

REPORT ON EXAMINATION
OF THE
CLEARWATER SELECT INSURANCE COMPANY
AS OF
DECEMBER 31, 2007

Karen Weldin Stewart, CIR-ML
Commissioner



Delaware Department of Insurance

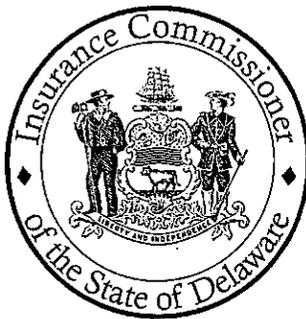
I, Karen Weldin Stewart, Insurance Commissioner of the State of Delaware, do hereby certify that the attached REPORT ON EXAMINATION, made as of December 31, 2007 of the

CLEARWATER SELECT INSURANCE COMPANY

is a true and correct copy of the document filed with this Department.

Attest By: *Sonia C. Harris*

Date: 29 June 2009



In Witness Whereof, I have hereunto set my hand and affixed the official seal of this Department at the City of Dover, this 29th day of June 2009.

Karen Weldin Stewart, CIR-ML
Insurance Commissioner

Karen Weldin Stewart, CIR-ML
Commissioner



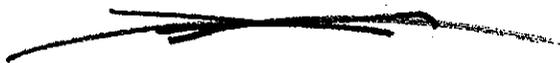
Delaware Department of Insurance

REPORT ON EXAMINATION
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CLEARWATER SELECT INSURANCE COMPANY
AS OF
DECEMBER 31, 2007

The above-captioned Report was completed by examiners of the Delaware Department of Insurance.

Consideration has been duly given to the comments, conclusions and recommendations of the examiners regarding the status of the Company as reflected in the Report.

This Report is hereby accepted, adopted and filed as an official record of this Department.



Karen Weldin Stewart, CIR-ML
Insurance Commissioner

Dated this 29th day of June, 2009

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SALUTATION

March 26, 2009

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Financial Condition (E) Committee, NAIC
State Corporation Commission
Bureau of Insurance
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Honorable Karen W. Stewart, CIR-ML
Insurance Commissioner
Department of Insurance
State of Delaware
841 Silver Lake Blvd, Suite 100
Dover, DE 19904

Commissioners:

In compliance with instructions and pursuant to statutory provisions contained in Certificate of Authority Number 08.004, an examination has been made of the affairs, financial condition and management of

CLEARWATER SELECT INSURANCE COMPANY

hereinafter referred to as “Company” or “CSIC” incorporated under the laws of the State of Delaware, the statutory home office of which was located at The Corporation Trust Center, 1209 Orange St., Wilmington, DE, 19801. The main administrative offices of the Company were the same as that of its upstream parent, Odyssey Re Holdings Corp. (ORH), located at 300 First Stamford Place, Stamford, Connecticut 06902.

The examination of the Company was conducted concurrently with that of both its

affiliate, Hudson Ins. Co. (HIC), and its immediate parent, Clearwater Insurance Company (CIC). Separate reports of examination were filed for each company.

The report of this examination is respectfully submitted.

SCOPE OF EXAMINATION

This financial condition examination of the Company covered the period from January 1, 2004 through December 31, 2007, and consisted of a general survey of the Company's business policies and practices; management, any corporate matters incident thereto; a verification and evaluation of assets and a determination of liabilities. Transactions subsequent to the latter date were reviewed to the extent deemed necessary.

This report is presented on an exception basis and is designed to set forth material facts with regards to adverse findings discovered during the examination. The text will explain changes wherever made. If necessary, comments and recommendations have been made in those areas in need of correction or improvement. In such cases, these matters were thoroughly discussed with responsible personnel and/or officials during the course of the examination.

The examination followed rules established by the National Association of Insurance Commissioners (NAIC) Committee on Financial Condition Examiners Handbook, as adopted by the Delaware Insurance Department under Delaware Insurance Code Section 526, and generally accepted statutory insurance examination standards. In accordance with the aforementioned Handbook, the consulting firm of INS Services, Inc. reviewed and tested, in part, the Company's high level controls over Information Technology systems and control environment based on its responses to questions contained in the Evaluation of Controls in Information

Systems Questionnaire – Exhibit C. Other planning exhibits were reviewed and tested, as needed, by the examiners.

Work papers prepared by the Company's external accounting firm, Pricewaterhouse - Coopers, LLC, (PWC) New York, NY, in connection with its annual audit, were extensively reviewed in order to ascertain their analysis, review of controls, audit procedures and conclusions. We relied upon, and utilized PWC's work papers to the fullest extent possible. In addition, the Company's Sarbanes-Oxley (SOX), Section 404, compliance documentation related to the identification of financial reporting Key Activities and the attendant processes and controls maintained therein was also reviewed and relied upon to the fullest extent possible. Based upon the review of PWC work papers, SOX compliance documentation, as well as the performance of other examination planning procedures including: account analysis, the assessment of management and the ORH organization (as a whole), the assessment of account specific and cycle controls, and the assessment of the ORH control environment, an overall assessment was made determining: compliance risk, operational risk, financial reporting risk, and risk of material misstatement. In those areas in which a high reliance was placed on controls, and where a determination was made of a low likelihood of material misstatement, limited examination procedures were performed. In other areas we identified examination procedures to specifically address those concerns or risks noted, based on professional judgment.

In addition to items noted in this report, the following topics were reviewed without material exception and are included in the work papers of this examination:

- Fidelity Bond and Other Corporate Insurance
- Corporate Records
- Legal Actions
- NAIC Ratios
- All Asset and Liability Items Not Mentioned
- Subsequent Events

HISTORY

The Company was incorporated as Reliance Reinsurance Company, on October 19, 1993, under the laws of the State of Delaware as a stock property and casualty company, by representatives of the Reliance Insurance Group. The Company was issued its original Delaware Certificate of Authority dated March 4, 1994, authorizing it to transact the business of health, credit health, property, surety, marine and transportation, and casualty insurance. The Company began assuming reinsurance in 1995.

On October 2, 2000, and per the approval of the Delaware Department of Insurance (DEDOI), the Company was sold by the Reliance Insurance Group to Overseas Partners, Ltd. (OPL), a Bermuda domiciled insurer. Subsequent to its acquisition, the name of the Company was changed to Overseas Partners US Reinsurance Company (OPUS Re). During 2002, the Company notified the DEDOI of its decision to enter into run-off.

On July 2, 2004, and per the approval of the DEDOI, the Company was sold by OPL to Odyssey Re Holdings Corporation (ORH). Subsequent to its sale, the Company was contributed to ORH subsidiary, CIC, and its name was changed to Clearwater Select Ins. Co.

As of this examination date, the Company remains in run-off.

CAPITALIZATION

At December 31, 2007, the Company's authorized capital was \$5,000,000 consisting of 500 issued and outstanding shares of common stock at a par value of \$10,000 per share. Total Adjusted Capital of \$84,914,024 was well in excess of its Adjusted Control Level risk based capital of \$2,344,780. The following changes occurred in the capital and surplus accounts of the Company since the prior examination:

	Common Capital Stock	Gross Paid-in and Contributed Surplus	Unassigned Surplus	Total
December 31, 2003	\$5,000,000	\$70,659,699	\$(5,945,683)	\$69,714,016
Dividends:				
2004		(6,971,402)		(6,971,402)
Operations: (1)				
2004			(905,185)	(905,185)
2005			14,299,294	14,299,294
2006			5,148,233	5,148,233
2007			<u>3,629,068</u>	<u>3,629,068</u>
December 31, 2007	<u>\$5,000,000</u>	<u>\$63,688,297</u>	<u>\$ 16,225,727</u>	<u>\$ 84,914,024</u>

1. Operations is defined as Net income, Change in net unrealized capital gains or (losses), Change in net unrealized foreign exchange capital gain (loss), Change in non-admitted assets, Change in net deferred income tax, and Change in provision for reinsurance.

DIVIDENDS TO STOCKHOLDER

In anticipation of its sale to ORH, the Company paid a dividend of \$6,971,402 to its prior owner, OPL.

MANAGEMENT AND CONTROL

Pursuant to the General Corporation Law of the State of Delaware as implemented by the Company's Certificate of Incorporation and bylaws, all corporate powers and its business, property, and affairs are managed by or under the direction of its Board of Directors. The Board shall consist of not less than three and not more than nine members who serve until either resignation, removal, or until their successor is qualified and elected. Members of the Board of Directors serving as of December 31, 2007, were as follows:

Director's Name

Andrew A. Barnard *	Robert S. Bennett
Christopher L. Gallagher	James E. Migliorini
Donald L. Smith	Richard S. Donovan
Michael G. Wacek	Brian D. Young

* Chairman of the Board of Directors

The Company's bylaws provide for the Board to designate one or more committees, each committee to consist of one or more of the directors of the corporation. As of December 31, 2007, the Board of Directors had appointed the following committees.

<u>Investment Committee</u>	<u>Benefit Committee</u>	<u>Compensation Committee</u>
Andrew A. Barnard	Andrew A. Barnard	Andrew A. Barnard
Richard S. Donovan	Donald L. Smith	Richard S. Donovan
Michael G. Wacek	Michael G. Wacek	Michael G. Wacek

A review of Company corporate records showed that regular business of the Shareholder and Board of Directors was conducted via Written Consent in lieu of regular meetings.

The bylaws of the Company provide for a President, one or more Vice Presidents, one or more Secretaries, and such other officers, if any, as may be designated by the Board of Directors. At December 31, 2007, the Company's principal officers and their respective titles are as follows:

<u>Officer</u>	<u>Title</u>
Andrew A. Barnard	Chief Executive Officer
James E. Migliorini	President & Chief Operating Officer
James B. Salvesen	Senior Vice President & Treasurer
Donald L. Smith	Senior Vice President, Gen. Counsel & Corp. Secretary
Anthony J. Narciso, Jr.	Senior Vice President & Chief Financial Officer
Robert S. Bennett	Executive Vice President & Chief Actuary
Christopher L. Gallagher	Executive Vice President
Richard S. Donovan	Executive Vice President
Brian D. Quinn	Executive Vice President
Michael G. Wacek	Executive Vice President
Brian D. Young	Executive Vice President
Seymour L. Andrew	Senior Vice President

Gerard A. Dugan	Senior Vice President
Patrick E. Gentile	Senior Vice President
Joseph A. Guardo	Senior Vice President
Jeffery M. Rubin	Senior Vice President
Christopher T. Suarez	Senior Vice President

INSURANCE HOLDING COMPANY SYSTEM

The Company is a member of an Insurance Holding Company System under the ultimate parent company, Fairfax Financial Holdings Ltd, (Fairfax) a Canadian company. Fairfax is traded on the Toronto and New York stock exchanges under the ticker symbol “FFH.SV” and “FFH”, respectively. Fairfax conducts insurance and reinsurance business globally in all segments of the property/casualty industries. At December 31, 2007, Fairfax owned 60.99% of Odyssey Re Holdings Corp., (NYSE “ORH”) a publicly traded Delaware holding company that indirectly owns 100% of the Company. For the financial year ending 2007, Fairfax realized a consolidated combined ratio of 94%, earned \$1.096 billion on revenues of \$7.484 billion, held assets totaling \$27.942 billion, and maintained total equity of \$5.843 billion.

For the year ending 2007, the organizational chart of Fairfax showed 196 separate legal entities, including the Company, chartered and/or domesticated globally. The following chart illustrates the relationships between the Company and its direct affiliates, its parent, and upstream parent companies, as of December 31, 2007:

Fairfax Financial Holdings Ltd. (1)	Canada
Fairfax Inc.	Wyoming
TIG Holdings, Inc.	Delaware
TIG Insurance Group Inc.	California
Odyssey Re Holdings Corp. (60.99%)	Delaware
Odyssey America Rein. Corp.	Connecticut
Clearwater Ins. Co.	Delaware
Hudson Ins. Co.	Delaware
Clearwater Select Ins. Co.	Delaware
Hudson Specialty Ins. Co.	New York

(1) V. Prem Watsa, through either himself, a Family Trust or other holding entities, controls 48.7% of the total votes attached to all shares of Fairfax.

GROWTH OF THE COMPANY

The financial growth of the Company since its last examination (2003) is summarized as follows and was compiled from its filed Annual Statements, reflective of examination changes:

<u>Year</u>	<u>Premiums Earned</u>	<u>Assets</u>	<u>Liabilities</u>	<u>Surplus as Regards Policyholders</u>	<u>Net Income</u>
2003	\$61,213,234	\$139,660,217	\$69,946,201	\$69,714,016	(\$1,164,200)
2004	14,098,526	117,983,491	56,146,062	61,837,429	(3,056,992)
2005	22,494	111,161,054	35,024,331	76,136,723	16,051,592
2006	230,991	108,851,522	27,566,566	81,284,956	5,376,795
2007	(179,834)	100,867,913	15,953,889	84,914,024	3,593,946

The changes over the examination period are as follows:

- Premiums Earned decreased to levels considered immaterial
- A 28% decrease in Assets
- A 77% decrease in Liabilities
- A 22% increase in Surplus as Regards Policyholders
- A 409% increase in Net Income

TERRITORY AND PLAN OF OPERATION

Territory:

The Company is licensed to transact business in the District of Columbia, Puerto Rico and all states except: Arizona, Florida, Missouri, New Hampshire, Vermont and Virginia.

Plan of Operation:

The Company has been in run-off since 2002 and writes no business. Company operations involve the on-going run-off of environmental liability business assumed when it

was owned by OPL.

INTERCOMPANY AGREEMENTS

Expense Sharing Agreement

Attendant with its acquisition, the Company entered into an Expense Sharing Agreement with Odyssey America Reinsurance Corporation. Under provisions of this agreement, each company is to make available to the other: management, underwriting, claims, accounting, financial, legal, personnel, data processing services and consulting, to be used at times and in amounts determined necessary or appropriate by the managing officers of each company. The Company reported that \$200,000 was paid to Odyssey America for services received in 2007.

Tax Services Agreement

Attendant with its acquisition, the Company entered into a Tax Services Agreement with Fairfax Inc. Under the provisions of this agreement, Fairfax Inc. provides the Company with tax consulting and compliance services. The Company reported that \$84,375 was paid to ORH in 2007 for services rendered pursuant to this agreement, which amount was then paid by ORH to Fairfax Inc.

Tax Allocation Agreement

Attendant with its acquisition, the Company was made a participant of the then existing Tax Allocation Agreement entered into between Fairfax Inc., ORH, Odyssey America Reinsurance Corp., CIC, HIC, and Hudson Specialty Insurance Company. Under

terms of the agreement, the affiliated group exercises the privileges granted under Internal Revenue Code, Section 1501, to file a consolidated return. Under this agreement, the company's tax liability is calculated based upon its respective share of consolidated income. The agreement further provides that each member shall receive reimbursement to the extent that its losses and other credits result in a reduction of the current year's consolidated tax liability, not to exceed its liability as if filed on an individual basis. The Company reported that \$1,594,466 was paid to ORH in connection with the tax allocation agreement during 2007.

Investment Management Agreement

Attendant with its acquisition, the Company was made a participant of the then existing Investment Management Agreement with Hamblin Watsa Investment Counsel, Ltd (Hamblin Watsa) and Fairfax. Under terms of the agreement, Hamblin Watsa is to manage on a continuous basis the Company's investment account in accordance with investment objectives communicated in writing by Company management. For services received, the Company pays a base fee of .20% per annum of marketable securities managed, plus a graduated incentive fee for investment performance greater than the S&P 500 + 200 basis points. The Company reported \$159,929 in administrative fees paid to Fairfax during 2007.

REINSURANCE

A schedule of the Company's premiums written follows:

Direct		\$0
Assumed:		
Affiliates	(\$249)	
Non-Affiliates	<u>(716,304)</u>	
Total Assumed		(\$716,553)
Ceded:		
Affiliates	(\$536,745)	

Non-Affiliates	<u>26</u>	
Total ceded		<u>(\$536,719)</u>
Total net premium written		<u>(\$179,834)</u>

Business assumed represents that remaining business accepted prior to the Company being put into run-off. Attendant with its acquisition, the Company entered into a novation and replacement agreement with CIC and OPL, under which CIC replaced OPL under the terms of a 75% Quota Share Retrocessional reinsurance agreement. This agreement, effective January 1, 2001, provides for a cession of 100% of net losses up to \$10 million on a 75% quota share basis.

ACCOUNTS AND RECORDS

The accounts and records reviewed included an evaluation of the Company's operation and organization controls. The areas evaluated included computer systems, financial reporting processes and controls, its organizational structure, compliance, management, and operations. The Company operates in a computer dominated environment. All services and operational needs of the Company are provided under its Expense Sharing Agreement with ORH and affiliates.

PricewaterhouseCoopers, LLC (PWC) audits the statutory-basis financial statements of ORH and its subsidiaries, including the Company, annually. PWC reviewed the internal control structure of ORH in order to establish necessary audit procedures required to express an opinion on the December 31, 2007 financial statements. No material qualifying deficiencies were found to exist in either the design or oversight of the internal control structure of ORH. Based on the examination review of the Company's accounts and records related to its filed Annual

Statements, discussions with management, and our review of financial reporting processes and controls, the accounting systems, processes, and procedures were found to conform to required insurance accounting practices.

FINANCIAL STATEMENTS

The following financial statements as determined by this examination are presented herein:

- Analysis of Assets, as of December 31, 2007
- Liabilities, Surplus and Other Funds, as of December 31, 2007
- Statement of Income, for the year ended December 31, 2007
- Capital and Surplus Account, December 31, 2004 to December 31, 2007
- Schedule of Examination Adjustments

Analysis of Assets
As of December 31, 2007

	<u>Assets</u>	Non- Admitted <u>Assets</u>	Net Admitted <u>Assets</u>	<u>Note</u>
Bonds	\$ 63,099,619		\$ 63,099,619	1
Cash and Short Term investments	<u>33,962,029</u>		<u>33,962,029</u>	
Subtotals, cash and invested assets	\$ 97,061,648		\$ 97,061,648	
Investment income due and accrued	986,825		986,825	
Premiums and considerations:				
Uncollected prem. & agents' bal. in course of collection	722,623		722,623	
Accrued retrospective premiums	334,610		334,610	
Funds held by or dep. with rein. cos.	143,491		143,491	
Federal income tax recoverable	466,620		466,620	
Net deferred tax asset	2,260,000	\$1,107,904	1,152,096	
Aggr. Write-ins for other than invested Assets	<u>59,379</u>	<u>59,379</u>	<u>0</u>	
Totals	<u>\$102,035,196</u>	<u>\$1,167,283</u>	<u>\$ 100,867,913</u>	

Liabilities, Surplus and Other Funds
As of December 31, 2007

		<u>Note</u>
Losses	\$ 14,760,947	2
Reinsurance payable on paid losses and loss adjustment expense	(157,486)	
Loss adjustment expenses	188,718	2
Commissions payable	(13,961)	
Other expenses	346,858	
Taxes, licenses and fees	(110)	
Ceded reinsurance premiums payable	714,209	
Funds held by company under reinsurance treaties	415	
Payable to parent, subsidiaries and affiliates	<u>114,299</u>	
Total Liabilities	\$ <u>15,953,889</u>	
Common capital stock	5,000,000	
Gross paid in and contributed surplus	63,688,297	
Unassigned funds (surplus)	<u>16,225,727</u>	
Surplus as regards policyholders	\$ <u>84,914,024</u>	
Total	\$ <u><u>100,867,913</u></u>	

Underwriting and Investment Exhibit: Statement of Income
For the Year Ended December 31, 2007

Underwriting Income

Premiums earned	\$ <u>(179,834)</u>
Deductions:	
Losses incurred	\$ (1,899,855)
Loss expenses incurred	429,688
Other underwriting expenses incurred	<u>873,816</u>
Total underwriting deductions	\$ <u>(596,351)</u>
Net underwriting gain or (loss)	\$ <u>416,517</u>
Net investment earned	\$ 3,990,438
Other Income	<u>23,997</u>
Net income before federal income taxes	\$ 4,430,952
Federal and foreign income taxes	<u>837,006</u>
Net income	<u><u>\$ 3,593,946</u></u>

Capital and Surplus Account

Surplus as regards policyholders December 31, 2003	\$ <u>69,714,016</u>
Net income	\$ 21,965,341
Change in net deferred income tax	(4,671,657)
Change in non-admitted assets	4,877,726
Dividend to stockholder	<u>(6,971,402)</u>
Change in surplus as regards policyholders	\$ <u>15,200,008</u>
Surplus as regards policyholders, December 31, 2007	<u><u>\$ 84,914,024</u></u>

SCHEDULE OF EXAMINATION ADJUSTMENTS

No financial adjustments were made as a result of this examination.

NOTES TO THE FINANCIAL STATEMENTS

Note 1

Bonds	\$63,099,619
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Investments in bonds are reported at values (amortized cost) adopted and approved by the Securities Valuation Office (SVO) of the NAIC. As of the examination date, 100% of the Company's Bond investments were designated by the SVO with the highest quality rating of "1". The Company did not have any securities on loan.

Note 2

Loss Reserves	\$14,760,947
Loss Adjustment Expense Reserves	188,718

Loss and loss adjustment expense reserves represent approximately 94% of the Company's liabilities as of December 31, 2007. Incurred but not reported reserves (IBNR) constituted 57.8% of loss reserves.

INS Consultants, Inc. (INS) was retained by the Department of Insurance to conduct a review of the Company's reserve methodologies and adequacy. INS evaluated the Company's book of business by line of business for loss and allocated loss adjustment expenses. The conclusions reached by INS are largely based upon information supplied by the Company's staff, which included an in-depth actuarial analysis. Aggregated actuarial data provided by the

Company was verified and reconciled to Schedule P of the Company's filed Annual Statement.

The INS reserve analysis was performed on both a gross and net of reinsurance basis and did not address the collectability of reinsurance recoverables. The INS reserve review found the Company's combined net loss and loss adjustment expense reserves were adequate to support the business underwritten and as a result of this study, their established reserves were accepted.

Caveat

Loss and LAE reserves are subject to errors of estimation arising from the fact that the ultimate liability for claims evaluated as of the valuation date are dependent on future contingent events which cannot always be anticipated. The possible occurrence of such events, as well as the inherent uncertainty associated with statistical estimates, allows no guarantee that the actual ultimate liabilities will be the same as the reserve levels described in this examination report.

COMPLIANCE WITH PRIOR RECOMMENDATIONS

All recommendations made in the 2003 examination report related to management oversight of Company records. Since the Company was subsequently purchased in 2004 by ORH, these recommendations were not considered materially relevant to new ownership or management. A review, however, of the general matters commented on as related to current management, showed that the Company was in compliance.

SUMMARY OF RECOMMENDATIONS

No recommendations were made as a result of this examination.

CONCLUSION

The following schedule reflects the results of this examination and the results of the prior examination, with changes shown between periods:

Description	12-31-07 Current Examination	12-31-03 Prior Examination	Changes Increase (Decrease)
Assets	<u>\$100,867,913</u>	<u>\$139,660,217</u>	<u>\$(38,792,304)</u>
Liabilities	15,953,889	69,946,201	(53,992,312)
Common capital stock	5,000,000	5,000,000	0
Gross paid in and contributed surplus	63,688,297	70,659,699	(6,971,402)
Unassigned funds (surplus)	<u>16,225,727</u>	<u>(5,945,683)</u>	<u>22,171,410</u>
Total surplus as regards policyholders	<u>\$84,914,024</u>	<u>\$69,714,016</u>	<u>\$15,200,008</u>
Totals	<u>\$100,867,913</u>	<u>\$139,660,217</u>	<u>\$(38,792,304)</u>

Since the last examination, the Company's assets decreased \$38,792,304, liabilities decreased \$53,992,312, and capital and surplus increased \$15,200,008. In addition to the undersigned, acknowledgement is made of the assistance provided by the Delaware Insurance Department, INS Consultants, Inc. and INS Services, Inc.

Respectfully submitted,



Steven E. Guest,
CFE Examiner-in-Charge
State of Delaware