

Best's Rating Report



NAVIGATORS INSURANCE COMPANY

NAVIGATORS INSURANCE COMPANY

A

NAVIGATORS SPECIALTY INSURANCE COMPANY

A

New York, New York



A

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Best's Rating Report

Ultimate Parent: The Navigators Group, Inc NAVIGATORS INSURANCE COMPANY

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BEST'S FINANCIAL STRENGTH RATING

Based on our opinion of the consolidated Financial Strength of the property/casualty members of Navigators Insurance Group, which operate under a group structure, each group member is assigned a Best's Financial Strength Rating of A (Excellent). The company is assigned the Financial Size Category of Class X, which is the Financial Size Category of the Group.

RATING RATIONALE

The following text is derived from the report of Navigators Insurance Group.

Rating Rationale: The rating reflects the group's leading position as a global provider of insurance to the marine sector, the group's well diversified book of business, its modest net wind storm exposure, management's conservative approach to underwriting and claims handling in addition to the group's solid level of capitalization and profitability. These positive factors are somewhat offset by the group's elevated ceded reinsurance leverage and its rapid growth in relatively new lines of business seen in recent years. The rating outlook reflects A.M. Best's expectation that the group will continue to maintain its solid level of capitalization and operating performance.

The positive rating factors are derived from favorable historical operating performance which, together with capital-raising initiatives, has supported growth and enhanced overall capitalization. The strong operating performance, as evidenced by excellent returns on both revenue and surplus, has been driven by underwriting profitability produced by the group's highly tenured underwriting staff and their specialty expertise built up as one of the largest marine insurers in the world. The group's firm commitment to underwriting excellence in terms of both risk selection, contract terms and conditions and pricing discipline have been hallmarks in the generation of annual loss ratios that have outpaced the average posted by its industry peers. Such discipline and expertise, which has been critical to profitability in the severity-driven ocean marine, casualty and energy lines, is a reflection of the strong risk management culture that has always been a part of the Navigators Insurance Group.

Somewhat mitigating the elevated ceded reinsurance leverage is the relatively high credit quality of Navigators' reinsurers as well as the presence of letters of credit provided by some reinsurers. The group's high ceded leverage is emblematic of its risk managements approach wherein the majority of its gulf-coast wind exposure and portions of its new business are ceded. In addition, the financial flexibility is afforded through the publicly traded parent, The Navigators Group Inc. (NASDAQ: NAVG).

While nearly 30% of Navigators' gross premium writings are in the marine and energy sector, diversification of risk is achieved as its remaining premiums are spread across a diverse product line including general liability coverage for small general and artisan contractors, personal umbrella coverage, professional liability, in addition to specialty coverages, such as customs bonds (surety bonds guaranteeing payment of customs taxes and delivery of goods imported into the U.S.). While the group continues to expand both its product lines and geographic spread of risk, management remains focused on underwriting profitability. Although not part of the rating, the group's ultimate parent owns a Lloyd's syndicate (Syndicate 1221) whose writings have grown to \$300 million. While the stand-alone capitalization of the syndicate is not in line with the domestic group, the syndicate benefits from the Lloyd's guarantee fund. Further, the overall capitalization of the ultimate holding company (which includes the Lloyd's affiliate) is strong.

Best's Financial Strength Rating: A g

Outlook: Stable

FIVE YEAR RATING HISTORY

Date	Best's FSR	Date	Best's FSR
05/27/09	A g	10/10/05	A g
03/28/08	A g	06/29/05	A g
01/02/07	A g	05/28/04	A g

KEY FINANCIAL INDICATORS (\$000)

Period Ending	Statutory Data				Total Admitted Assets	Policy-holders' Surplus		
	Direct Premiums Written	Net Premiums Written	Pretax Operating Income	Net Income				
2004	240,591	212,750	46,493	30,282	804,921	235,561		
2005	304,357	267,745	30,486	16,937	1,065,658	356,484		
2006	389,817	376,179	75,098	45,426	1,361,849	524,188		
2007	490,595	478,019	98,519	64,914	1,594,942	578,668		
2008	562,243	472,689	97,669	31,952	1,687,014	581,166		
	Profitability		Leverage		Liquidity			
	Comb. Ratio	Inv. Yield (%)	Pretax ROR (%)	NA Inv Lev	NPW to PHS	Net Lev.	Overall Liq. (%)	Oper. Cash-flow (%)
2004	91.1	3.7	20.3	8.7	0.9	3.2	145.6	187.8
2005	94.7	3.6	13.3	5.7	0.8	2.6	157.5	168.0
2006	86.3	4.0	22.8	7.1	0.7	2.3	166.1	169.0
2007	87.2	4.0	22.2	11.7	0.8	2.5	160.3	160.0
2008	90.6	4.0	21.1	8.9	0.8	2.7	155.8	157.3
5-Yr	89.5	3.9	20.5	...	...	...	...	...

(*) Data reflected within all tables of this report has been compiled from the company-filed statutory statement. Within several financial tables of this report, this company is compared against the Commercial Casualty Composite.

BUSINESS REVIEW

The following text is derived from the report of Navigators Insurance Group.

Navigators Insurance Group (Navigators), through its lead operating unit, Navigators Insurance Company, specializes in underwriting marine and energy, specialty lines and professional liability business. Navigators Specialty Insurance Company underwrites property/casualty business on a non-admitted basis for those types of risks requiring greater flexibility in rating or policy terms and conditions. The group's multi-channel distribution platform utilizes global, national and regional brokers as well as wholesalers.

Navigators has a long-standing reputation for expertise in the marine and energy sector, the group's largest segment, which includes property and excess liability coverages for marine-related business, offshore energy risks, related transportation and cargo exposures as well as a modest amount of business written in other facets of the marine and energy field.

Specialty operations have underwritten general liability coverages for small general and artisan contractors since 1995, mostly in California, and represent a "post-Montrose" book of business with tight terms and conditions in place to limit or avoid significant construction defect claims. Coverages are generally written on a non-admitted basis and have included construction wrap-up products since 2005. Approximately 50% of the specialty group's gross writings represent construction risks, with excess casualty generating roughly 15% of this segment. Excess casualty risks are diversified among a large number of industry groups. The remaining portion of the specialty gross premiums include personal umbrella, primary casualty and commercial middle market accounts. The group also writes professional director and officer coverages to a variety of market niches including lawyers, architects and a variety of public and private companies. This coverage is largely offered to small and mid-size companies as opposed to Fortune 1000 companies.

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2008 BUSINESS PRODUCTION AND PROFITABILITY (\$000)

Product Line	—Premiums Written—		% of Total NPW	Pure Loss Ratio	Loss & LAE Res.
	Direct	Net			
Oth Liab Occur	168,452	198,459	42.0	35.8	361,982
Ocean Marine.....	218,949	158,722	33.6	61.5	227,915
Oth Liab CM	105,689	72,159	15.3	32.7	86,868
Com'l MultiPeril.....	20,233	20,163	4.3	59.6	44,154
Inland Marine.....	22,945	6,060	1.3	39.1	2,693
All Other.....	25,975	17,127	3.6	61.2	25,447
Totals	562,243	472,689	100.0	45.5	749,060

Geographical breakdown of direct premium writings (\$000): California, \$131,747 (23.4%); New York, \$53,560 (9.5%); New Jersey, \$25,606 (4.6%); Texas, \$22,179 (3.9%); Illinois, \$21,933 (3.9%); 49 other jurisdictions, \$161,381 (28.7%); Aggregate Alien, \$145,837 (25.9%).

FINANCIAL PERFORMANCE

The following text is derived from the report of Navigators Insurance Group.

Overall Earnings: Navigators has generated strong pre-tax operating performance over the majority of the last five years, producing pre-tax returns on revenue and equity that exceed the results produced by the commercial casualty industry composite while after-tax return measures largely reflect this composite. Increasing levels of both underwriting profits and investment income over a five year period have been key drivers behind operating earnings. However, total return measures were negatively impacted in 2008 by significant realized capital losses, which were impacted by impairment losses recorded for accounting purposes.

Earnings since 2004 have been profitable through underwriting earning boosted by consistently higher levels of net investment income. Otherwise solid results in 2005 and 2008 were somewhat offset by storm losses. The group's conservative operating strategies, high-quality investment portfolio, stringent underwriting guidelines and strong industry knowledge (particularly within its market niche) are expected to afford the group continued earnings production.

PROFITABILITY ANALYSIS

Period Ending	Company				Industry Composite			
	Pretax ROR (%)	Return on PHS	Comb. Ratio	Oper. Ratio	Pretax ROR (%)	Return on PHS	Comb. Ratio	Oper. Ratio
2004	20.3	14.6	91.1	81.5	5.8	12.3	104.6	92.7
2005	13.3	6.1	94.7	82.4	8.2	7.9	105.0	90.9
2006	22.8	11.7	86.3	73.4	19.2	19.1	94.4	79.5
2007	22.2	11.3	87.2	75.5	20.9	15.4	94.6	78.3
2008	21.1	5.6	90.6	78.2	16.8	-1.4	99.0	83.4
5-Yr	20.5	9.4	89.5	77.6	14.3	10.5	99.4	84.8

Underwriting Income: The group's five and ten-year average combined ratios have outperformed its commercial casualty peers by wide margins. Such results are largely due to the group's disciplined underwriting approach leading to underwriting earnings in each of the past five years.

Despite hurricane losses in both 2005 and 2008, the combined ratio remained below 100. In light of such storm losses, the group imposed policy restrictions on its marine policies including lower policy limits and limiting its business interruption coverages and in 2009 limiting its Gulf of Mexico wind aggregates. Despite such restrictions on its policies, its marine premium volume increased in 2006 without increasing its exposure (i.e. policy counts and aggregate limits) on this line. The group's marine and energy rates have remained relatively unchanged since 2006 as gross written premiums remained largely flat on strong policy retention. Although rates on its other lines of business have remained subject to competitive market conditions since 2006, overall premium volume grew as the company expanded its product offerings and grew existing lines of business. The majority of the non-marine premium growth is related to construction and primary casualty niches, lines that are less susceptible to industry cycles.

UNDERWRITING EXPERIENCE

Period Ending	Net Undrw Income (\$000)	—Loss Ratios—			—Expense Ratios—			Div. Pol.	Comb. Ratio
		Pure Loss	Loss & LAE	Net Comm.	Other Exp.	Total Exp.			
2004	24,379	56.3	10.3	66.6	9.1	15.3	24.4	...	91.1
2005	1,885	52.4	15.1	67.5	11.2	16.1	27.2	...	94.7
2006	32,135	40.9	17.3	58.2	12.4	15.8	28.1	...	86.3
2007	46,393	47.3	10.6	57.9	12.6	16.7	29.4	...	87.2
2008	40,471	45.5	14.0	59.5	12.2	18.9	31.1	...	90.6
5-Yr	...	47.5	13.4	60.9	11.8	16.8	28.7	...	89.5

Investment Income: Over the long term, the group's conservative investment strategy has produced a five-year average yield on invested assets that is somewhat below that of the commercial casualty composite. Due to the depressed interest rate environment experienced in recent years, management strategically cut back on the duration of its assets, staying short term while rates remained low, seeking to remain flexible to take advantage of rising rates once the market turned. Ultimately, duration has remained largely constant over the five year period and somewhat below its peer composite. Navigators' high-quality, actively managed investment portfolio is spread across U.S. Treasury securities, municipal, mortgage and asset-backed bonds and corporate issues. The employed strategy has produced favorable levels of investment income on an annual basis with modest realized capital gains (with the exception of 2008) generated over the years from its small equity portfolio. Increasing levels of cash-flow have helped the group produce generally higher levels of investment earnings since 2004. Further boosting cash-flow is the increased premium volume since 2005 on increased product offerings as well as \$220 million of capital contributions from the parent during 2005 and 2006. The group incurred significant realized losses on its common stock portfolio in 2008, which was impacted by impairment losses recorded for accounting purposes.

INVESTMENT INCOME ANALYSIS (\$000)

Period Ending	Company						Industry Composite	
	Net Inv. Income	Realized Capital Gains	Unrealized Capital Gains	Inv. Inc. Growth (%)	Inv. Yield (%)	Total Return (%)	Inv. Inc. Growth (%)	Inv. Yield (%)
2004	21,887	1,027	2,274	34.7	3.7	4.2	0.9	4.5
2005	28,376	1,025	1,090	29.7	3.6	3.9	20.0	4.9
2006	42,441	-153	6,156	49.6	4.0	4.6	9.8	4.9
2007	52,269	1,431	-2,330	23.2	4.0	4.0	9.8	5.0
2008	57,684	-35,490	494	10.4	4.0	1.6	-5.1	4.8
5-Yr	...	...	...	25.7	3.9	3.4	6.4	4.8

INVESTMENT PORTFOLIO ANALYSIS

Asset Class	2008 Inv. Assets (\$000)	—% of Invested Assets—		Annual % Change
		2008	2007	
Long-term bonds	1,278,922	83.7	82.1	9.7
Stocks	51,802	3.4	4.7	-23.0
Affiliated Investments.....	113,830	7.5	7.9	1.9
Other Inv Assets.....	82,866	5.4	5.3	10.4
Total.....	1,527,420	100.0	100.0	7.6

2008 BOND PORTFOLIO ANALYSIS

Asset Class	% of Total Bonds	Mkt. Val to Stmt Val (%)	Avg. Maturity (Yrs)	Class			Struc. Secur. (%)	Struc. Secur. (%) of PHS
				1-2 (%)	3-6 (%)	Secur. (%)		
Governments	12.6	11.7	8.5	100.0	...	...	...
Other	64.2	1.6	6.5	100.0	...	2.1	3.0	
Corporates.....	23.2	-12.6	6.7	99.9	0.1	46.3	23.7	
Total all bonds..	100.0	-0.4	6.8	100.0	0.0	12.1	26.7	

CAPITALIZATION

The following text is derived from the report of Navigators Insurance Group.

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Capital Generation: Navigators has historically generated capital internally in the majority of the past five years. More significant surplus growth has been derived from capital contributions from the publicly traded parent, The Navigators Group, Inc., (Navigators Inc.) a publicly traded entity. In September 2005, a \$250 million multipurpose shelf registration was filed with and approved by the SEC. The shelf includes the option to issue debt securities, common and preferred shares as well as depository shares. In the fourth quarter of 2005, Navigators Inc. drew down on a portion of the shelf through an equity offering that led to a \$120 million contribution to its domestic insurance subsidiary. In April of 2006, the parent again accessed this shelf and issued a \$125 million debt offering of which \$100 million was contributed to Navigators Insurance Company. The \$125 million senior notes mature on May 1, 2016 and pay interest at a rate of 7% annually. The additional capital contributions in 2005 and 2006 have provided the operating group with a solid level of capitalization as measured by Best's Capital Adequacy Ratio (BCAR). Further, consolidated financial leverage is a very low 15% (debt-to-total-capital) and interest coverage ratios more than support the group's current rating level. As a result the group has ample financial flexibility.

Surplus growth in 2007 remained strong on favorable underwriting and investment earnings. Surplus remained unchanged in 2008 despite pre-tax operating income that was largely unchanged from the prior year. Offsetting surplus growth was realized capital losses, stockholder dividends and an increase in non-admitted assets.

In addition to modest debt service, profits from the domestic insurance companies have been utilized to further the group's expansion overseas, primarily in London. From a group perspective, the standard is to provide dividends that are less than or equal to 50% of net statutory income. This standard was exceeded in 2008 as stockholder dividends approached 60% of net statutory income.

CAPITAL GENERATION ANALYSIS (\$000)

Period Ending	Pretax Operating Income	Source of Surplus Growth				Change in PHS	PHS Growth (%)
		Total Inv. Gains	Net Contrib. Capital	Other, Net of Tax	Other, PHS		
2004	46,493	3,300	-6,000	-18,556	25,238	12.0	
2005	30,486	2,115	117,000	-28,679	120,922	51.3	
2006	75,098	6,004	100,000	-13,397	167,704	47.0	
2007	98,519	-900	-8,000	-35,139	54,480	10.4	
2008	97,669	-34,996	-20,000	-40,175	2,499	0.4	
5-Yr	348,265	-24,476	183,000	-135,946	370,843	...	

Overall Capitalization: Navigators' risk adjusted capitalization is solid, as measured by Best's Capital Adequacy Ratio (BCAR) and more than supports its current rating. With the significant increase in surplus since 2004 from capital contributions and retained earnings, underwriting leverage and capitalization have improved to conservative levels.

Nonetheless, the group's capital position remains exposed to natural catastrophe losses as evidenced by its gross incurred catastrophe losses in 2008 of \$114 million on hurricane Ike and Gustav losses. Nonetheless, net losses including reinstatement premiums from these two events were \$29 million as the majority of its catastrophe exposure is ceded to third party reinsurers and as such the group's catastrophe exposure was largely reduced to credit risk on the year. This strategy was adopted in light of the adverse impact of Hurricanes Katrina and Rita in 2005 that led management to mitigate its catastrophe exposure through the purchase of additional reinsurance, reductions in aggregate exposures and more stringent underwriting guidelines. Prior to 2006, loss limits of up to \$65 million were available to its insureds on policies exposed to storm losses. Current maximum available limits on such policies are \$10 million for both property damage and business interruption on a combined basis. Further, the company offers business interruption coverage on a limited basis. Despite these policy restrictions, overall premium volume on its marine line of business increased in 2006 and has remained largely unchanged since 2007.

QUALITY OF SURPLUS (\$000)

Period Ending	Year-End PHS	% of PHS			-Dividend Requirements-		
		Cap. Stock/Contrib. Cap.	Other	Unassigned Surplus	Stockholder Divs	Div. To POI (%)	Div. To Net Inc. (%)
2004	235,561	62.0	...	38.0	-6,000	12.9	19.8
2005	356,484	74.7	...	25.3	-3,000	9.8	17.7
2006	524,188	69.8	...	30.2	...	...	...
2007	578,668	63.3	...	36.7	-8,000	8.1	12.3
2008	581,166	63.0	...	37.0	-20,000	20.5	62.6

Underwriting Leverage: Gross underwriting leverage remains at a reasonable level and largely reflects its peer group norms. While, ceded leverage is somewhat elevated as a result of the extensive utilization of reinsurance to mitigate exposure risks, credit risk is mitigated through the use of a diversified group of highly rated reinsurers and letters of credit received from foreign reinsurers. Although premiums and liabilities, both net and gross, have grown rapidly in recent years, surplus growth has been even stronger resulting in decreasing leverage measures.

LEVERAGE ANALYSIS

Period Ending	Company				Industry Composite			
	NPW to PHS	Res. to PHS	Net Lev.	Gross Lev.	NPW to PHS	Res. to PHS	Net Lev.	Gross Lev.
2004	0.9	1.5	3.2	6.2	1.1	1.8	3.9	5.2
2005	0.8	1.2	2.6	5.3	1.0	1.8	3.7	4.9
2006	0.7	1.0	2.3	4.2	0.9	1.6	3.3	4.3
2007	0.8	1.1	2.5	4.3	0.8	1.5	3.0	3.9
2008	0.8	1.3	2.7	4.5	0.9	1.6	3.3	4.3

Current BCAR: 236.0

PREMIUM COMPOSITION & GROWTH ANALYSIS

Period Ending	DPW		GPW		NPW		NPE	
	(\$000)	(% Chg)	(\$000)	(% Chg)	(\$000)	(% Chg)	(\$000)	(% Chg)
2004	240,591	11.3	457,617	10.5	212,750	-5.5	228,759	9.9
2005	304,357	26.5	529,681	15.7	267,745	25.8	230,046	0.6
2006	389,817	28.1	672,846	27.0	376,179	40.5	329,723	43.3
2007	490,595	25.9	774,346	15.1	478,019	27.1	443,456	34.5
2008	562,243	14.6	762,190	-1.6	472,689	-1.1	463,297	4.5
5-Yr CAGR	...	21.1	...	13.0	...	16.0	...	17.3
5-Yr Chg	...	160.2	...	84.0	...	110.0	...	122.5

Reserve Quality: Reserves developed favorably in 2008 largely on reserve reductions related to its contractors liability business with the savings largely related to reduced claim activity for underwriting years 2003-2006. This trend is attributable to favorable underwriting coupled with a re-evaluation of the group's claim reserving practices based on a frequency and severity claims analysis conducted during 2008.

LOSS & ALAE RESERVE DEVELOP.: CALENDAR YEAR (\$000)

Calendar Year	Orig. Loss Reserves	Developed Reserves Thru '08	Develop. to Orig. (%)	Develop. to PHS (%)	Develop. NPE (%)	Unpaid Reserves @12/08	Unpaid Res. to Develop. (%)
2003	258,403	233,954	-9.5	-11.6	112.4	70,143	30.0
2004	344,460	283,325	-17.7	-26.0	123.9	91,757	32.4
2005	382,191	300,292	-21.4	-23.0	130.5	143,603	47.8
2006	467,762	387,750	-17.1	-15.3	117.6	236,348	61.0
2007	584,438	541,632	-7.3	-7.4	122.1	426,039	78.7
2008	690,675	690,675	...	...	149.1	690,675	100.0

LOSS & ALAE RESERVE DEVELOP.: ACCIDENT YEAR (\$000)

Accident Year	Orig. Loss Reserves	Developed Reserves Thru '08	Develop. to Orig. (%)	Unpaid Reserves @12/08	Acc. Yr Loss Ratio	Acc. Yr Comb Ratio
2003	90,587	78,561	-13.3	15,687	47.4	71.8
2004	131,407	99,382	-24.4	21,614	51.4	75.8
2005	136,127	105,340	-22.6	51,846	55.5	82.7
2006	178,270	157,649	-11.6	92,745	55.6	83.7
2007	243,976	245,710	0.7	189,691	66.3	95.7
2008	264,636	264,636	...	264,636	68.3	99.4

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ASBESTOS & ENVIRONMENTAL (A&E) RESERVE ANALYSIS

Year	Company					Industry Composite				
	Net A&E Reserve (\$000)	Reserve Retention (%)	Net IBNR Mix (%)	Survival Ratio (3yr)	Comb Ratio Impact (1 yr)	Comb Ratio Impact (3 yr)	Survival Ratio (3 yr)	Comb Ratio Impact (1 yr)	Comb Ratio Impact (3 yr)	Comb Ratio Impact (3 yr)
2004	31,394	40.0	65.6	...	0.2	...	...	1.4	...	...
2005	30,372	53.4	25.4	...	0.2	...	...	1.0	...	...
2006	21,381	57.5	36.0	5.4	0.1	0.1	8.0	0.5	1.0	...
2007	16,716	72.1	41.9	2.9	0.4	0.3	8.5	0.7	0.7	...
2008	16,683	76.6	45.9	3.1	0.1	0.2	7.4	0.3	0.5	...

Reinsurance Utilization: Significant dependence on reinsurance is maintained as the group writes high gross limits, consistent with that of typical commercial marine and energy insurers. Following the group's Katrina loss in 2005 management made a decision to limit its gulf coast wind exposure, effectively reducing its gross catastrophe exposure from this book of business. This strategy was tested in 2008 with both Hurricane Ike and Gustav with the group incurring \$114 million in gross losses. However, net losses including reinstatement premiums from both catastrophes were \$29 million or less than 1% of surplus.

A significant portion of the group's reinsurance program is placed with foreign reinsurers, primarily in the London market. The majority of reinsurance balances with unauthorized carriers are covered by letters of credit, which partially mitigates associated credit risk exposure.

CEDED REINSURANCE ANALYSIS (\$000)

Period Ending	Company				Industry Composite			
	Ceded Reins. Total	Bus. Ret. (%)	Reins. Recov. to PHS (%)	Ceded Reins. to PHS (%)	Bus. Ret. (%)	Reins. Recov. to PHS (%)	Ceded Reins. to PHS (%)	Ceded Reins. to PHS (%)
2004	700,799	46.5	193.6	297.5	81.1	92.1	127.8	127.8
2005	946,914	50.5	192.1	265.6	81.9	92.0	124.2	124.2
2006	1,022,582	55.9	138.5	195.1	81.2	73.4	101.7	101.7
2007	1,034,377	61.7	127.5	178.8	82.5	64.4	90.1	90.1
2008	1,065,233	62.0	133.5	183.3	82.6	72.3	101.0	101.0

2008 REINSURANCE RECOVERABLES (\$000)

	Paid & Unpaid Losses	IBNR	Unearned Premiums	Other Recov*	Total Reins Recov
Foreign Affiliates.....	-286	142	...	...	-144
US Insurers	214,446	290,495	107,271	-4,591	607,623
Pools/Associations	38	...	...	...	39
Other Non-US.....	92,508	58,360	25,487	-8,138	168,216
Total (ex US Affil.).....	306,706	348,997	132,758	-12,729	775,734
Grand Total.....	306,706	348,997	132,758	-12,729	775,733

* Includes Commissions less Funds Withheld

INVESTMENT LEVERAGE ANALYSIS (% OF PHS)

Period Ending	Company						Industry Composite	
	Class 3-6 Bonds	Real Estate/ Mtg.	Other Invested Assets	Common Stocks	Non-Affil. Inv. Lev.	Affil. Inv.	Class 3-6 Bonds	Common Stocks
2004	...	...	...	8.7	8.7	21.9	7.0	16.5
2005	...	...	...	5.7	5.7	29.0	7.1	15.7
2006	...	...	...	7.1	7.1	20.4	6.2	16.4
2007	0.0	...	...	11.6	11.7	19.3	5.8	15.3
2008	0.0	...	...	8.9	8.9	19.6	5.2	9.7

LIQUIDITY

The following text is derived from the report of Navigators Insurance Group.

Overall Liquidity: The company maintains a very sound liquidity position with quick and current liquidity ratios above industry averages. Positive underwriting and operating cash flows have been produced over the past five years, enhancing the group's invested asset and liquidity position. Cash flow has been significantly enhanced in recent years due to the dramatic increase in premiums written. The group's asset portfolio, though largely invested in government, corporate and municipal bonds, allocates enough into cash and short-term securities to supply sound liquidity.

LIQUIDITY ANALYSIS

Period Ending	Company				Industry Composite			
	Quick Liq. (%)	Current Liq. (%)	Overall Liq. (%)	Gross Agents Bal. to PHS (%)	Quick Liq. (%)	Current Liq. (%)	Overall Liq. (%)	Gross Agents Bal. to PHS (%)
2004	32.9	112.1	145.6	29.0	22.3	99.6	136.4	13.8
2005	29.0	124.1	157.5	12.0	20.6	102.3	137.9	11.9
2006	28.6	135.3	166.1	5.8	23.5	108.8	141.7	11.9
2007	26.2	131.4	160.3	6.6	21.7	111.2	145.2	10.1
2008	21.6	130.6	155.8	5.5	19.1	104.5	141.1	12.0

CASH FLOW ANALYSIS (\$000)

Period Ending	Company			Industry Composite			
	Underw Cash Flow	Oper. Cash Flow	Net Cash Flow	Underw Cash Flow (%)	Oper. Cash Flow (%)	Underw Cash Flow (%)	Oper. Cash Flow (%)
2004	87,846	106,388	17,373	176.0	187.8	125.3	135.4
2005	131,984	142,946	20,874	169.0	168.0	114.8	128.4
2006	152,050	172,598	740	167.4	169.0	113.3	126.1
2007	184,994	194,990	-21,452	166.1	160.0	112.0	122.6
2008	155,681	187,366	6,219	152.4	157.3	100.7	112.4

HISTORY

The company was incorporated under the laws of New York on July 16, 1981. Active underwriting operations began on March 10, 1983. At December 31, 2008, paid-in capital of \$366.1 million consisted of 100 shares of common stock at a par of \$50,000 per share and \$361.1 million of contributed surplus. All authorized shares are outstanding.

MANAGEMENT

All outstanding capital stock is held by The Navigators Group, Inc., a publicly traded holding company (NASDAQ: NAVG), approximately 15% of which is owned by Terence N. Deeks and family.

The affairs of the company are under the direction of Navigators Management Company, Inc., which is reimbursed for its expenses. Terence N. Deeks serves as Chairman of the Board of The Navigators Group, Inc. Mr. Deeks has been active in the insurance industry in various executive capacities since the mid-1950s. Stanley A. Galanski serves as President and CEO of The Navigators Group, Inc. and as President, CEO and Chairman of Navigators Insurance Company. Mr. Galanski has been active in the insurance industry since 1980.

Officers: President and Chief Executive Officer, Stanley A. Galanski; Senior Vice President and Chief Financial Officer, Francis W. McDonnell; Senior Vice President and Chief Underwriting Officer, H. Clay Bassett, Jr.; Senior Vice President, Chief Compliance Officer and Chief Risk Officer, Bruce Bynes; Senior Vice President and Chief Administrative Officer, R. Scott Eisdorfer; Senior Vice President, Jane E. Keller; Vice President and Treasurer, Thomas C. Connolly; Vice Presidents, Callum M. Duncan (Reinsurance), Ramona L. Eisman (Claims), Paul C. Kluga, Tracey O. Lillington (UK Finance Director), Daniel P. Reale (IT), Jeff L. Saunders (Underwriting), Charles D. Valentine (IT); Secretary, Emily B. Miner.

Directors: H. Clay Bassett, Michael L. Cvisca, Christopher C. Duca, R. Scott Eisdorfer, Stanley A. Galanski (Chairman), Noel Higgitt, Christopher A. Johnson, Russell J. Johnson, John W. Jones, Jane E. Keller, Francis W. McDonnell, Gregory D. Olson, Richard C. F. Rea, Jeff L. Saunders.

REGULATORY

An examination of the financial condition was made as of December 31, 2004 by the Insurance Department of New York. The 2008 annual independent audit of the company was conducted by KPMG, LLP. The annual statement of actuarial opinion is provided by Claus S. Metzner, Milliman USA.

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Territory: The company is licensed in the District of Columbia, Puerto Rico and all states. It also operates on a surplus lines or non-admitted basis in U.S. Virgin Islands. This company is also licensed in the United Kingdom.

REINSURANCE PROGRAMS

The following text is derived from the report of Navigators Insurance Group.

Navigators Insurance maintains proportional and non-proportional reinsurance with U.S. domestic reinsurers, Lloyd's of London, and other international companies. Quota share contracts for most marine lines were eliminated in 2009, but remain in place for 80% of the primary liability, 64% of the gulf of mexico wind exposure and 100% of it's war business. Excess of loss contracts provide up to \$50 million of protection per risk on marine and offshore energy business.

The marine and the offshore energy excess of loss program (excluding gulf of mexico wind exposures) attaches at \$5 million per risk. The company maintains catastrophe layers to protect against catastrophic events and retains a pre-tax maximum of \$25 million in aggregate for gulf of mexico wind exposure, which is much smaller on a PML basis.

Navigators' other lines of business are reinsured on either a quota share or excess of loss basis. Both construction and commercial middle market businesses are reinsured above the company's \$1,000,000 and \$500,000 retentions, respectively, on an excess of loss basis. The construction wrap program and primary casualty program are both subject to a 35% quota share. The excess casualty program is subject to a variable quota share between 60 and 80% and the personal umbrella program is reinsured at 50% on a quota share basis. A variable quota share is in place for the professional liability business with a maximum retention of \$7.2 million. Maximum retention under the inland marine program is \$2 million.

BALANCE SHEET

ADMITTED ASSETS (\$000)

	12/31/08	12/31/07	'08%	'07%
Bonds	1,278,922	1,165,485	75.8	73.1
Common stock	51,802	67,240	3.1	4.2
Cash & short-term invest	68,610	62,391	4.1	3.9
Real estate, offices	1,312	1,344	0.1	0.1
Other non-affil inv asset	137	27	0.0	0.0
Investments in affiliates	112,518	110,407	6.7	6.9
Total invested assets.....	1,513,301	1,406,894	89.7	88.2
Premium balances	78,167	72,853	4.6	4.6
Accrued interest	14,119	12,609	0.8	0.8
All other assets.....	81,427	102,586	4.8	6.4
Total assets.....	1,687,014	1,594,942	100.0	100.0

LIABILITIES & SURPLUS (\$000)

	12/31/08	12/31/07	'08%	'07%
Loss & LAE reserves	749,060	635,681	44.4	39.9
Unearned premiums.....	216,065	206,674	12.8	13.0
Conditional reserve funds	23,201	21,318	1.4	1.3
All other liabilities	117,522	152,601	7.0	9.6
Total liabilities	1,105,848	1,016,274	65.6	63.7
Capital & assigned surplus	366,122	366,122	21.7	23.0
Unassigned surplus.....	215,044	212,546	12.7	13.3
Total policyholders' surplus.....	581,166	578,668	34.4	36.3
Total liabilities & surplus.....	1,687,014	1,594,942	100.0	100.0

SUMMARY OF 2008 OPERATIONS (\$000)

Statement of Income	12/31/08	Funds Provided from Operations	12/31/08
Premiums earned.....	463,297	Premiums collected.....	452,722
Losses incurred	210,807	Benefit & loss related pmts	101,946
LAE incurred	64,960	LAE & undrw expenses paid	195,094
Undrw expenses incurred	147,059	Undrw cash flow	155,681
Net underwriting income	40,471	Investment income.....	62,257
Net investment income....	57,684	Other income/expense ...	-486
Other income/expense ...	-486	Pre-tax cash operations	217,452
Pre-tax oper income ...	97,669	Income taxes pd (recov)...	30,086
Realized capital gains.....	-35,490	Net oper cash flow.....	187,366
Income taxes incurred	30,226		
Net income.....	31,952		



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Ultimate Parent: The Navigators Group, Inc NAVIGATORS SPECIALTY INSURANCE COMPANY

New York, NY
Reckson Executive Park, 6 International Drive, Rye Brook, NY 10573
Web: www.navg.com

Tel: 914-934-8999
AMB#: 10761
Ultimate Parent#: 58430

Fax: 914-934-2355
NAIC#: 36056
FEIN#: 13-3536448

BEST'S FINANCIAL STRENGTH RATING

Based on our opinion of the company's Financial Strength and relationship with an affiliated reinsurer, which reinsures virtually all of the company's business, the company is assigned the Best's Financial Strength Rating of its affiliated reinsurer, Navigators Insurance Company, which is A (Excellent). The company is assigned the Financial Size Category of Class X, which is the Financial Size Category of its affiliated reinsurer.

RATING RATIONALE

The following text is derived from the report of Navigators Insurance Group.

Rating Rationale: The rating reflects the group's leading position as a global provider of insurance to the marine sector, the group's well diversified book of business, its modest net wind storm exposure, management's conservative approach to underwriting and claims handling in addition to the group's solid level of capitalization and profitability. These positive factors are somewhat offset by the group's elevated ceded reinsurance leverage and its rapid growth in relatively new lines of business seen in recent years. The rating outlook reflects A.M. Best's expectation that the group will continue to maintain its solid level of capitalization and operating performance.

The positive rating factors are derived from favorable historical operating performance which, together with capital-raising initiatives, has supported growth and enhanced overall capitalization. The strong operating performance, as evidenced by excellent returns on both revenue and surplus, has been driven by underwriting profitability produced by the group's highly tenured underwriting staff and their specialty expertise built up as one of the largest marine insurers in the world. The group's firm commitment to underwriting excellence in terms of both risk selection, contract terms and conditions and pricing discipline have been hallmarks in the generation of annual loss ratios that have outpaced the average posted by its industry peers. Such discipline and expertise, which has been critical to profitability in the severity-driven ocean marine, casualty and energy lines, is a reflection of the strong risk management culture that has always been a part of the Navigators Insurance Group.

Somewhat mitigating the elevated ceded reinsurance leverage is the relatively high credit quality of Navigators' reinsurers as well as the presence of letters of credit provided by some reinsurers. The group's high ceded leverage is emblematic of its risk managements approach wherein the majority of its gulf-coast wind exposure and portions of its new business are ceded. In addition, the financial flexibility is afforded through the publicly traded parent, The Navigators Group Inc. (NASDAQ: NAVG).

While nearly 30% of Navigators' gross premium writings are in the marine and energy sector, diversification of risk is achieved as its remaining premiums are spread across a diverse product line including general liability coverage for small general and artisan contractors, personal umbrella coverage, professional liability, in addition to specialty coverages, such as customs bonds (surety bonds guaranteeing payment of customs taxes and delivery of goods imported into the U.S.). While the group continues to expand both its product lines and geographic spread of risk, management remains focused on underwriting profitability. Although not part of the rating, the group's ultimate parent owns a Lloyd's syndicate (Syndicate 1221) whose writings have grown to \$300 million. While the stand-alone capitalization of the syndicate is not in line with the domestic group, the syndicate benefits from the Lloyd's guarantee fund. Further, the overall capitalization of the ultimate holding company (which includes the Lloyd's affiliate) is strong.

Best's Financial Strength Rating: A r

Outlook: Stable

FIVE YEAR RATING HISTORY

Date	Best's FSR	Date	Best's FSR
05/27/09	A r	10/10/05	A r
03/28/08	A r	06/29/05	A r
01/02/07	A r	05/28/04	A r

KEY FINANCIAL INDICATORS (\$000)

Period Ending	Statutory Data					
	Direct Premiums Written	Net Premiums Written	Pretax Operating Income	Net Income	Total Admitted Assets	Policy-holders' Surplus
2004	140,751	...	2,232	1,661	69,848	51,592
2005	176,414	...	2,706	1,788	124,452	103,483
2006	231,718	...	5,126	3,311	134,343	106,773
2007	233,005	...	5,493	3,610	127,551	110,407
2008	149,141	...	5,585	2,001	126,417	112,518

Period Ending	Profitability			Leverage			Liquidity	
	Comb. Ratio	Inv. Yield (%)	Pretax ROR (%)	NA Inv Lev	NPW to PHS	Net Lev.	Overall Liq. (%)	Oper. Cash-flow (%)
2004	...	4.0	...	...	...	0.4	382.6	...
2005	...	3.5	...	...	...	0.2	593.5	236.1
2006	...	4.9	...	...	...	0.3	487.3	277.7
2007	...	5.2	...	...	...	0.2	744.0	246.8
2008	...	5.1	...	...	...	0.1	909.5	999.9
5-Yr	...	4.7	...	...	...	...	...	...

(*) Data reflected within all tables of this report has been compiled from the company-filed statutory statement. Within several financial tables of this report, this company is compared against the Surplus Lines Composite.

BUSINESS REVIEW

The following text is derived from the report of Navigators Insurance Group.

Navigators Insurance Group (Navigators), through its lead operating unit, Navigators Insurance Company, specializes in underwriting marine and energy, specialty lines and professional liability business. Navigators Specialty Insurance Company underwrites property/casualty business on a non-admitted basis for those types of risks requiring greater flexibility in rating or policy terms and conditions. The group's multi-channel distribution platform utilizes global, national and regional brokers as well as wholesalers.

Navigators has a long-standing reputation for expertise in the marine and energy sector, the group's largest segment, which includes property and excess liability coverages for marine-related business, offshore energy risks, related transportation and cargo exposures as well as a modest amount of business written in other facets of the marine and energy field.

Specialty operations have underwritten general liability coverages for small general and artisan contractors since 1995, mostly in California, and represent a "post-Montrose" book of business with tight terms and conditions in place to limit or avoid significant construction defect claims. Coverages are generally written on a non-admitted basis and have included construction wrap-up products since 2005. Approximately 50% of the specialty group's gross writings represent construction risks, with excess casualty generating roughly 15% of this segment. Excess casualty risks are diversified among a large number of industry groups. The remaining portion of the specialty gross premiums include personal umbrella, primary casualty and commercial middle market accounts. The group also writes professional director and officer coverages to a variety of market niches including lawyers, architects and a variety of public and private companies. This coverage is largely offered to small and mid-size companies as opposed to Fortune 1000 companies.

Direct Premium Writings By Product Lines: Direct Premiums written at the last year end totaled (\$000) \$149,141, and were distributed as follows: Oth Liab Occur, \$130,883; Oth Liab CM, \$12,195; All Other, \$6,063.

Geographical breakdown of direct premium writings (\$000): California, \$85,337 (57.2%); Texas, \$7,559 (5.1%); Louisiana, \$6,352 (4.3%); Florida, \$5,754 (3.9%); Colorado, \$5,690 (3.8%); 45 other jurisdictions, \$38,318 (25.7%); Aggregate Alien, \$129 (0.1%).

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FINANCIAL PERFORMANCE

The following text is derived from the report of Navigators Insurance Group.

Overall Earnings: Navigators has generated strong pre-tax operating performance over the majority of the last five years, producing pre-tax returns on revenue and equity that exceed the results produced by the commercial casualty industry composite while after-tax return measures largely reflect this composite. Increasing levels of both underwriting profits and investment income over a five year period have been key drivers behind operating earnings. However, total return measures were negatively impacted in 2008 by significant realized capital losses, which were impacted by impairment losses recorded for accounting purposes.

Earnings since 2004 have been profitable through underwriting earning boosted by consistently higher levels of net investment income. Otherwise solid results in 2005 and 2008 were somewhat offset by storm losses. The group's conservative operating strategies, high-quality investment portfolio, stringent underwriting guidelines and strong industry knowledge (particularly within its market niche) are expected to afford the group continued earnings production.

PROFITABILITY ANALYSIS

Period Ending	Company				Industry Composite			
	Pretax ROR (%)	Return on PHS	Comb. Ratio	Oper. Ratio	Pretax ROR (%)	Return on PHS	Comb. Ratio	Oper. Ratio
2004	...	3.3	...	...	14.9	11.2	94.4	83.1
2005	...	2.4	...	...	18.8	12.0	93.8	80.4
2006	...	3.1	...	...	33.2	18.3	80.7	65.6
2007	...	3.3	...	...	38.9	17.6	79.3	62.0
2008	...	1.6	...	...	24.4	-0.1	95.0	76.1
5-Yr	...	2.7	...	...	26.5	11.5	88.2	72.9

Underwriting Income: The group's five and ten-year average combined ratios have outperformed its commercial casualty peers by wide margins. Such results are largely due to the group's disciplined underwriting approach leading to underwriting earnings in each of the past five years.

Despite hurricane losses in both 2005 and 2008, the combined ratio remained below 100. In light of such storm losses, the group imposed policy restrictions on its marine policies including lower policy limits and limiting its business interruption coverages and in 2009 limiting its Gulf of Mexico wind aggregates. Despite such restrictions on its policies, its marine premium volume increased in 2006 without increasing its exposure (i.e. policy counts and aggregate limits) on this line. The group's marine and energy rates have remained relatively unchanged since 2006 as gross written premiums remained largely flat on strong policy retention. Although rates on its other lines of business have remained subject to competitive market conditions since 2006, overall premium volume grew as the company expanded its product offerings and grew existing lines of business. The majority of the non-marine premium growth is related to construction and primary casualty niches, lines that are less susceptible to industry cycles.

Investment Income: Over the long term, the group's conservative investment strategy has produced a five-year average yield on invested assets that is somewhat below that of the commercial casualty composite. Due to the depressed interest rate environment experienced in recent years, management strategically cut back on the duration of its assets, staying short term while rates remained low, seeking to remain flexible to take advantage of rising rates once the market turned. Ultimately, duration has remained largely constant over the five year period and somewhat below its peer composite. Navigators' high-quality, actively managed investment portfolio is spread across U.S. Treasury securities, municipal, mortgage and asset-backed bonds and corporate issues. The employed strategy has produced favorable levels of investment income on an annual basis with modest realized capital gains (with the exception of 2008) generated over the years from its small equity portfolio. Increasing levels of cash-flow have helped the group produce generally higher levels of investment earnings since 2004. Further boosting cash-flow is the increased premium volume since 2005 on increased product offerings as well as \$220 million of capital contributions from the parent during 2005 and 2006. The group incurred significant realized losses on its common stock portfolio in 2008, which was impacted by impairment losses recorded for accounting purposes.

INVESTMENT INCOME ANALYSIS (\$000)

Period Ending	Company						Industry Composite	
	Net Inv. Income	Realized Capital Gains	Unrealized Capital Gains	Inv. Inc. Growth (%)	Inv. Yield (%)	Total Return (%)	Inv. Growth (%)	Inv. Yield (%)
2004	2,232	138	...	84.5	4.0	4.3	5.3	3.7
2005	2,706	59	104	21.2	3.5	3.7	19.0	3.8
2006	5,126	-29	-22	89.4	4.9	4.9	28.4	4.3
2007	5,493	-61	24	7.2	5.2	5.1	13.8	4.4
2008	5,585	-1,600	-168	1.7	5.1	3.4	3.5	4.4
5-Yr	...	...	...	26.1	4.7	4.3	13.3	4.2

INVESTMENT PORTFOLIO ANALYSIS

Asset Class	2008 Inv. Assets (\$000)	—% of Invested Assets—		Annual % Change
		2008	2007	
Long-term bonds.....	107,587	94.0	98.1	-1.1
Other Inv Assets.....	6,892	6.0	1.9	224.8
Total.....	114,479	100.0	100.0	3.2

2008 BOND PORTFOLIO ANALYSIS

Asset Class	% of Total Bonds	Mkt. Val to Stmt Val (%)	Avg. Maturity (Yrs)	Class 1-2 (%)	Class 3-6 (%)	Struc. Secur. (%)	Struc. Secur. (% of PHS)
	Governments.....	18.8	13.5	8.3	100.0
Other.....	38.3	3.7	6.1	100.0	...	3.5	1.3
Corporates.....	42.9	-13.9	7.5	100.0	...	47.0	19.3
Total all bonds..	100.0	-2.0	7.1	100.0	...	21.5	20.6

CAPITALIZATION

The following text is derived from the report of Navigators Insurance Group.

Capital Generation: Navigators has historically generated capital internally in the majority of the past five years. More significant surplus growth has been derived from capital contributions from the publicly traded parent, The Navigators Group, Inc., (Navigators Inc.) a publicly traded entity. In September 2005, a \$250 million multipurpose shelf registration was filed with and approved by the SEC. The shelf includes the option to issue debt securities, common and preferred shares as well as depositary shares. In the fourth quarter of 2005, Navigators Inc. drew down on a portion of the shelf through an equity offering that led to a \$120 million contribution to its domestic insurance subsidiary. In April of 2006, the parent again accessed this shelf and issued a \$125 million debt offering of which \$100 million was contributed to Navigators Insurance Company. The \$125 million senior notes mature on May 1, 2016 and pay interest at a rate of 7% annually. The additional capital contributions in 2005 and 2006 have provided the operating group with a solid level of capitalization as measured by Best's Capital Adequacy Ratio (BCAR). Further, consolidated financial leverage is a very low 15% (debt-to-total-capital) and interest coverage ratios more than support the group's current rating level. As a result the group has ample financial flexibility.

Surplus growth in 2007 remained strong on favorable underwriting and investment earnings. Surplus remained unchanged in 2008 despite pre-tax operating income that was largely unchanged from the prior year. Offsetting surplus growth was realized capital losses, stockholder dividends and an increase in non-admitted assets.

In addition to modest debt service, profits from the domestic insurance companies have been utilized to further the group's expansion overseas, primarily in London. From a group perspective, the standard is to provide dividends that are less than or equal to 50% of net statutory income. This standard was exceeded in 2008 as stockholder dividends approached 60% of net statutory income.

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CAPITAL GENERATION ANALYSIS (\$000)

Period Ending	Source of Surplus Growth					PHS Growth (%)
	Pretax Operating Income	Total Inv. Gains	Net Contrib. Capital	Other, Net of Tax	Change in PHS	
2004	2,232	138	...	-709	1,661	3.3
2005	2,706	163	50,000	-977	51,892	100.6
2006	5,126	-51	...	-1,785	3,290	3.2
2007	5,493	-37	...	-1,822	3,634	3.4
2008	5,585	-1,768	...	-1,706	2,111	1.9
5-Yr	21,141	-1,556	50,000	-6,999	62,587	...

Overall Capitalization: Navigators' risk adjusted capitalization is solid, as measured by Best's Capital Adequacy Ratio (BCAR) and more than supports its current rating. With the significant increase in surplus since 2004 from capital contributions and retained earnings, underwriting leverage and capitalization have improved to conservative levels.

Nonetheless, the group's capital position remains exposed to natural catastrophe losses as evidenced by its gross incurred catastrophe losses in 2008 of \$114 million on hurricane Ike and Gustav losses. Nonetheless, net losses including reinstatement premiums from these two events were \$29 million as the majority of its catastrophe exposure is ceded to third party reinsurers and as such the group's catastrophe exposure was largely reduced to credit risk on the year. This strategy was adopted in light of the adverse impact of Hurricanes Katrina and Rita in 2005 that led management to mitigate its catastrophe exposure through the purchase of additional reinsurance, reductions in aggregate exposures and more stringent underwriting guidelines. Prior to 2006, loss limits of up to \$65 million were available to its insureds on policies exposed to storm losses. Current maximum available limits on such policies are \$10 million for both property damage and business interruption on a combined basis. Further, the company offers business interruption coverage on a limited basis. Despite these policy restrictions, overall premium volume on its marine line of business increased in 2006 and has remained largely unchanged since 2007.

QUALITY OF SURPLUS (\$000)

Period Ending	Year-End PHS	% of PHS			Dividend Requirements		
		Cap. Stock/Contrib.	Other	Unassigned Surplus	Stockholder Divs	Div. To POI (%)	Div. To Net Inc. (%)
2004	51,592	79.5	...	20.5	...	...	...
2005	103,483	87.9	...	12.1	...	...	...
2006	106,773	85.2	...	14.8	...	...	...
2007	110,407	82.4	...	17.6	...	...	...
2008	112,518	80.9	...	19.1	...	...	...

Underwriting Leverage: Gross underwriting leverage remains at a reasonable level and largely reflects its peer group norms. While, ceded leverage is somewhat elevated as a result of the extensive utilization of reinsurance to mitigate exposure risks, credit risk is mitigated through the use of a diversified group of highly rated reinsurers and letters of credit received from foreign reinsurers. Although premiums and liabilities, both net and gross, have grown rapidly in recent years, surplus growth has been even stronger resulting in decreasing leverage measures.

LEVERAGE ANALYSIS

Period Ending	Company				Industry Composite			
	NPW to PHS	Res. to PHS	Net Lev.	Gross Lev.	NPW to PHS	Res. to PHS	Net Lev.	Gross Lev.
2004	0.4	0.4	0.7	1.0	2.3	3.8
2005	0.2	0.2	0.6	1.0	2.3	3.8
2006	0.3	0.3	0.6	1.0	2.2	3.5
2007	0.2	0.2	0.5	0.9	2.0	2.9
2008	0.1	0.1	0.5	1.0	2.0	3.0

Current BCAR: 236.0

PREMIUM COMPOSITION & GROWTH ANALYSIS

Period Ending	DPW		GPW		NPW		NPE	
	(\$000)	(% Chg)	(\$000)	(% Chg)	(\$000)	(% Chg)	(\$000)	(% Chg)
2004	140,751	17.2	140,751	17.2	...	...	...	...
2005	176,414	25.3	176,414	25.3	...	...	...	...
2006	231,718	31.3	231,718	31.3	...	...	...	...
2007	233,005	0.6	233,005	0.6	...	...	...	...
2008	149,141	-36.0	149,141	-36.0	...	...	...	...
5-Yr CAGR	...	4.4	...	4.4	...	...	...	...
5-Yr Chg	...	24.2	...	24.2	...	...	...	...

Reserve Quality: Reserves developed favorably in 2008 largely on reserve reductions related to its contractors liability business with the savings largely related to reduced claim activity for underwriting years 2003-2006. This trend is attributable to favorable underwriting coupled with a re-evaluation of the group's claim reserving practices based on a frequency and severity claims analysis conducted during 2008.

Reinsurance Utilization: Significant dependence on reinsurance is maintained as the group writes high gross limits, consistent with that of typical commercial marine and energy insurers. Following the group's Katrina loss in 2005 management made a decision to limit its gulf coast wind exposure, effectively reducing its gross catastrophe exposure from this book of business. This strategy was tested in 2008 with both Hurricane Ike and Gustav with the group incurring \$114 million in gross losses. However, net losses including reinstatement premiums from both catastrophes were \$29 million or less than 1% of surplus.

A significant portion of the group's reinsurance program is placed with foreign reinsurers, primarily in the London market. The majority of reinsurance balances with unauthorized carriers are covered by letters of credit, which partially mitigates associated credit risk exposure.

2008 REINSURANCE RECOVERABLES (\$000)

	Paid & Unpaid Losses	IBNR	Unearned Premiums	Other Recov*	Total Reins Recov
US Affiliates.....	80,668	324,861	71,352	...	476,881
Grand Total.....	80,668	324,861	71,352	...	476,881

* Includes Commissions less Funds Withheld

LIQUIDITY

The following text is derived from the report of Navigators Insurance Group.

Overall Liquidity: The company maintains a very sound liquidity position with quick and current liquidity ratios above industry averages. Positive underwriting and operating cash flows have been produced over the past five years, enhancing the group's invested asset and liquidity position. Cash flow has been significantly enhanced in recent years due to the dramatic increase in premiums written. The group's asset portfolio, though largely invested in government, corporate and municipal bonds, allocates enough into cash and short-term securities to supply sound liquidity.

LIQUIDITY ANALYSIS

Period Ending	Company				Industry Composite			
	Quick Liq. (%)	Current Liq. (%)	Overall Liq. (%)	Gross Agents Bal. to PHS (%)	Quick Liq. (%)	Current Liq. (%)	Overall Liq. (%)	Gross Agents Bal. to PHS (%)
2004	999.9	999.9	382.6	32.7	36.5	131.3	159.1	12.9
2005	999.9	999.9	593.5	18.3	32.6	133.3	158.2	13.5
2006	999.9	999.9	487.3	24.8	36.8	142.5	161.0	12.3
2007	999.9	999.9	744.0	15.1	33.7	148.8	168.1	10.5
2008	999.9	999.9	909.5	10.6	30.3	144.2	165.4	9.6

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CASH FLOW ANALYSIS (\$000)

Period Ending	Company					Industry Composite	
	Underw Cash Flow	Oper. Cash Flow	Net Cash Flow	Underw Cash Flow (%)	Oper. Cash Flow (%)	Underw Cash Flow (%)	Oper. Cash Flow (%)
2004	...	2,332	-10,066	...	...	207.5	203.1
2005	...	1,535	7,163	...	236.1	149.5	157.0
2006	...	3,348	-14,646	...	277.7	158.1	159.7
2007	...	3,315	8	...	246.8	146.6	144.2
2008	...	5,304	4,757	...	999.9	121.9	133.6

HISTORY

The company was incorporated under the laws of New York on December 1, 1988 as Pilot Insurance Company and began business on October 17, 1989. Active underwriting operations commenced in 1990 and, effective January 23, 1990, the company was renamed NIC Insurance Company. The current name was adopted on January 4, 2007. At December 31, 2008, paid-in capital of \$91.0 million consisted of 250 shares of common stock at \$20,000 par and \$86.0 million of contributed surplus. All authorized shares are outstanding.

MANAGEMENT

All outstanding capital stock of Navigators Specialty Insurance Company is owned by Navigators Insurance Company, which in turn is owned by The Navigators Group, Inc., a holding company, approximately 15% of which is owned by Terence N. Deeks and family. The affairs of the Company are under the direction of Navigators Management Company, Inc. which is reimbursed for its services. Management is directed by the same executives who direct the affairs of the parent company and The Navigators Group, Inc.

Officers: President and Chief Executive Officer, Stanley A. Galanski; Senior Vice President and Chief Financial Officer, Francis W. McDonnell; Senior Vice President and Chief Underwriting Officer, H. Clay Bassett; Senior Vice President, Chief Compliance Officer and Chief Risk Officer, Bruce Bynes; Senior Vice President and Chief Administrative Officer, R. Scott Eisdorfer; Senior Vice President, Jane E. Keller; Vice President and Treasurer, Thomas C. Connolly; Vice Presidents, Callum M. Duncan (Reinsurance), Ramona L. Eisman (Claims), Paul C. Kluga, Daniel P. Reale (IT), Jeff L. Saunders (Underwriting), Charles D. Valentine (IT); Secretary, Emily B. Miner.

Directors: H. Clay Bassett, Michael L. Civisca, Christopher C. Duca, R. Scott Eisdorfer, Stanley A. Galanski (Chairman), Noel Higgitt, Christopher A. Johnson, Russell J. Johnson, John W. Jones, Jane E. Keller, Francis W. McDonnell, Gregory D. Olson, Richard C. F. Rea, Jeff L. Saunders.

REGULATORY

An examination of the financial condition was made as of December 31, 2004 by the Insurance Department of New York. The 2008 annual independent audit of the company was conducted by KPMG, LLP. The annual statement of actuarial opinion is provided by Claus S. Metzner, Milliman USA.

Territory: The company is licensed in New York. It also operates on a surplus lines or non-admitted basis in the District of Columbia, AL, AK, AZ, AR, CA, CO, CT, DE, FL, GA, HI, ID, IL, IN, IA, KS, KY, LA, ME, MD, MA, MI, MN, MS, MO, MT, NE, NV, NH, NJ, NM, NC, ND, OH, OK, OR, PA, RI, SC, SD, TN, TX, UT, VT, VA, WA, WV, WI and WY.

REINSURANCE PROGRAMS

Business is all ceded to Navigators Insurance Company.

BALANCE SHEET

ADMITTED ASSETS (\$000)

	12/31/08	12/31/07	'08%	'07%
Bonds	107,587	108,792	85.1	85.3
Cash & short-term invest	5,922	1,165	4.7	0.9
Other non-affil inv asset	10	7	0.0	0.0
Total invested assets	113,519	109,965	89.8	86.2
Premium balances	11,883	16,636	9.4	13.0
Accrued interest	960	950	0.8	0.7
All other assets	55	...	0.0	...
Total assets	126,417	127,551	100.0	100.0

LIABILITIES & SURPLUS (\$000)

	12/31/08	12/31/07	'08%	'07%
All other liabilities	13,899	17,144	11.0	13.4
Total liabilities	13,899	17,144	11.0	13.4
Capital & assigned surplus	91,000	91,000	72.0	71.3
Unassigned surplus	21,518	19,407	17.0	15.2
Total policyholders' surplus	112,518	110,407	89.0	86.6
Total liabilities & surplus	126,417	127,551	100.0	100.0

SUMMARY OF 2008 OPERATIONS (\$000)

Statement of Income	12/31/08	Funds Provided from Operations	12/31/08
Net investment income	5,585	Investment income	5,729
Pre-tax oper income	5,585	Pre-tax cash operations	5,729
Realized capital gains	-1,600		
Income taxes incurred	1,985	Income taxes pd (recov)	425
Net income	2,001	Net oper cash flow	5,304

Best's Rating Report

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The company information appearing in this pamphlet is an extract from the complete company report prepared by the A.M. Best Company.

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D	Poor
E	Under Regulatory Supervision
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