

REPORT ON EXAMINATION
OF THE
DENTEGRA INSURANCE COMPANY
AS OF
DECEMBER 31, 2011

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, 2011 of the

DENTEGRA INSURANCE COMPANY

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

Attest By: Brandi Biddle

Date: February 8, 2013



In Witness Whereof, I have hereunto set my hand and affixed the official seal of this Department at the City of Dover, this 8th day of February, 2013.

A handwritten signature in black ink, appearing to read "Karen Weldin Stewart".

Karen Weldin Stewart, CIR-ML
Insurance Commissioner

Karen Weldin Stewart, CIR-ML
Commissioner



Delaware Department of Insurance

REPORT ON EXAMINATION
OF THE
DENTEGRA INSURANCE COMPANY
AS OF
DECEMBER 31, 2011

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.

A handwritten signature in black ink, appearing to read "Karen Weldin Stewart".

Karen Weldin Stewart, CIR-ML
Insurance Commissioner

Dated this 8th day of February, 2013

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SALUTATION

October 4, 2012

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

Dear Commissioner:

In compliance with instructions and pursuant to statutory provisions contained in Certificate of Authority No.12.010, dated March 12, 2012, an Association examination has been made of the affairs, financial condition and management of

DENTEGRA INSURANCE COMPANY

hereinafter referred to as “Company” or “DIC” incorporated under the laws of the State of Delaware, the statutory home office was located at 1807 North Market Street, Wilmington, Delaware 19802. The main administrative office of the Company was located at One Delta Drive, Mechanicsburg, PA 17055.

The report of this examination is respectfully submitted.

SCOPE OF EXAMINATION

The last financial condition examination of the Company covered the period from September 13, 2002 (its charter date) through December 31, 2006. This examination covered the period from January 1, 2007 through December 31, 2011, and consisted of a general review 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 examination of the Company was conducted concurrently with the examinations of other Delaware domiciled Delta companies, Delta Dental Insurance Company (“DDIC”) and Delta Dental of Delaware (“DDD”). Separate reports will be issued for each Delaware company. An examination of Delta Dental of Pennsylvania (“DDP”), a Pennsylvania domestic nonprofit corporation was also conducted concurrently with the Delaware domestic Delta companies. The State of New York conducted an independent concurrent examination on Delta Dental of New York, a New York domicile nonprofit corporation.

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.

During the course of this examination, consideration was given to work performed by the Company’s external auditing firm, Armanino McKenna LLP

(“Armanino McKenna”), San Ramon, California. Certain auditor work papers of their 2011 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 following topics were reviewed without material exception and are included in the work papers of this examination:

- Corporate Records
- Custodial Agreements
- NAIC Ratios
- Legal Actions
- Employee and Agents Welfare
- Regulatory Agency Correspondence
- Compliance with Prior Report Recommendations
- All Asset and Liability Items not mentioned

SUMMARY OF SIGNIFICANT FINDINGS

There were no significant findings as a result of this examination.

SUBSEQUENT EVENTS

There were no material subsequent events noted for the Company.

COMPANY HISTORY

Dentegra Insurance Company was originally organized and incorporated under the name of Concho Life Insurance Company as a limited stock life and disability insurer under the laws of the State of Arizona on July 27, 1966, and changed its name to Western Security Life Insurance Company on March 9, 1978. On March 29, 2002 Delta Dental of California (DDC) purchased all the outstanding shares of common stock of Western Security Life Insurance Company and sold 20% of the stock to Delta Dental of Pennsylvania.

Dentegra Insurance Company

Western Security Life Insurance Company was renamed Provantis Insurance Company and was re-domesticated to Delaware from Arizona effective September 30, 2002. The name of the Company was changed from Provantis Insurance Company to Dentegra Insurance Company, effective April 1, 2004.

Common Capital Stock

The total number of common stock shares which DIC is authorized to issue is 200,000 shares at a par value of \$20 for each share. As of the examination date and effective January 1, 2011, DIC has issued and outstanding 130,000 common stock shares, 80% or 104,000 common stock shares were owned by DDC Insurance Holdings, Inc., a wholly owned subsidiary of DDC, and the remaining 20% or 26,000 common stock shares was owned by DDP. Prior to the effective transfer date of January 1, 2011, 80% share of the Company was owned directly by DDC.

Dividends

As of December 31, 2011, the Company had not authorized, declared or paid dividends during the examination period.

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 the Board of Directors.

Shareholder

In accordance with Article III, Section 1 of the Company's bylaws, the annual shareholder's meeting shall be held at its primary office in San Francisco, California or

such other place as determined by the Board of Directors. Such annual meeting shall be held as declared by the Board of Directors.

Board of Directors

The bylaws provide that the number of Directors shall be established at the annual meeting of the shareholders and shall consist of not less than five (5) members and no more than fifteen (15) members and serve until a successor is elected and qualified. The annual meeting of the Board of Directors shall be held immediately following adjournment of each annual shareholder's meeting. Currently, the Board is comprised of six (6) members. Directors are elected for one-year terms at the annual meeting of the shareholder. Individuals elected and serving on the Board of Directors at December 31, 2011 were:

Directors

Gary Dennis Radine
Michael James Castro
Patrick Scott Steele
Charles Lamont, Esq.
Kevin Lee Jackson
Anthony Scott Barth

Principal Business Affiliation

President/CEO – Delta Dental of California
EVP, Chief Financial Officer – Delta Dental of California
EVP, Chief Information Officer – Delta Dental of California
EVP, Chief Legal Officer – Delta Dental of California
GVP, Underwriting – Delta Dental of California
Vice Chairman – Delta Dental of California

The Company's bylaws provide for the Board to designate an Executive Committee, this committee shall consist of at least (3) directors of the corporation. As of December 31, 2011, the Board of Directors had appointed the following members to the Executive Committee and accepted the offer by DDC to use its Finance Committee, Investment Committee and Audit Committee, which are shown below.

Executive Committee

Gary D. Radine, Chair
Michael J. Castro
Anthony Scott Barth

Finance Committee**

Steven F. McCann Chair
Glen F. Bergert
Terry A. O'Toole
Andrew J. Reid

Steven W. Voss
Thomas A. Zimmerman

Investment Committee ***

Michael J. Castro, Chair
Patrick S. Steele
Anthony S. Barth
Alicia F. Weber
Kevin L. Jackson
Jeanne M. Foster

Audit Committee*

Glen F. Bergert, CPA Chair
Steven F. McCann
Terry A. O'Toole
Andrew J. Reid
Steven W. Voss
Thomas A. Zimmerman

* DIC designated the Audit Committee of DDC as its Audit Committee.

** DIC designated the Finance Committee of DDC as its Finance Committee

*** DIC designated the Investment Committee of DDC as its Investment Committee

A review of Company corporate records showed that regular business of the shareholder and Board of Directors was conducted via annual meetings held in San Francisco, California.

Officers

In accordance with its bylaws, officers serving the Company shall be a Chairman of the Board, a President, a Senior Vice President, one or more Vice Presidents, a Secretary, a Treasurer, and one or more Assistant Secretaries and Assistant Treasurers. One person can hold more than one office. The principal officers of the Company elected at the annual meeting of the Board of Directors and serving as of December 31, 2011, were as follows:

Officer

Gary Dennis Radine
Anthony Scott Barth
Michael James Castro
Charles Lamont, Esq.

Office

President /Chairman
Vice Chairman
Treasurer
Secretary

Conflict of Interest

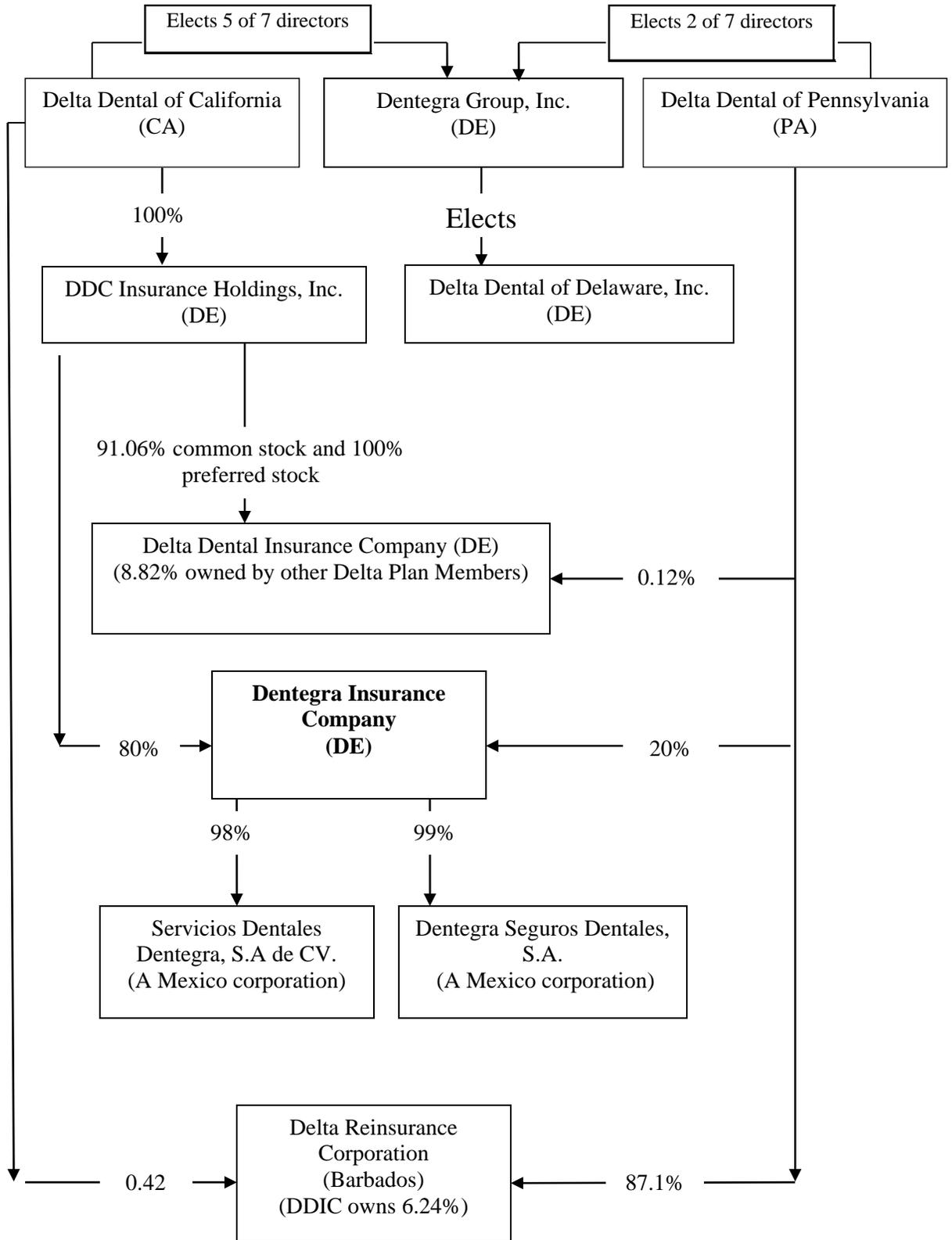
The Company has an established procedure for the disclosure to its Board of Directors of any material interest or affiliation on the part of any of its officers, directors, or responsible employees which is in or is likely to conflict with the official duties of such person. The disclosures are made annually. Conflict of interest statements completed by all directors and officers were reviewed and the information contained therein disclosed no evidence of conflicting interests.

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. The Company is part of the Dentegra Group, Inc. (Dentegra Group) Holding Company System, which has combined the resources of DDC and DDP to pool common resources in an effort to eliminate duplication in the areas of market development and technology.

Organizational Chart

An abbreviated organizational chart below indicates the ownership and the control relationships considered material to the Company.



Intercompany Agreements

The Company had the following intercompany agreements and arrangements in effect as of December 31, 2011.

The Company entered into these agreements with members of the affiliated group in an effort to obtain efficiencies in operations and limit costs.

AARP Dental Plan Administrative Services Agreement

Effective May 1, 2004 the Company entered into an arrangement with DDIC in which DDIC was to act as a third party administrator on behalf of the Company in regard to a group dental insurance contract issued by DIC to the AARP Dental Insurance Trust (“AARP Trust”). This arrangement was subsequently reflected in an Administrative Services Agreement.

DIC has entered into a DeltaPreferred Option Dental Insurance Contract with the AARP Trust in the District of Columbia under which it has agreed to underwrite the AARP Dental Insurance Plan (the "Plan") for members of the American Association of Retired Persons (“AARP”) located in certain jurisdictions of the United States.

The administrative responsibility of DDIC under this agreement is to serve as Plan Administrator. DDIC will provide collection of premiums through the Administrative Trust Fund established by the Plan, payment of claims for covered services, payments and disbursements from the Company’s Administration Account, enrollment and eligibility, marketing, written material, data collection and reporting, enrollment services and grievance processes, quality management plan, underwriting and actuarial services, professional relations, and compliance with legal obligations.

Management and Service Agreement

Effective January 1, 2005 the Company entered into a Management and Service Agreement with its parent, DDC, under which DDC acts as the manager of the Company. DDC responsibilities by itself or through its subsidiary DDIC, as manager of the Company include; claims administration, underwriting and regulatory compliance, marketing, provider relations, group and member relations, quality review system, accounting and financial support, premium collections and fiduciary responsibilities and appointment of all personnel. All personnel are to be employees of DDC or DDIC.

DeltaCare USA Administrative Service Agreement

Effective January 1, 2007 the Company entered into a DeltaCare USA Administrative Services Agreement with DDIC, under which DDIC provides administrative services for DeltaCare USA contracts underwritten by the Company. Delta Dental Plans Association has adopted the DeltaCare USA Program Standards and General Administrative Policies ("Standards"). DDIC is a Delaware insurance company qualified under the Standards to act as the nationwide administrator for DeltaCare USA programs ("Programs") as defined in the Standards. Under this agreement, DDIC performs administrative services for the Company in respect to DeltaCare USA programs underwritten by the Company such as establishing of a premium and claims accounts and providing administrative support for the Company which includes sales and marketing services, underwriting and actuarial services, written material, enrollment and eligibility, enrollment and grievance process, quality management plan, professional relations, financial services, data collections and reporting and compliance and legal services.

Private Review Agency Agreement

Effective August 1, 2011 the Company entered into a Private Review Agent Agreement with DDP under which DDP provides utilization and claims review services for the Company in the State of Maryland.

Federal Tax Sharing Agreement

Effective November 1, 2010, and for taxable periods beginning and after January 1, 2011, the Company entered into a Federal Tax Sharing Agreement with its immediate parent, DDC Insurance Holdings, Inc. (“DDCIH”) and other DDCIH majority owned or controlled subsidiaries. Under this agreement, DDCIH is responsible for reporting the consolidated Federal Income Tax returns to the Internal Revenue Service.

FIDELITY BONDS AND OTHER INSURANCE

The Company is covered by a Financial Institution Bond (Fidelity Bond) under coverage provided to Delta Dental of California and its subsidiaries. The coverage provided exceeds the suggested minimum limits of insurance per the NAIC Examiners Handbook. In addition to the fidelity bond insurance, appropriate general insurance coverages are maintained by the Company.

TERRITORY AND PLAN OF OPERATION

Territory

As of December 31, 2011, the Company is authorized to transact business in 49 states and the District of Columbia. DIC administers plans in 33 territories, and for the year ending 2011, the Company wrote 53.9% of its business in the following jurisdictions; California (25.6%), Washington (10.1%), New Jersey (8.1%), Virginia (5.5%) and Michigan (4.6%).

Plan of Operation

DDC and DDP administer a nationwide dental insurance plan for the AARP. This is a voluntary program offered to AARP members and their dependents. The program is insured by the Company, Dentegra Insurance Company of New England (DICNE) and DDIC.

The AARP business is a result of a contract with the AARP Trust which was established on behalf of AARP so that eligible AARP members could purchase prepaid dental insurance policies throughout the United States from DIC, DICNE or DDIC.

DIC's primary business consisted of AARP dental insurance premiums. Its direct AARP business in 2011 was \$104.84 million or about 98.9% of its total \$105.97 million in direct premiums written.

The Company has no agents; it uses the marketing of its affiliate, DDC, to market its current business line which is dental prepaid plans.

GROWTH OF THE COMPANY

The financial growth of the Company since the last examination (2006) compiled from its annual statements is summarized as follows:

<u>Year</u>	<u>Net Admitted Assets</u>	<u>Surplus as Regards to Policyholders</u>	<u>Change in Capital and Surplus</u>	<u>Gross Premiums Written</u>	<u>Net Income</u>
2011	\$ 30,283,435	\$ 15,758,382	-4.31%	\$ 105,966,211	\$ 5,879
2010	\$ 29,714,336	\$ 16,467,597	-3.80%	\$ 91,713,184	\$ 207,600
2009	\$ 28,216,172	\$ 17,118,748	-14.61%	\$ 79,846,983	\$ 200,778
2008	\$ 33,068,418	\$ 20,048,722	110.34%	\$ 67,706,164	\$ 74,139
2007	\$ 20,459,545	\$ 9,531,424	-29.51%	\$ 56,924,361	\$ 207,632
2006	\$ 28,491,252	\$ 13,522,100		\$ 42,590,215	\$ 450,550

The changes over the examination period are as follows:

- A 6% increase in Net Admitted Assets
- A 17% increase in Surplus as Regards Policyholders
- A 149% increase in Gross Written Premiums

Net Admitted Assets and Surplus as Regards Policyholders increased primarily as a result of a \$12 million paid in contribution which was comprised of \$8 million and \$2 million in 2008 and \$1.6 million and \$400,000 issued in 2011 by DDC and DDP. Gross Written Premiums increased due to increases in gross business written. Net income of the Company during the period was affected by net investment gains offset by underwriting losses.

LOSS EXPERIENCE

Net claims unpaid as of December 31, 2010 were \$132,109. During 2011, \$139,556 was paid for incurred losses attributable to insured events of prior years. Reserves remaining for the prior years are now \$306 as a result of re-estimation of unpaid claims. Therefore, there has been a \$7,753 unfavorable prior year development since 2010. The increase is generally the result of the ongoing analysis of loss development trends.

REINSURANCE

A schedule of the Company's premiums written follows:

Direct				\$ 105,966,211
Assumed				32,731
Ceded	Affiliates	\$ 41,084,393		
	Non-Affiliates	<u>31,546,944</u>		
Total ceded				<u>72,631,337</u>
Total Net Premiums Written				<u>\$ 33,367,605</u>

Assumed Reinsurance

The Company had no significant assumed business in 2011. The only assumed premium written was \$32,731 from an affiliated dental line carrier, DDIC.

Ceded Reinsurance

In 2011 the Company's ceded business consisted of one quota share reinsurance agreement with an affiliated dental line carrier, DDC, and two quota share reinsurance agreements from two non-affiliated companies. The two non-affiliated companies are Hanover Life Reassurance Company of America and Renaissance Life & Health Insurance Company of America. The Company ceded premium to the above two companies in the amount of \$24,210,446 and \$7,336,498, respectively.

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, accounting systems, organization structure and the processing structure. The Company operates in a computer dominated environment. DIC records financial transactions into the Enterprise Financial Oracle General Ledger System. Statutory reports are developed from financial information that is exported from the Oracle General Ledger System into Microsoft Excel spreadsheets which are then compiled into SunGard, a web-based application that assists in the formatting of statutory financial statements.

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.

STATUTORY DEPOSITS

The Company's state statutory deposits were on file with the following states:

STATE	Deposits For The Benefit of ALL Policyholders		All Other Special Deposits	
	Book/Adjusted Carrying Value	Fair Value	Book/Adjusted Carrying Value	Fair Value
Arizona			\$ 639,250	\$ 651,906
Arkansas			100,000	100,000
Delaware	\$ 3,399,435	\$ 3,427,438		
Georgia			33,309	38,134
Massachusetts			103,244	116,005
New Hampshire			515,455	520,561
New Mexico			124,844	132,714
North Carolina			410,095	424,229
South Carolina			182,521	183,009
TOTAL DEPOSITS	\$ 3,399,435	\$ 3,427,438	\$ 2,108,718	\$ 2,166,558

FINANCIAL STATEMENTS

The following pages contain the Company's Financial Statements for the year ending December 31, 2011, as determined by this examination, with supporting exhibits as detailed below:

- Assets,
- Liabilities, Capital and Surplus,
- Statement of Income and Capital and Surplus Account,
- Reconciliation of Surplus since last Examination

Assets
As of December 31, 2011

	Assets	Non Admitted Assets	Net Admitted Assets	Notes
Bonds	\$ 7,033,873	\$ -	\$ 7,033,873	1
Common stocks	3,706,928	-	3,706,928	2
Cash, cash equivalents and short-term investments	9,652,789	-	9,652,789	3
Subtotal, cash and invested assets	<u>\$ 20,393,590</u>	<u>\$ -</u>	<u>\$ 20,393,590</u>	
Investment income due and accrued	33,462	-	33,462	
Uncollected premiums and agents' balances in the course of collection	61,735	4,840	56,895	
Net deferred tax asset	253,960	253,960	-	
Receivables from parent, subsidiaries and affiliates	9,799,488	-	9,799,488	
Goodwill	125,024	125,024	-	
Prepaid	34,343	34,343	-	
Total assets	<u><u>\$ 30,701,602</u></u>	<u><u>\$ 418,167</u></u>	<u><u>\$ 30,283,435</u></u>	

Liabilities, Capital and Surplus
As of December 31, 2011

	<u>Covered</u>	<u>Uncovered</u>	<u>Total</u>	<u>Notes</u>
Claims unpaid	\$ 250,934	\$ 0	\$ 250,934	4
Unpaid claims adjustment expenses	242,079	0	242,079	4
Aggregate health policy reserves	26,790	0	26,790	
Premiums received in advance	205,920	0	205,920	
General expenses due or accrued	2,302,531	0	2,302,531	
Ceded reinsurance premiums payable	11,409,558	0	11,409,558	
Amounts due to parent, subsidiaries and affiliates	87,241	0	87,241	
Total liabilities	<u>\$ 14,525,053</u>	<u>\$ 0</u>	<u>\$ 14,525,053</u>	
Common capital stock			\$ 2,600,000	
Gross paid in and contributed surplus			29,027,180	5
Unassigned funds (surplus)			<u>(15,868,798)</u>	
Total capital and surplus			<u>\$ 15,758,382</u>	
Total liabilities, capital and surplus			<u><u>\$ 30,283,435</u></u>	

Statement of Revenue and Expenses
As of December 31, 2011

		Notes
Member months	2,137,448	
Net premium income	\$ 33,367,605	
Change in unearned premium reserves and reserve for rate credits	(24,265)	
Total revenues	\$ 33,343,340	
Hospital/medical benefits	\$ 70,582,264	
Subtotal	\$ 70,582,264	
Net reinsurance recoveries	68,599,712	
Total hospital and medical	\$ 1,982,552	
Claims adjustment expenses	14,651,717	
General administrative expenses	16,938,170	
Total underwriting deductions	\$ 33,572,439	
Net underwriting gain or (loss)	\$ (229,099)	
Net investment income earned	110,604	
Net realized capital gains or (losses) less capital gains tax of \$0	261	
Net investment gains or (losses)	\$ 110,865	
Misc Income	125,145	
Net income or (loss); after capital gains tax and before all other federal income taxes	\$ 6,911	
Federal and foreign income taxes incurred	1,032	
Net income (loss)	\$ 5,879	
Capital and surplus as of 12/31/2010	\$ 16,467,597	
Net income or (loss)	\$ 5,879	
Change in net unrealized capital gains (losses) less capital gains tax of \$0	(2,682,888)	
Change in nonadmitted assets	(32,205)	
Paid in (surplus adjustments)	2,000,000	5
Net change in capital and surplus	\$ (709,215)	
Capital and surplus as of 12/31/2011	\$ 15,758,382	

Reconciliation of Surplus since last Examination

		<u>Notes</u>
Capital and Surplus, December 31, 2006	\$ 13,522,100	
Net Income	\$ 696,028	
Change in net unrealized capital gains	(11,993,883)	
Change in non-admitted assets and related items	1,428,629	
Capital paid in	12,000,000	5
Change in asset valuation reserve	116,215	
Aggregate write-ins for gains and losses in surplus	<u>(10,707)</u>	
Change in surplus as regards policyholders for the 5 years	<u>\$ 2,236,282</u>	
Capital and Surplus, December 31, 2011	<u><u>\$ 15,758,382</u></u>	

NOTES TO FINANCIAL STATEMENTS

Assets

Note 1 - Bonds: \$ 7,033,873

The Company's bond holdings totaled \$7.034 million and were approximately 23.2% of total admitted assets and 34.5% of the Company's total invested assets. Security composition for the year ending 2011 was comprised of the following:

U.S. Governments	\$ 3.348 million
Industrial & Miscellaneous	<u>3.686 million</u>
	<u>\$ 7.034 million</u>

The Company's industrial and miscellaneous bond holdings were made up of 100% Class 1 designation with respect to NAIC credit quality standards.

Note 2 - Common Stocks: \$ 3,706,928

The Company's common stock holdings totaled \$3.71 million and were approximately 12.2% of total admitted assets and 18.2% of the Company's total invested assets. Common stock in affiliates was approximately 99.6% (or \$3.692 million) of total

Dentegra Insurance Company

common stock investments. Affiliated common stocks investments for the year ending 2011 were comprised of the following:

Dentegra Insurance Holdings	\$ 0.005 million
Servicios Dentales Dentegra	0.894 million
Dentegra Seguros Dentales	<u>2.793 million</u>
	<u>\$ 3.692 million</u>

<u>Note 3 – Cash:</u>	\$ 9,565,477
<u>Note 3 – Cash Equivalents and Short-Term Investments:</u>	<u>87,312</u>
	<u>\$ 9,652,789</u>

The Company's cash holdings totaled \$9.56 million and were approximately 31.5% of total admitted assets and 46.9% of the Company's total invested assets. The Company's short-term holdings, comprised primarily of class one money market funds, totaled \$87.3 thousand.

Liabilities

<u>Note 4 – Claims Unpaid:</u>	<u>\$ 250,934</u>
<u>Note 4 – Claims Unpaid Adjustment Expenses:</u>	<u>\$ 242,079</u>

The Delaware Insurance Department retained the services of the actuarial firm INS Consultants, Inc. for the purposes of conducting an independent review of the Company's claims unpaid and unpaid claims adjustment expenses as of December 31, 2011. Based on their analysis, the above reported amount for claims unpaid and unpaid claims adjustment expenses were concluded to be reasonably stated. The Company's reported aggregate reserves for claims unpaid and unpaid claims adjustment expenses represent 3.4% of the Company's liabilities at year-end 2011.

<u>Note 5 – Paid in Surplus:</u>	<u>\$ 12,000,000</u>
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During 2011, the Company received \$2 million in additional paid in capital from its two stockholders, \$1.6 million and \$400 thousand from DDC and DDP, respectively.

During 2008, the Company received \$10 million in additional paid in capital from its two stockholders, \$8 million and \$2 million from DDC and DDP, respectively.

COMPLIANCE WITH PRIOR EXAMINATION RECOMMENDATIONS

The prior exam noted five (5) recommendations, which were:

1. It is recommended that the Board of Directors approve all investments made by the Company. **The Company has complied.**
2. It is recommended that notification be made when changes in directors and officers occur. **The Company has complied.**
3. It is recommended that the Company comply with Section 526 of the Delaware Insurance Code which provides, among others, the annual statement shall be prepared in accordance with the *NAIC Annual Statement Instructions* and the *NAIC Accounting Practices and Procedures Manual*. **The Company has complied.**
4. It is recommended that the Company's custodial agreement with Wells Fargo be amended to meet the requirements with the *NAIC Financial Condition Examiner's Handbook Part 1, Section IV*. **The Company has complied.**
5. It is recommended that the Company comply with SSAP No. 2 as to the reporting of cash and outstanding drafts. **The Company has complied.**

SUMMARY OF RECOMMENDATIONS

No formal recommendations.

CONCLUSION

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

<u>Description</u>	<u>December 31, 2006</u>	<u>December 31, 2011</u>	<u>Increase (Decrease)</u>
Assets	<u>\$28,491,252</u>	<u>\$30,283,435</u>	<u>\$1,792,183</u>
Liabilities	<u>\$14,969,154</u>	<u>\$14,525,053</u>	<u>(\$444,101)</u>
Common Capital Stock	\$ 2,600,000	\$ 2,600,000	\$ -
Paid in Capital	17,027,180	29,027,180	12,000,000
Unassigned Funds (Surplus)	<u>(6,105,082)</u>	<u>(15,868,798)</u>	<u>(9,763,716)</u>
Total Surplus	<u>13,522,098</u>	<u>15,758,382</u>	<u>2,236,284</u>
Totals Liabilities and Surplus	<u>\$28,491,252</u>	<u>\$30,283,435</u>	<u>\$1,792,183</u>

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

Respectfully submitted,



Richard Randour, CFE
Examiner-In-Charge
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