REPORT ON EXAMINATION

OF THE

CRUM & FORSTER INDEMNITY COMPANY

AS OF

DECEMBER 31, 2010

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, 2010 of the

CRUM & FORSTER INDEMNITY COMPANY

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

Attest By: Brandi Biddle

Date: 27 Jun 2012

In Witness Whereof, I have hereunto set my hand and affixed the official seal of this Department at the City of Dover, this 27th day of June, 2012.

Karen Weldin Stewart, CIR-ML
Insurance Commissioner

841 Silver Lake Blvd., Dover, DE 19904-2465 • www.delawareinsurance.gov
(302) 674-7300 Dover • (302) 739-5280 fax • (302) 577-5280 Wilmington

Karen Weldin Stewart, CIR-ML
Commissioner

Delaware Department of Insurance

REPORT ON EXAMINATION

OF THE

CRUM & FORSTER INDEMNITY COMPANY

AS OF

DECEMBER 31, 2010

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 27th day of June, 2012

841 Silver Lake Blvd., Dover, DE 19904-2465 • www.delawareinsurance.gov
(302) 674-7300 Dover • (302) 739-5280 fax • (302) 577-5280 Wilmington

TABLE OF CONTENTS

SALUTATION

May 25, 2012

Honorable Karen Weldin Stewart, CIR-ML
Commissioner
Delaware Department of Insurance
Rodney Building
841 Silver Lake Blvd.
Dover, Delaware 19904

Dear Commissioner;

In compliance with instructions and pursuant to statutory provisions contained in Certificate of Authority No. 11.007, dated January 26, 2011, an examination has been made of the affairs, financial condition and management of the

CRUM & FORSTER INDEMNITY COMPANY

hereinafter referred to as, (Company or CFIC) and incorporated under the laws of the state of Delaware as a stock company with its statutory home office located at 1209 Orange Street, Wilmington, DE 19801. The examination was conducted at the administrative offices of the Company, located at 305 Madison Avenue, Morristown, New Jersey 07962. A pooled examination of the Company was conducted concurrently with that of its affiliates, United States Fire Insurance Company (USF), a Delaware Company, The North River Insurance Company (NRIC), a New Jersey Company, Crum and Forster Insurance Company (CFInsco), a New Jersey Company and Crum & Forster Specialty Insurance Company (CFSIC) an Arizona Company. Separate reports of examination were filed for each company. The report of examination thereon is respectfully submitted.

SCOPE OF EXAMINATION

The last examination was completed as of December 31, 2007. This examination covered the period of January 1, 2008, through December 31, 2010, and encompasses a general review of transactions during the period, the Company's business policies and practices, as well as management and relevant corporate matters, with a determination of the financial condition of the Company at December 31, 2010. Transactions subsequent to the examination date were reviewed where deemed necessary.

We conducted our examination in accordance with the National Association of Insurance Commissioners (NAIC) Financial Condition Examiners Handbook (Handbook) and generally accepted statutory insurance examination standards consistent with the Insurance Laws and Regulations of the State of Delaware. The NAIC Handbook requires that we plan and perform the examination to evaluate the financial condition and identify prospective risks of the Company by obtaining information about the Company including corporate governance, identifying and assessing inherent risks within the Company and evaluating system controls and procedures used to mitigate those risks. The examination also included assessing the principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation, management's compliance with Statutory Accounting Principles and annual statement instructions when applicable to domestic state regulations.

All accounts and activities of the Company were considered in accordance with the risk focused examination process. The examination report addresses regulatory issues reviewed during the examination process.

During the course of this examination, consideration was given to work performed by the Company's external accounting firm, PricewaterhouseCoopers LLP (PwC). Certain auditor work papers of their 2010 audit have been incorporated into the work papers of the examiners and have been utilized in determining the scope, areas of emphasis in conducting the examination and in the area of tests of controls, risk mitigation and substantive testing.

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

Corporate Records
Fidelity Bonds and Other Insurance
Pensions, Stock Ownership and Insurance Plans
Loss Experience
Statutory Deposits
Compliance With Prior Examination Recommendations – none
Summary of Recommendations - none

SUMMARY OF SIGNIFICANT FINDINGS

There were no material adverse findings, adjustments to the financial statements, or specific recommendations as a result of this examination.

SUBSEQUENT EVENTS

The Crum & Forster companies (C&F companies) entered into a reinsurance agreement with Clearwater Insurance Company (Clearwater) effective December 31, 2011 in which the C&F companies ceded and Clearwater assumed certain liabilities under insurance and reinsurance contracts entered into by the C&F companies on or prior to December 31, 1998, exclusive of workers' compensation and surety. The aforementioned contracts covered substantially all of the C&F companies' liabilities for asbestos, environmental and other latent claims. The gross latent liabilities had a value of $368.9 million at December 31, 2011, which included $30 million of ULAE reserves. Existing reinsurance associated with the gross reserves was $34.4 million, which included $9 million of uncollectible reserves. This reinsurance was concurrently assigned to Clearwater. The transaction effectively reinsured 100% of the C&F companies' net latent exposures of $334.5 million. The net liabilities were transferred to

Clearwater for consideration of $334.5 million in cash and invested assets. Consideration paid was recorded as an increase to paid losses. As a result of the Reinsurance Agreement, the C&F companies' net asbestos and environmental reserves were substantially reduced in 2011 to $91 thousand and $5.8 million, respectively, as compared to $236.5 million and $66.4 million, respectively, in 2010. The Company, as a pool participant, ceded its 1% share of reserve in the amount of $3.3 million and received consideration for the same.

COMPANY HISTORY

The Company was incorporated under the laws of New York on December 2, 1987, as Finmar Reinsurance Corporation and commenced business on December 31, 1987. On June 12, 1995, the Company merged with Premier Insurance Company with Finmar Reinsurance Corporation as the surviving corporation. Effective the same date, Finmar Reinsurance Corporation changed its name to Crum & Forster Indemnity Company.

During 2003, BNM Indemnity Company was incorporated in Delaware as a wholly-owned property and casualty insurance subsidiary of Crum & Forster Indemnity Company. Effective December 31, 2003, Crum & Forster Indemnity Company, a New York domiciled company, was merged with and into BNM Indemnity Company. In connection with the merger, BNM Indemnity Company's name was changed to Crum & Forster Indemnity Company and became the wholly owned subsidiary of Crum & Forster Holding Inc., which is a wholly owned subsidiary of Holdings.

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 (Board). The Board shall consist of at least three members and subject to a maximum of seven members.

The Board at December 31, 2010, was comprised of three members, each elected or appointed in accordance with Company bylaws. Each Director shall hold office until his successor is elected and qualified, or until earlier resignation or removal.

Directors

The Board of Directors, duly elected in accordance with the Company's bylaws and serving at December 31, 2010, were as follows:

Directors Name	Principal Business Affiliation
Douglas Mendel Libby, Chairman	Crum & Forster Holdings Corp.
Mary Jane Robertson	Crum & Forster Holdings Corp.
Dennis James Hammer	Crum & Forster Holdings Corp.

The bylaws of the Company state the principal officers shall be a President, a Chairman of the Board of Directors, a Chief Executive Officer, and any other Vice-Presidents, a Treasurer, a Secretary, one or more Assistant Vice Presidents, one or more Assistant Secretaries, and such other officers, assistant officers or agents as the Board from time to time may determine.

Officers

At December 31, 2010, the Company's principal officers and their respective titles were as follows:

Officer	Title
Douglas Mendel Libby	Chairman of the Board & CEO
Mary Jane Robertson	Executive Vice President, Treasurer & CFO
James Vincent Kraus	Senior Vice President, General Counsel & Secretary
Marc James Adee	President
Stephen Arthur Eisenman	Senior Vice President
Dennis James Hammer	Senior Vice President & Controller
Matthew William Kunish	Senior Vice President
Mark Lloyd Owens	Senior Vice President
Stephen Michael Mulready	Executive Vice President
Donald Ross Fischer	Senior Vice President

Robert George Himmer	Senior Vice President
Chris Ivan Stormo	Senior Vice President
David John Ghezzi	Senior Vice President
Mary Jeanne Hughes	Senior Vice President
Ellen Caramore O'Connor	Senior Vice President

The minutes of the meetings of the Stockholder and Board of Directors, which were held during the period of examination, were read and noted. Attendance at meetings, election of directors and officers and approval of investment transactions were also noted.

Inspection of Company files indicated that ethics statement/conflict of interest affidavits were distributed, completed and returned by all employees at the Assistant Secretary level or above for the examination period.

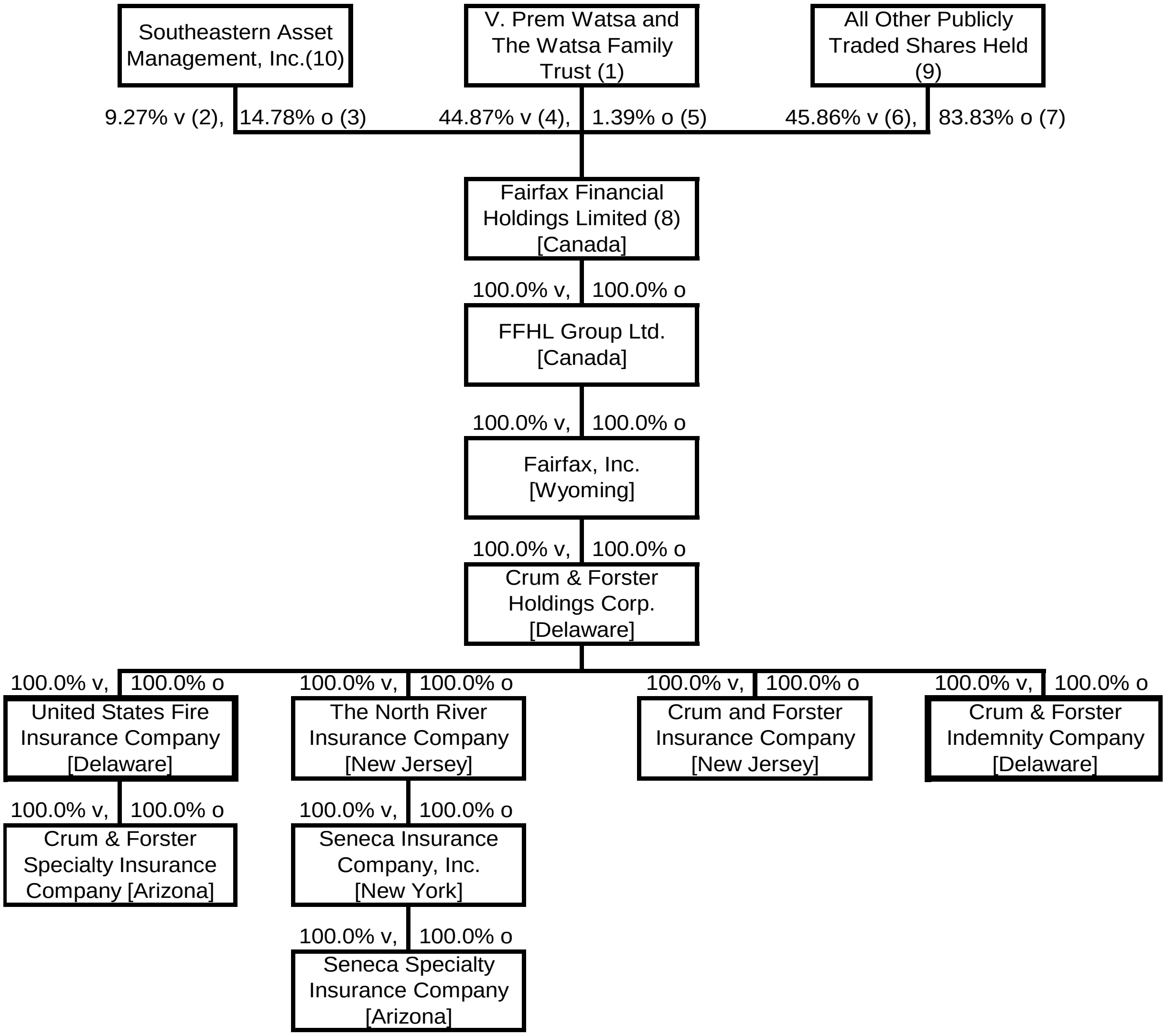
During our review for compliance with 18 Del. C. §4919, it was noted that the Company properly reported changes in directors and principal officers.

Insurance Holding Company System

The Company is a member of an insurance holding company system as defined in 18 Del. C. §5001 (4) "Insurance Holding Company System". The Company's Holding Company Registration Statements were properly filed with the Delaware Insurance Department for the years under examination.

All of the common stock is owned by Holdings. The ultimate controlling entity of the holding company system is Fairfax Financial Holdings Limited (FFH), a Canadian holding company. FFH's stock is traded on the Toronto Stock Exchange under the symbol "FFH". As of December 31, 2010, FFH reported approximately $31.74 billion in assets and $8.70 billion in shareholder equity on a consolidated Canadian GAAP basis in U.S. dollars.

The following organizational chart, of which the Company is a part, illustrates the identities and relationships between its parent, affiliates and subsidiaries as of December 31, 2010.



Notes 1 through 10 more fully describe the ownership and voting percentages throughout the holding company.

v = voting control
o = ownership control
(1) through voting and ownership control, both directly and indirectly, of the following individual and entities: Mr. V. Prem Watsa, 2771489 Canada Limited, 1109519 Ontario Limited, 810679 Ontario Limited and The Sixty Two Investment Company Limited
(2) calculated as 3,015,922 votes (3,015,922+C11 subordinate common shares held) divided by 32,398,020 votes [See (8)]
(3) calculated as 3,015,922 subordinate common shares held / 16,918,020 total subordinate common shares times $4,121,400,000 / $4,258,000,000 [See (8)]
(4) calculated as 0.79% through V. Prem Watsa and 47.94% through The Watsa Family Trust and the four entities described in (1). The 0.8% is calculated as 169,835 subordinate voting common shares (169,835 votes) through 810679 Ontario Limited, 83,199 subordinate voting common shares (83,199 votes) held personally by Mr. V. Prem Watsa and 3,500 subordinate voting common shares (3,500 votes) held through "Prestin" plus, which equals 256,534 votes divided by 32,398,020 total votes. The 47.9% is calculated as 50,620 subordinate voting common shares (50,620 votes) plus 1,548,000 multiple voting common shares (15,480,000 votes) held through The Watsa Family Trust, 1109519 Ontario Limited, 810679 Ontario Limited and The Sixty Two Investment Company, which equals 15,530,620 votes divided by 32,398,020 total votes. [See (8)]
(5) calculated as 307,154 subordinate common shares held (256,534 plus 50,620 [See (4)]) / 16,918,020 total subordinate voting common shares times $4,121,400,000 / $4,258,000,000 [See (8)]
(6) 100.00% minus 9.31% (2) minus 48.73% (4)
(7) 100.00% minus 17.27% (3) minus 1.76% (5)
(8) common shares are publicly traded on the Toronto Stock Exchange in Canada and the New York Stock Exchange in the U.S. under the symbol "FFH". The Company has issued at 12/31/07 1,548,000 multiple voting common shares (which carry ten votes per share), 16,918,020 subordinate voting common shares (which carry one vote per share), 3,000,000 non-voting preferred Series A shares and 5,000,000 non-voting. Series B shares. Total votes then consist of 32,398,020: the 15,480,000 votes attributable to the multiple voting common shares and 16,918,020 votes attributable to the subordinate voting common shares. Fairfax's capital account at 12/31/07 totals $4,258,000,000 (U.S.) which consists of common shares totaling $4,121,400,000 (96.8% of the total) and preferred shares totaling $136,600,000 (3.2% of the total).
(9) No entity or individual owns or controls greater than 10% as of 12/31/07, but as of 3/31/08, MacKenzie Financial Corporation owned 2,190,554 subordinate voting common shares, which represented 6.76% voting control (2,190,554 divided by 32,398,020 total votes) and 12.53% ownership control (2,190,554 divided by 16,918,020 times $4,121,400,000 divided by $4,258,000,000). At 3/31/08, Southeastern Asset Management beneficially owned 2,756,675 subordinate voting common shares [a decrease of 259,247 shares from 12/31/07], which represented 8.51% voting control and 15.77% ownership control.
(10) Disclaimer of affiliation with the Delaware Department of Insurance dated November 22, 2004

Southeastern Asset Management was identified in the 2010 Holding Company Registration Statement as controlling more than 10% of the voting stock of FFH [reported as owning or controlling 16.6% of the subordinate voting shares of FFH, however, actual voting control was 9.27% and ownership control was 14.78%]. Southeastern Asset Management filed a disclaimer of control and requested exemption under 18 Del. C. §5003(e) (2) regarding control of greater than 10% of the securities of FFH. This filing was approved by the Delaware Insurance Department on November 22, 2004. V. Prem Watsa, who had 44.87% voting control of FFH and 1.39% ownership control of FFH, was identified in the holding company registration statements for the years under examination as the "Chairman" of the ultimate controlling entity, FFH.

Intercompany Management and Service Agreements

Administrative Service Agreements

The Company is a party to an administrative service agreement with USF effective June 30, 2010. USF provides all administrative services such as underwriting, claims handling, reinsurance, and premium collections on behalf of the parties. Operating expenses incurred in the performance of services are allocated in accordance with SSAP 70. Pool participants are charged their respective shares of operating expenses.

Tax Allocation Agreement

The Company is a party to a tax allocation agreement with the Parent along with certain of its affiliates effective January 1, 2000. The Parent, the Company and affiliates constitute an affiliated group and have elected to file a consolidated return under the provisions of §1501 of the Internal Revenue Code of 1986. Pursuant to the terms of the tax allocation agreement, no party will be required to pay more in taxes or receive a lesser payment of a refund than it would have paid or received if it computed its taxes independently and filed a separate tax return. Additionally, the Company has an enforceable right to recoup federal income taxes paid in prior years in the event of future net losses, which it may incur, or to recoup its net losses carried forward as an offset to future net income subject to federal income taxes. The Company replaced the above referenced agreement with a similar agreement effective January 1, 2009.

Investment Agreement

The Company is a party to an investment management and administrative services agreement among Hamblin Watsa Investment Counsel Ltd. (Hamblin Watsa) and FFH effective

October 1, 2002 and amended April 1, 2007. Pursuant to the agreement, Hamblin Watsa is authorized to supervise and direct all investments of the Company and to exercise whatever powers the Company may possess with respect to its invested assets. Investment transactions will be in accordance with investment objectives of the Company and subject to restrictions established by the Company, as communicated to Hamblin Watsa in writing from time to time. Subject to these limitations, Hamblin Watsa may buy, sell, exchange, convert and otherwise trade in and engage in investment transactions of any nature whatsoever involving any stocks, bonds, commercial paper, money market instruments and other securities and assets when it deems appropriate and without prior consultation with the Company.

TERRITORY AND PLAN OF OPERATION

As of December 31, 2010, the Company was licensed to transact multiple property and casualty lines of insurance in all fifty states and the District of Columbia.

The Company is a commercial property and casualty insurance company that targets specialty classes of business and niche market opportunities. The Company writes business through independent retail agents/brokers and national/wholesale brokers. The Company's underwriting strategy focuses on applying individual risk selection to business that requires greater underwriting expertise. The Company's principal lines of business include workers' compensation, commercial auto liability, and general liability. Under terms of a pooling agreement, the Company cedes to USF all premiums and losses. The Company then assumes 1% of all pooled business.

On the filed Annual Statement for 2010, the Company reported the following distribution of Direct Premiums Written.

Line of Business Premiums Percent	Direct Premiums	Percent
Commercial Auto Liability	$ 6,731,110	36.7%
Workers' Compensation	3,915,092	21.3%
Commercial Multiple Peril	2,818,999	15.3%
Auto Physical Damage	1,483,133	8.1%
Other Liability – Occurrence	1,145,108	6.2%
All Other Lines < $1,000,000 individually	2,283,200	12.4%
Total	$ 18,376,642	100.0%

A.M. Best's Rating

The Company and its U.S. insurance affiliates have a rating of "A" *(Excellent)* from A.M. Best.

GROWTH OF THE COMPANY

The following information was obtained from the Company's filed Annual Statements and covers the three proceeding years since its last examination (2007):

Year	Admitted Assets	Capital & Surplus	Net Premiums Written	Net Income
2007	$ 35,998,886	$ 12,559,051	$ 9,773,438	$ 1,177,747
2008	$ 45,110,286	$ 12,902,975	$ 7,624,387	$ 285,645
2009	$ 36,061,618	$ 13,543,939	$ 6,000,623	$ 479,299
2010	$ 36,026,832	$ 14,721,532	$ 6,087,963	$ 659,476

Since December 31, 2007, the Company's financial results were as follows:

- .08% increase in admitted assets
- 17.22 % increase in capital and surplus
- 37.71 % decrease in net premiums written
- 44.01% decrease in net income

The Company reported net income of $659,476 for 2010 compared to $1,177,747 for 2007. The decrease of $518,271 from 2007 to 2010 mainly reflects underwriting losses and lower net investment return for all years of the examination, interest expense on funds held and the commutation of retroactive reinsurance.

The net premium written decrease of $3,685,475 was the result of the soft property and casualty market most significantly in the commercial auto and property lines of business and the Company's conscience effort to reduce unprofitable classes of business.

REINSURANCE

The Company's underwriting results are significantly affected by reinsurance. The Company reported the following distribution of premiums written as of December 31, 2010:

Total Direct Written Premiums	$	18,376,642
Assumed premiums affiliates	$	7,458,302
Assumed premiums non-affiliates		361,480
Total Assumed Premiums	$	7,819,782
Total Gross Premiums	$	26,196,424
Ceded premiums affiliates	$	18,827,435
Ceded premiums non- affiliates		1,281,026
Total Ceded Premiums	$	20,108,461
Total Net Premiums Written	$	6,087,963
Percentage of Ceded to Gross		76.76%

Assumed – Non-Pooled

Besides the assumption from the Pool, the Company has no other source of assumed business other than manditory pools and associations which accounted for 4.6% of the assumed business.

Ceded

The Company is a 1% participant in a Pool with certain affiliates listed below. Effective January 1, 2000, the Company and certain affiliates (Pool Participants) entered into a Reinsurance Participation Agreement (Pooling Agreement) by which premiums, losses, dividends to policyholders and other underwriting expenses of each participant are pooled by means of mutual reinsurance on a fixed percentage basis as follows:

Pool Participants	
United States Fire Insurance Company	76%
The North River Insurance Company	22%
Crum and Forster Insurance Company	1%
Crum & Forster Indemnity Company	1%

The Pooling Agreement provides that USF, acting as lead company, assumes from the Pool Participants 100% of their premiums, losses, dividends to policyholders and other underwriting expenses.

The Company purchases reinsurance to limit its exposure to loss from any one claim or occurrence ("per risk reinsurance"), and aggregate loss experience for an accident year that exceeds an amount the Company is willing to accept (corporate aggregate reinsurance). The Company's corporate aggregate reinsurance contracts are the type most commonly referred to as "finite" reinsurance and cover or covered, in varying amounts and on varying terms, accident years 2002 and prior. No such reinsurance has been purchased for subsequent accident years.

Per Risk

As of December 31, 2010, the Company was a party to the following significant reinsurance contracts on a per risk basis:

Coverage	Limits	Retention
Property catastrophe	$70 million limit, excess of	$20 million retention
Property per risk-C&F Specialty	$28 million limit, excess of	$2 million retention

Property per risk Standard & Package	$45 million limit, excess of	$5 million retention
Umbrella- admitted	$20 million limit, excess of	$5 million retention
Umbrella- non-admitted	$10 million limit	$5 mil (50% QS retention Up to 10 million)
Crisis management	$10 million limit	$4.5 million (45% QS retention up to 10 million)
D&O and professional liability	$7 million limit, excess of	$3 million retention plus (30% QS retention from 3 to 10 million)

During 2010, the Company reviewed its reinsurance programs and modified coverage and retention levels of certain programs as deemed necessary in the current market environment. In general, the Company's reinsurance contracts provide coverage for domestic acts of terrorism. Certain casualty contracts have additional terrorism coverage for acts of terrorism certified under the Terrorism Risk Insurance Program Reauthorization Act of 2007. None of the contracts cover acts of terrorism involving use of nuclear, biological or chemical agents.

<u>Finite</u>

The Pool Participants entered into an adverse development contract, effective September 30, 2001, with North American Specialty Insurance Company, a subsidiary of Swiss Reinsurance America Corporation. The contract provides $400 million of limit in excess of a retention for accident years 2000 and prior, subject to a $200 million sub-limit on 1998 and prior accident years and an asbestos and environmental sub-limit of $100 million. Premiums are currently based on 35% of amounts ceded plus a reinsurer margin of $8 million. The contract contains provisions that would increase the premium rate to as high as 62% under conditions that Company management considers unlikely. The contract is on a funds held basis with interest credited at 7%. As of December 31, 2010, the Pool had ceded $349 million in losses and LAE under this contract, and incurred premium and interests cost of $143.8 million and accrued funds held interest of $116.9 million for pretax surplus benefit of $88.3 million (CFIC recorded its 1%

share under the Pooling Agreement). At December 31, 2010, and December 31, 2009, the Pool Participants had reinsurance recoverable balances of $349.0 million (for 2010 and 2009) and funds held balances of $252.8 million and $236.3 million, respectively, related to this agreement, of which the Company is a 1% participant. The coverage remaining on this treaty is $51 million with no funds available for asbestos development.

The arrangements described above with North American Specialty Insurance Company are recorded as retroactive reinsurance, in accordance with SSAP 62R.

ACCOUNTS AND RECORDS

The Company's accounts and records are maintained in Morristown, New Jersey, and various branch offices throughout the United States. The Company's IT organization has been substantially revised during the examination period. Beginning in 2009 C&F began the effort to in-source its IT functions from their sister company/vendor FITS/MFX. Since 2010, the only functions that remain with MFX are hosting services located in Ridgefield Park, New Jersey and Roanoke, Virginia. A new Company owned data center is currently being constructed in Jersey City, New Jersey. The new data center will ultimately house all Company servers.

An external accounting firm audits the statutory-basis financial statements of the Company annually. The Company's external firm reviewed the internal control structure in order to establish the necessary audit procedures required to express an opinion on the financial statements as of December 31, 2010. No significant or qualifying deficiencies were found to exist in the design or operation of the internal control structure.

The accounts and records review included an assessment of the Company's risk management process in identifying and controlling risks in the key operational areas of the Company. In making the assessment in each key area, processes were reviewed, risks were identified, operational and organizational controls were identified and tested and the Company's methodology for assessing the effectiveness of the established mitigation factors was evaluated.

The consulting firm of INS Services, Inc. performed a review of the Company's global controls over its information and technology IT environment. It was determined that global controls surrounding the EDP environment were found to be sufficient.

FINANCIAL STATEMENTS

The following pages contain a statement of assets, liabilities, surplus and other funds as of December 31, 2010, as determined by this examination, along with supporting exhibits as detailed below:

Analysis of Assets, December 31, 2010
Statement of Liabilities, Surplus and Other Funds, December 31, 2010
Underwriting and Investment Exhibit, Statement of Income, December 31, 2010
Capital and Surplus Account, Statement of Income, December 31, 2010
Reconciliation of Surplus Since last Examination
Schedule of Examination Adjustments

Analysis of Assets
As of December 31, 2010

	Assets	Nonadmitted Assets	Net Admitted Assets	Note
Bonds	$ 28,237,277		$ 28,237,277	1
Cash and short-term investments	4,074,610		4,074,610	
Investment income due and accrued	485,638		485,638	
Uncollected premiums and agents' balances in the course of collection	218,840	$ 24,552	194,288	
Deferred premiums, agents' balances & Installments booked but deferred and not yet due	605,584	9,467	596,117	
Accrued retrospective premiums	500,000	50,000	450,000	
Amounts recoverable from reinsurers	154,969		154,969	
Funds held by or deposited with reinsured companies	17,716		17,716	
Current federal and foreign tax recoverable	232,692		232,692	
Net deferred tax asset	1,182,079		1,182,079	
Guaranty funds receivable or on deposit	59,265		59,265	
Electronic data processing equipment & software	52,757	41,393	11,364	
Furniture and equipment	42,798	42,798	-	
Aggregate write-ins:	470,949	140,132	330,817	
Total Assets	$ 36,335,174	$ 308,342	$ 36,026,832	

Statement of Liabilities, Surplus and Other Funds
As of December 31, 2010

			Note
Losses	$	12,915,900	2
Reinsurance payable on paid losses and LAE		24,375	
Loss adjustment expenses		5,345,202	2
Commissions payable, contingent commissions & other similar charges		51,106	
Other expenses		435,124	
Taxes, licenses and fees		205,707	
Unearned premiums		2,019,443	
Ceded reinsurance premiums payable		66,791	
Funds held by company under reinsurance treaties		2,645,881	
Amounts withheld or retained by company for account of others		241,322	
Provision for reinsurance		75,170	
Payable for securities		5,000	
Aggregate write-ins for liabilities:		(2,725,721)	
Total Liabilities	$	21,305,300	
Aggregate write-ins for special surplus funds	$	2,051,911	
Common capital stock		3,500,000	
Gross paid in and contributed surplus		2,750,000	
Unassigned funds (surplus)		6,419,621	
Surplus as regards policyholders	$	14,721,532	
Total Liabilities, Capital and Surplus	$	36,026,832	

Underwriting and Investment Exhibit - Statement of Income
As of December 31, 2010

UNDERWRITING INCOME		
Premiums earned	$	6,066,041
DEDUCTIONS		
Losses incurred	$	3,497,815
Loss adjustment expenses incurred		1,323,818
Other underwriting expenses incurred		2,073,037
Total underwriting deductions	$	6,894,670
Net underwriting gain or (loss)	$	(828,629)
INVESTMENT INCOME		
Net investment income earned	$	1,408,324
Net realized capital gains or (losses)		25
Net investment gain or (loss)	$	1,408,349
OTHER INCOME		
Aggregate write-ins for miscellaneous income	$	(135,170)
Total other income	$	(135,170)
Net income before dividends to policyholders and before federal income taxes	$	444,550
Dividends to policyholders		-
Net income after dividends to policyholder but before federal income taxes	$	444,550
Federal and foreign income taxes incurred		(214,926)
Net income	$	659,476

Capital and Surplus Account

As of December 31, 2010

Surplus as regards policyholders, December 31, 2009	$ 13,543,939
GAINS AND (LOSSES) IN SURPLUS	
Net income	$ 659,476
Change in net unrealized capital gains (losses)	-
Change in net unrealized foreign exchange capital gain (loss)	-
Change in net deferred income tax	(46,049)
Change in non-admitted assets	559,146
Change in provision for reinsurance	5,020
Dividends to stockholders	-
Change in surplus as regards policyholders for the year	$ 1,177,593
Surplus as regards policyholder, December 31, 2010	$ 14,721,532

Reconciliation of Surplus since last Examination

	Special Surplus Funds (2)	Common Capital Stock	Gross Paid - in & Contributed Surplus	Unassigned Funds (Surplus)	Total
December 31, 2007	$ 5,208,911	$ 3,500,000	$ 2,750,000	$ 1,100,140	$12,559,051
Operations (1)					
2008 Operations	(3,157,000)			3,500,924	343,924
2009 Operations				640,964	640,964
2010 Operations				1,177,593	1,177,593
December 31, 2010	$ 2,051,911	$ 3,500,000	$ 2,750,000	$ 6,419,621	$14,721,532

(1) Operations is defined as: Net income, change in net unrealized capital gains or (losses), change in net unrealized foreign exchange capital gains or (losses), change in net deferred income tax, change in non-admitted assets, change in provision for reinsurance and aggregate write-ins for gains and losses in surplus.

(2) The change in special surplus is due to retroactive reinsurance that is required to be accounted for as a write-in item under SSAP 62R.

Capitalization

At December 31, 2010, the Company had 100,000 common shares authorized with a par value of $35 per share, of which all shares were issued and outstanding.

SCHEDULE OF EXAMINATION ADJUSTMENTS

No examination changes were made as a result of this examination.

NOTES TO FINANCIAL STATEMENTS

Note 1 - Bonds: $28,237,277

Investments in bonds are reported at values (amortized cost) adopted and approved by the Securities Valuation Office (SVO) of the NAIC. Bonds owned by the Company are as follows:

	Statement Value
US Governments	$4,478,794
States and Territories and Possessions	6,559,084
Special Revenue	17,199,399
Total	$28,237,277

Of the Company's bond holdings, which comprised 87.4% of the Company's total cash and invested assets and 78.4% of total admitted assets at December 31, 2010, all were categorized as Class 1 with respect to NAIC credit quality standards. The effective maturity and overall duration of the fixed maturity portfolio was unchanged from prior year at approximately 5 years and 4 years respectively as of December 31, 2010.

Note 2 - Losses	$12,915,900
Note 2 - Loss Adjustment Expenses	$ 5,345,202
	$18,261,102

The above-captioned amount, which is the same as that reported by the Company in its Annual Statement, has been accepted for purposes of this report.

The Delaware Department of Insurance retained the services of INS Consultants, Inc. (INS), to conduct an independent review of the Company's loss and LAE reserves as of December 31, 2010. The INS analysis was performed using a risk-focused approach according to the guidelines contained in the NAIC Handbook. The review does not address the collectability of reinsurance recoverables.

The conclusions set forth in INS's report are based on information provided by the Company, including the 2010 Annual Statements, the related 2010 Statement of Actuarial Opinion with underlying actuarial work papers.

INS performed an analysis on the Company's book of business by segment of business on both a gross and a net basis for loss, defense and cost containment (DCC) expense and adjusting and other (A&O) expense. INS also reviewed the Company's work papers which reconcile the year-end 2010 data to Schedule P. The work papers supported the conclusion that the year-end amounts were closely reconciled to the Schedule P amounts.

Based on work performed, INS concluded the Company's carried December 31, 2010 net and gross loss and LAE reserves to be reasonably stated, and as such, no financial adjustment was required for examination purposes.

CONCLUSION

The following schedule shows the results of this examination and the results of the prior examination with changes between the examination periods:

Description	December 31, 2007	December 31, 2010	Increase (Decrease)
Assets	$ 35,998,886	$ 36,026,832	$ 27,946
Liabilities	$ 23,439,835	$ 21,305,300	$ (2,134,535)
Special Surplus Funds	5,208,911	2,051,911	(3,157,000)
Common Capital Stock	3,500,000	3,500,000	-
Gross Paid In and Contributed Surplus	2,750,000	2,750,000	-
Unassigned Funds (Surplus)	1,100,140	6,419,621	5,319,481
Total Surplus as Regards Policyholders	$ 12,559,051	$ 14,721,532	$ 2,162,481
Total Liabilities and Surplus	$ 35,998,886	$ 36,026,832	$ 27,946

The assistance of Delaware's consulting actuarial firm, INS Consultants, Inc. and INS Services, Inc. is acknowledged.

Respectfully submitted,

Joseph Murano Jr., CFE
Examiner-In-Charge
State of Delaware