

REPORT ON EXAMINATION
OF THE
EVEREST NATIONAL INSURANCE 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

EVEREST NATIONAL INSURANCE COMPANY

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

Attest By: *Brant Piddle*

Date: 19 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 19th day of June, 2012.

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
EVEREST NATIONAL INSURANCE 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.

A handwritten signature in black ink, appearing to read "Karen Weldin Stewart", is written over a horizontal line.

Karen Weldin Stewart, CIR-ML
Insurance Commissioner

Dated this 19th day of June, 2012

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SALUTATION

February 15, 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. 11.004, dated January 26, 2011, an Association examination has been made of the affairs, financial condition and management of the

EVEREST NATIONAL INSURANCE COMPANY

hereinafter referred to as, (Company or National) 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 477 Martinsville Road, Liberty Corner, NJ 07938.

The report of this examination is submitted herewith.

SCOPE OF EXAMINATION

The last examination was completed as of December 31, 2006. This examination covered the period of January 1, 2007, 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.

A multi-state examination was conducted in accordance with the National Association of Insurance Commissioners (NAIC) Financial Condition Examiners Handbook (NAIC 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 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 overall financial statement presentation, and 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 have been incorporated into the work papers of the examiners and have been utilized in determining the scope and areas of emphasis in conducting the examination.

This report of examination was confined to financial statements and comments on matters that involved departures from laws, regulations or rules, or which were deemed to require special explanation or description.

The examination of the Company was conducted concurrently with that of its affiliates, including; Everest Reinsurance Company [DE] (Everest Re), Everest Indemnity Insurance Company [DE], Mt. McKinley Insurance Company [DE], and Everest Security Insurance Company [GA]. To the fullest extent considered applicable the efforts, resources, project material and findings were coordinated and made available to all participants.

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
- 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 Company began writing Multiple Peril Crop Insurance during the fourth quarter of 2011.

The Company also recorded a capital contribution of \$1,822,700 due to shared-base compensation expense and tax benefits, as well as a dividend payment on December 22, 2011 in the amount of \$15,100,000 to its parent Everest Re.

COMPANY HISTORY

General

The Company was organized as a wholly owned stock property and casualty insurance company subsidiary of PRUCO, Inc., under the laws of the State of Arizona, named Dryden Guaranty Insurance Company on November 12, 1985, and received its first Certificate of Authority on December 31, 1985.

On November 8, 1999, the Company was acquired by Everest Re Group, Ltd., (Group), a Bermuda domiciled company. With the approval of the Arizona and Delaware Departments of Insurance, the Company re-domesticated from Arizona to Delaware effective November 30, 2005, and became a wholly-owned subsidiary of Everest Re.

Capitalization

The Company is authorized to issue 200,000 shares of common capital stock with a par value of \$50 per share. Currently, 100,000 shares are issued and held by Everest Re, resulting in paid-in capital of \$5,000,000.

Dividends

According to Company records and as reflected in minutes to Board of Directors' meetings, cash dividends were paid to the sole stockholder and approved by the Delaware Department of Insurance as follows:

<u>Date Declared</u>	<u>Date Paid</u>	<u>Dividend Paid</u>
December 15, 2009	December 23, 2009	\$18,000,000
December 12, 2010	December 22, 2010	\$16,000,000

MANAGEMENT AND CONTROL

Directors

The operations of the Company are managed by its Board of Directors, elected by the shareholder. Directors elected and Officers appointed as of December 31, 2010, were as follows:

<u>Name</u>	<u>Principal Business Affiliation</u>
Dominic James Addesso (Chairman)	Everest Reinsurance Company
Darryl Wayne Bradley	Everest National Insurance Company
James George Camerino	Everest National Insurance Company
Mark DiGaetano	Everest National Insurance Company
Brian David Drum	Everest National Insurance Company
Mark Irving Herman*	Everest National Insurance Company
Frank Nicholas Lopapa	Everest National Insurance Company
Sanjoy Mukherjee	Everest Reinsurance Company
Lynn Stollsteimer Neville*	Everest National Insurance Company
Barry Howland Smith	Everest Reinsurance Company

Officers

The bylaws of the Company state that the elected officers of the Company includes a President, one or more Vice Presidents, a Treasurer, a Comptroller, a Corporate Secretary and such additional officers as it may from time to time be decided by a resolution adopted by a majority of the Board. The Board of Directors may also designate from among the vice presidents such number of executive senior vice presidents as may be deemed appropriate.

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

<u>Name</u>	<u>Title</u>
Mark Irving Herman*	Chief Executive Officer
Darryl Wayne Bradley	President
Fred Sheldon Eichler	Senior VP & Chief Financial Officer
Keith Thomas Shoemaker	Assistant Comptroller
Ellen Joy Edmonds	Actuary
Frank Nicholas Lopapa	Treasurer
Keith Stuart Barbarosh	Secretary

*Resigned as Directors and CEO subsequent to December 31, 2010.

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

It was noted that written correspondence was submitted to the Delaware Department of Insurance in regards to the changes in officers and directors during the period under examination in compliance with 18 Del. C. §4919.

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 properly filed Holding Company Registration Statements with the Delaware Department of Insurance.

The following abbreviated organizational chart depicts the Company’s relationship within the holding company system at December 31, 2010.

<u>Company</u>	<u>Domicile</u>	<u>% own</u>
Everest ReGroup, Ltd.	Bermuda	
Everest ReAdvisors, Ltd.	Bermuda	100%
Everest Advisors (UK), Ltd.	United Kingdom	100%
Everest Reinsurance (Bermuda), Ltd.	Bermuda	100%
Everest Global Services, Inc.	Delaware	100%
Everest International Reinsurance, Ltd.	Bermuda	100%
Everest Underwriting Group (Ireland) Limited	Ireland	100%
Everest Reinsurance Company (Ireland) Limited	Ireland	100%
Everest Reinsurance Holdings, Inc.	Delaware	100%
Everest ReCapital Trust II	Delaware	100%
Mt. McKinley Insurance Company	Delaware	100%
Everest Specialty Underwriters, LLC	Delaware	100%
Mt. McKinley Managers, LLC	New Jersey	100%
WorkCare Southeast, Inc.	Alabama	100%
WorkCare Southeast of Georgia, Inc.	Georgia	100%
Everest Reinsurance Company	Delaware	100%
Everest National Insurance Company	Delaware	100%
Everest Reinsurance Company (Brazil)	Brazil	100%
Mt. Whitney Securities, Inc.	Delaware	100%
Everest Indemnity Insurance Company	Delaware	100%
Everest Security Insurance Company	Georgia	100%
Everest Insurance Company of Canada	Canada	100%

Intercompany Management and Service Agreements

The Company has entered into various agreements with members of the affiliated group in an effort to obtain efficiencies in operations and limit cost. The Company had the following intercompany agreements and arrangements in effect as of December 31, 2010.

Service Agreements

The Company was a party to service agreements with various affiliates. Under the agreements, the Company and its affiliates provided each other the services of its employees, supplies, use of equipment, use of office space and for payments to third parties for general expenses, state and local taxes. The agreements obligated the recipient affiliate to reimburse the service-providing affiliate for disbursements made on their behalf and to pay for the cost of providing those services. The agreements were terminated on December 31, 2007, and replaced by the global services agreement described below.

Effective January 1, 2008, the Company entered into a global service agreement with all affiliates of Group. Each affiliate agrees to provide administrative, consultative and other support services to other affiliates as needed. In return, ENIC and each of the recipient affiliates, agrees to pay the service-providing affiliate 100% and 108% respectively, of its costs and expenses incurred in providing those services. This global service agreement, which was approved by the Delaware Department of Insurance on January 31, 2008, addresses and allows for payments of convenience.

Tax Allocation Agreement

Effective January 1, 2001, the Company entered into a tax allocation agreement with Holdings along with its affiliates. Holdings, the Company and affiliates constitute an affiliate group within Section 1504(a) of the Internal Revenue Code of 1986 of which Holdings is the

common parent and, therefore, is eligible to file a consolidated income tax return for United States federal income tax purposes and to pay federal income taxes on a consolidated basis, if necessary. Pursuant to the terms of the tax allocation agreement, no party will be required to pay more in taxes, or receive a lesser refund, than it would have paid or received if it computed its taxes independently and filed a separate tax return.

Guarantee Agreement

Effective April 26, 2003, the Company entered into a parental guarantee agreement with Everest Re. Pursuant to the agreement, Everest Re guarantees that the Company's capital and surplus will not fall below \$15 million, to an aggregate support of \$75 million.

Investment Advisory Agreement

Effective February 25, 2010, the Company entered into an investment advisory agreement with Deutsche Investment Management Americas, Inc. (Deutsche), which replaced a similar agreement with Deutsche effective July 1, 1996. This agreement authorizes Deutsche to supervise and direct all domestic investments and to exercise whatever powers the Company may possess with respect to its domestic 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 Deutsche in writing from time to time. Deutsche is the investment manager for the Group and fees are based on total assets under management.

Trading Account Agreement

Effective March 14, 2002, the Company entered into a trading account agreement with SEI Investments Distribution Co. (SEI). Pursuant to this agreement, SEI acts as the trading manager for the Company's mutual fund investments. Fees are based on total assets held.

Custodian Agreement

Effective July 18, 2003, the Company entered into a custodian agreement with The Bank of New York (BONY). Pursuant to this agreement, BONY acts as the primary custodian for the Company's portfolio of investment securities. A review of terms indicates that the agreement contains the minimum protective standards required under the NAIC Handbook. Fees are based on total assets held.

TERRITORY AND PLAN OF OPERATION

Territory

As of December 31, 2010, the Company was licensed as a property and casualty insurer in all 50 U.S. states and the District of Columbia. In addition, the Company is licensed by the U.S. Department of Labor.

Plan of Operation

The Company writes business primarily through agency relationships with program administrators. The 2010 direct written premiums by program were as follows:

<u>Program</u>	<u>Direct Premium</u>	<u>Percentage</u>
C.V. Starr	\$234,718,427	35.66%
Arrowhead General Insurance Agency	107,625,011	16.35%
Brownstone Agency *	74,149,750	11.26%
All Risks	48,241,336	7.33%
Tangram Program Managers	29,176,162	4.43%
Mattei Companies *	24,031,121	3.65%

Everest National Insurance Company

American Bankers Associates *	13,208,778	2.01%
RIC Insurance Agency	10,477,618	1.59%
PBOA*	7,631,644	1.16%
All Other Program Managers	16,261,157	2.47%
In-house Facilities and Programs	<u>92,731,893</u>	<u>14.09%</u>
Total	<u>\$658,252,896</u>	<u>100.00%</u>

* This is an MGA as defined in 18 Del. C. §1802(3) “Managing general agent” and was properly disclosed in the 2010 annual statement Notes to the Financial Statements.

The Company, in concert with its affiliates, engages independent claim service providers (CSPs) for the evaluation and ultimate payment of the majority of its claims. Case loss and loss adjustment expense (LAE) reserves are initially established by the CSPs, which are reviewed by the Company’s claim personnel. Case loss and LAE reserves are adjusted based on these reviews. In addition, larger claims are forwarded to the Company for direct involvement. Incurred but not reported (“IBNR”) reserves are established by the Company’s actuaries.

The CSPs, which have claim payment and reserving authority, manage specific programs for the Company as follows:

<u>Program</u>	<u>Claims Service Provider</u>
Arrowhead General Insurance Agency	American Claims Management
Brownstone Agency	Brownstone Agency
All Risks	Gallagher Bassett Services
Tangram Program Managers	Gallagher Bassett Services
Mattei Companies	Mattei Companies
American Bankers Associates	American Bankers Associates
RIC Insurance Agency	Specialty Risk Services
PBOA	PBOA

A.M. Best’s Rating

The Company and its U.S. insurance affiliates (excluding Mt. McKinley) have a rating of “A+” (*Superior*) from A.M. Best.

GROWTH OF THE COMPANY

The following information was obtained from the Company's filed Annual Statements and covers the four proceeding years since its last examination (2006):

Year	Admitted Assets	Capital & Surplus	Net Premiums Written	Net Income
2006	\$ 574,664,698	\$ 164,957,698	\$ 87,984,583	\$ 21,042,536
2007	\$ 448,436,421	\$ 178,637,455	\$ 79,111,734	\$ 9,309,690
2008	\$ 466,404,011	\$ 184,722,065	\$ 78,075,448	\$ 6,349,151
2009	\$ 458,324,191	\$ 164,001,021	\$ 81,109,023	\$ (2,512,673)
2010	\$ 447,684,562	\$ 151,025,838	\$ 74,545,259	\$ (4,454,812)

Since December 31, 2006, the Company's financial results were as follows:

- 22.10% decrease in admitted assets
- 8.45% decrease in capital and surplus
- 15.27% decrease in net premiums written
- 121.17% decrease in net income

The decrease in premiums earned is due to the tightening of the business market since 2008 as a result of the credit market's impact on business spending, including insurance, and the closing of many businesses during this economic downturn. As a result of the challenging economic conditions of the past three years, the Company has posted underwriting losses for the three consecutive years, 2008 to 2010.

The Company paid \$18.0 million and \$16 million in dividends to its parent in 2009 and 2010 respectively, which represents the majority of the \$14 million decrease in capital and surplus since 2006.

LOSS EXPERIENCE

The Company reported one year unfavorable development of \$13.3 million in 2011. The development was the result of re-estimation of unpaid claims and loss adjustment expenses principally on Workers Compensation, Commercial Multi-Peril, and Other Liability – Occurrence lines. The increase for Commercial Multi-Peril was driven by construction liability exposures and the increase for Other Liability – Occurrence was driven by excess liability business.

REINSURANCE

General

For 2010, the Company reported the following distribution of net premiums written:

Direct Written Premiums	\$658,252,896
Reinsurance assumed (from affiliates)	\$0
Reinsurance assumed (from non-affiliates)	<u>1,008,450</u>
Total Assumed Premiums	\$1,008,450
Gross Written Premiums	\$659,261,346
Reinsurance ceded (to affiliates)	\$582,498,933
Reinsurance ceded (to non-affiliates)	<u>2,217,154</u>
Total Ceded Premiums	\$584,716,087
Net Written Premiums	<u>\$ 74,545,259</u>
Percentage of Ceded to Gross	88.7%

Assumed

The Company only assumes business from NCCI, the mandatory workers' compensation pool. Assumed premium during 2010 was \$1,008,450.

Ceded

The Company limits its exposure through an 85% global quota share reinsurance agreement with Everest Re originally entered into in 1998. Pursuant to this agreement, which was properly filed with and approved by the Delaware Department of Insurance, the Company ceded \$396.4 million, or 60.1%, of the \$659.3 million in 2010 gross written premiums.

Under related agreements, which inure to the benefit of the global quota share reinsurance agreement, Everest Re, in turn, cedes this business to affiliated and unaffiliated reinsurers under various reinsurance agreements. Everest Re is liable to the Company pursuant to the terms of those agreements. Program-specific quota share and excess of loss reinsurance premiums with Everest Re and outside reinsurers in 2010 were \$186.1 million and \$2.2 million, respectively.

The largest net aggregate amount insured in any one risk, excluding workers compensation, was \$1.8 million at December 31, 2010.

ACCOUNTS AND RECORDS

The Company maintains its records on a combination of client server and network applications which utilize various reporting systems to record and report financial information.

The accounts and records reviewed included an evaluation of the Company's operational and organizational controls. The areas evaluated included computer systems, accounting systems, organizational structures, and the processing 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 Company performs full system backups and rotates copies of programs and data files to its off-site storage facility on a weekly basis. The Company has a disaster recovery plan that covers its mainframe operations that is periodically tested.

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.

During the course of the examination, the Company's books and records were reviewed and compared to reported items and values in the annual statements. No material discrepancies were noted during this review.

STATUTORY DEPOSITS

The Company's state statutory deposits are comprised primarily of U.S. Treasury Notes and Special Revenue Obligation bonds. The following 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			\$ 1,135,714	\$ 1,164,791
Arkansas			411,565	416,452
California			83,539,550	85,903,314
Delaware	2,517,830	2,492,600	100,040	102,883
Georgia			101,194	100,891
Idaho			1,112,781	1,133,944
Kansas			135,047	138,297
Kentucky			110,086	117,348
Massachusetts			556,834	521,730
Michigan			100,040	102,883
Montana			45,381	47,435
Nevada			111,367	104,346
New Hampshire			501,436	530,020
New Mexico			310,122	318,937
North Carolina			312,632	308,016
Oregon			404,471	419,516
South Carolina			266,839	265,144
Virginia			566,385	537,902
Total Deposits	\$ 2,517,830	\$ 2,492,600	\$ 89,821,484	\$ 92,233,849

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**

	<u>Assets</u>	Nonadmitted <u>Assets</u>	Net Admitted <u>Assets</u>	<u>Note</u>
Bonds	\$229,646,478		\$229,646,478	1
Preferred stocks	108,740		108,740	
Cash and short-term investments	31,078,295		31,078,295	
Receivables for securities	8,531		8,531	
Investment income due and accrued	2,605,013		2,605,013	
Uncollected premiums and agents' balances in course of collection	20,871,656	6,063,199	14,808,457	
Deferred premiums, agents balances & installments booked but deferred & not yet due	76,688,376	100,544	76,587,832	
Accrued retrospective premiums	1,152,800		1,152,800	
Amounts recoverable from reinsurers	28,439,182		28,439,182	
Current federal income tax recoverable	3,427,267		3,427,267	
Net deferred tax asset	20,912,399	12,897,332	8,015,067	
Electronic data processing equipment and software	504,343		504,343	
Furniture and equipment	390,116	390,116	0	
Receivables from parent, subsidiaries and affiliates	4,320,169		4,320,169	
Aggregate write-ins:				
Deposits with claims adjusting companies	14,710,121		14,710,121	2
Advances under quota share agreements	23,790,100		23,790,100	2
Guarantee fund surcharge	5,502,962		5,502,962	2
Accounts receivable and other	2,863,268		2,863,268	2
Prepaid expenses	235,903	235,903	0	
Equities and deposits in pools and associations	102,284		102,284	
Remittances and items not allocated	13,653		13,653	
Total Assets	<u><u>\$467,371,656</u></u>	<u><u>\$19,687,094</u></u>	<u><u>\$447,684,562</u></u>	

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

<u>Liabilities, Surplus and Other Funds</u>		<u>Note</u>
Losses	\$153,347,177	3
Loss adjustment expenses	36,210,627	
Commissions payable, contingent commissions and other similar charges	10,816,774	3
Other expenses	14,560,666	
Taxes, licenses and fees	1,012,199	
Unearned premiums	39,621,898	
Advance premium	2,055,088	
Dividends declared and unpaid		
Policyholders	123,086	
Ceded reinsurance premiums payable	26,335,053	
Funds held by company under reinsurance treaties	5,806,128	
Amounts withheld or retained by company for account of others	2,802,835	
Provision for reinsurance	100,828	
Payable to parent, subsidiaries and affiliates	3,068,562	
Aggregate write-ins for liabilities:		
Uncashed checks pending escheat	620,648	
Accounts payable other	177,155	
Total Liabilities	<u>\$296,658,724</u>	
Aggregate write-ins for special surplus funds	2,205,729	
Common capital stock	5,000,000	
Gross paid in and contributed surplus	110,113,790	
Unassigned funds (surplus)	33,706,319	
Surplus as regards policyholders	<u>\$151,025,838</u>	
Total Liabilities, Capital and Surplus	<u><u>\$447,684,562</u></u>	

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

UNDERWRITING INCOME	
Premiums earned	<u>\$76,924,547</u>
DEDUCTIONS	
Losses incurred	\$49,815,919
Loss adjustment expenses incurred	16,003,652
Other underwriting expenses incurred	<u>21,520,248</u>
Total underwriting deductions	<u>87,339,819</u>
Net underwriting gain or (loss)	<u>(\$10,415,272)</u>
INVESTMENT INCOME	
Net investment income earned	\$8,270,564
Net realized capital gains or (losses)	<u>30,624</u>
Net investment gain or (loss)	<u>\$8,301,188</u>
OTHER INCOME	
Net gain or (loss) from agents' or premium balances charged off	(\$4,322,023)
Finance and service charges not included in premiums	677,713
Aggregate write-ins for miscellaneous income	<u>116,121</u>
Total other income	(3,528,189)
Net income before dividends to policyholders and before federal income taxes	(5,642,273)
Dividends to policyholders	<u>266,587</u>
Net income after dividends to policyholder but before federal income taxes	(5,908,860)
Federal and foreign income taxes incurred	<u>(1,454,048)</u>
Net income	<u><u>(\$4,454,812)</u></u>

**Capital and Surplus Account – Statement of Income
As of December 31, 2010**

CAPITAL AND SURPLUS ACCOUNT

Surplus as regards policyholders, December 31, 2009	<u>\$ 164,001,021</u>
 GAINS AND (LOSSES) IN SURPLUS	
Net income	(4,454,812)
Change in net unrealized capital gains or (losses)	23,806
Change in net deferred income tax	435,735
Change in non-admitted assets	2,974,655
Surplus adjustments:	
Paid in	1,839,704
Dividends to stockholders	(16,000,000)
Gain from application of SSAP 10R	<u>2,205,729</u>
Change in surplus as regards policyholders for the year	(12,975,183)
Surplus as regards policyholder, December 31, 2010	<u><u>\$ 151,025,838</u></u>

Reconciliation of Surplus since last Examination

	Common Capital Stock	Surplus Funds	Contributed Surplus	Unassigned Surplus	Total
December 31, 2006	\$ 5,000,000		\$ 103,898,128	\$ 56,059,570	\$ 164,957,698
 <u>Operations:</u>					
2007 Operations			1,276,930	12,402,827	13,679,757
2008 Operations			1,676,931	4,407,679	6,084,610
2009 Operations			1,422,097	(22,143,141)	(20,721,044)
2010 Operations		2,205,729	1,839,704	(17,020,616)	(12,975,183)
December 31, 2010	<u>\$ 5,000,000</u>	<u>\$ 2,205,729</u>	<u>\$ 110,113,790</u>	<u>\$ 33,706,319</u>	<u>\$ 151,025,838</u>

SCHEDULE OF EXAMINATION ADJUSTMENTS

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

NOTES TO FINANCIAL STATEMENTSAssets

Note 1 -Bonds \$229,646,478

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:

	<u>Statement Value</u>
US Governments	\$ 10,631,448
All Other Governments	4,289,204
States and Territories and Possessions	19,049,529
Political Subdivisions of States	15,533,376
Special Revenue	98,277,939
Industrial & Miscellaneous	<u>81,864,982</u>
Total	<u>\$229,646,478</u>

Of the Company's bond holdings, which comprised 88.0% of the Company's total cash and invested assets and 51.3% of total admitted assets at December 31, 2010, 98.7% were categorized as Class 1 or 2 with respect to NAIC credit quality standards compared to 98.8% at December 31, 2009. The effective maturity and overall duration of the fixed maturity portfolio was approximately 3 years.

Note 2 - Aggregate Write-ins for Other Than Invested Assets \$46,982,388

The components of the year-end balance consist of \$23,790,100 amount due from affiliate Everest Re under the 85% quota share reinsurance agreement (received in 2011), \$14,710,121 in deposits with claim service providers, \$2,863,268 accounts receivable and \$5,618,899 in miscellaneous assets.

Liabilities

<u>Note 3 - Losses</u>	\$153,347,177
<u>Note 3 - Loss Adjustment Expenses</u>	<u>\$ 36,210,627</u>

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. Loss and LAE reserves represent 63.9% of the Company's liabilities as of December 31, 2010.

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 the INS 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, 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.

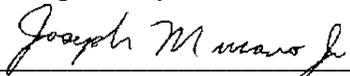
CONCLUSION

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

<u>Description</u>	<u>December 31, 2006</u>	<u>December 31, 2010</u>	<u>Increase (Decrease)</u>
Assets	\$ 574,664,698	\$ 447,684,562	\$ (126,980,136)
Liabilities	409,707,000	296,658,724	(113,048,276)
Aggregate write-ins for Other than Special Surplus Funds	-	2,205,729	2,205,729
Common Capital Stock	5,000,000	5,000,000	-
Gross Paid In and Contributed Surplus	103,898,128	110,113,790	6,215,662
Unassigned funds	56,059,570	33,706,319	(22,353,251)
Total Surplus as Regards Policyholders	\$ 164,957,698	\$ 151,025,838	\$ (13,931,860)
Totals	\$ 574,664,698	\$ 447,684,562	\$ (126,980,136)

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