolidated U.S. income tax expense among the affiliates based on the current U.S. income tax that would be recognized if each affiliate had filed a separate U.S. income tax return.

11. RELATED PARTY TRANSACTIONS

The following is a summary of the amounts recognized in the accompanying financial statements for the year ended December 31, 2007, related to the 80% quota share reinsurance agreement with Harbor Point Re described in Note 7 (amounts in 000's):

Ceded premiums written	\$ (12,040)
Acquisition costs	(47)
Net loss and loss expense	(93)
Prepaid reinsurance premium	11,873
Reinsurance balances payable	8,657
Deferred acquisition costs	3,336
Reinsurance balances recoverable	93

The Company is party to a service agreement with Harbor Point Services whereby Harbor Point Services provides accounting, systems, legal and administrative services to the Company. Billings from Harbor Point Services to the Company are rendered monthly based on actual hours spent by each employee and an employee-specific hourly rate schedule. The hourly rates include a profit factor and are considered to be market value. The Company incurred \$2,079,000 of fees during the year ended December 31, 2007 under these agreements. Harbor Point Services also advances funds to the Company for semi-monthly payrolls.

The table below summarizes amounts payable to related parties under the services agreement described above and the tax allocation agreement described in Note 10 as of December 31, 2007 (amounts in 000's):

Amounts due in connection with:	
Service agreements	\$ 183
Payroll advances	356
Tax sharing agreements	<u>1,229</u>
Total amounts due to affiliates	<u>\$ 1,768</u>

During 2007, the Company received capital contributions from Harbor Point US totaling \$485.2 million. The capital contribution included a transfer of cash in the amount of \$192.0 million and securities with a fair market value of \$292.4 million, inclusive of accrued interest of \$1.7 million, on September 28, 2007. In addition, there were various other capital contributions totaling \$1.3 million during the year including cash of \$0.8 million and an allocation of Harbor Point stock compensation expense of \$0.5 million. The allocated stock compensation expense was recorded as an expense and an increase to additional paid-in capital.

12. STOCKHOLDERS' EQUITY

Authorized and issued shares — The authorized and issued share capital is 50,000 Class A common shares of par value \$100 per share. The amount received in excess of par value was recorded in additional paid in capital.

Dividends declared — No dividends have been declared by the Company during the year ended December 31, 2007.

13. STATUTORY FINANCIAL INFORMATION

The Company's reinsurance operations are subject to laws and regulations in the jurisdictions in which it is licensed to operate, principally Connecticut, the Company's state of domicile. These regulations include certain restrictions on the amount of dividends or other distributions available to stockholders without prior approval of the regulatory authorities. Under Connecticut law, the Company is prohibited from paying any dividends without the prior approval of the Commissioner of Insurance for a period of two years from the date of acquisition, which is January 2, 2009.

The Company's net income for the year ended December 31, 2007 determined on a statutory basis was \$(45,418). The Company's statutory capital and surplus at December 31, 2007 was \$507,562,685.

14. CONTINGENCIES

In the normal course of business, the Company may become involved in various claims and legal proceedings. The Company is currently not aware of any pending or threatened litigation.

* * * * *