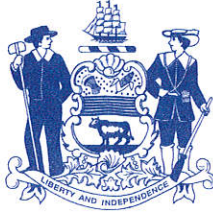


**REPORT ON EXAMINATION**  
**OF THE**  
**CLEARWATER SELECT INSURANCE COMPANY**  
**AS OF**  
**DECEMBER 31, 2010**

Karen Weldin Stewart, CIR-ML  
Commissioner



Delaware Department of Insurance

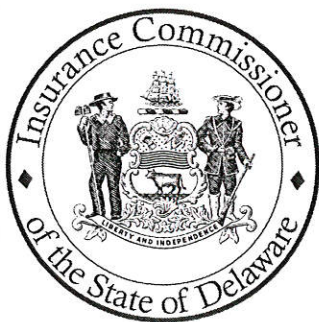
I, Karen Weldin Stewart, Insurance Commissioner of the State of Delaware, do hereby certify that the attached REPORT ON EXAMINATION, made as of December 31, 2010 of the

**CLEARWATER SELECT INSURANCE COMPANY**

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

Attest By: Brandi Biddle

Date: 20 Jun 2012

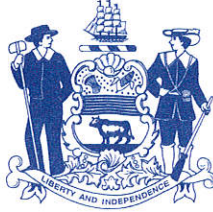


In Witness Whereof, I have hereunto set my hand and affixed the official seal of this Department at the City of Dover, this 20<sup>th</sup> day of June, 2012.

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  
CLEARWATER SELECT 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 20<sup>th</sup> day of June, 2012

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## **SALUTATION**

April 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.11-010, dated July 27, 2011, an Association examination has been made of the affairs, financial condition and management of the

### **CLEARWATER SELECT INSURANCE COMPANY**

hereinafter referred to as “Company” or “CSIC” incorporated under the laws of the State of Delaware, the statutory home office of which was located at The Corporation Trust Center, 1209 Orange St., Wilmington, DE, 19801. The main administrative offices of the Company were the same as that of its upstream parent, Odyssey Re Holdings Corp. (“ORH”) located at 300 First Stamford Place, Stamford, Connecticut. The examination of the Company was conducted concurrently with that of its Delaware domestic subsidiaries, Hudson Insurance Company (“HIC”) and Clearwater Insurance Company (“CIC”). Separate reports of examination were filed for each company.

The report of this examination is respectfully submitted.

## **SCOPE OF EXAMINATION**

The last financial condition examination of the Company covered the period from January 1, 2005 through December 31, 2007. This examination covered the period from January 1, 2008 through December 31, 2010 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 members of the Fairfax, Inc. and Odyssey Re Holding Corp. group ( Wyoming and Delaware domestic holding companies, respectively) including; the Company's upstream parent, Odyssey America Reinsurance Corporation ("Odyssey Re") (Connecticut), the Company's direct parent, Clearwater Insurance Company (DE), and the Company's affiliate, Hudson Insurance Company (DE). Other companies under concurrent examination were: Hudson Specialty Insurance Company (NY), Crum & Forster Indemnity Company (DE), and Crum & Forster Specialty Insurance Company (AZ). We coordinated and regularly communicated our review of Company management and operations with the Connecticut Department of Insurance to the fullest extent possible in order to avoid duplication of efforts and leverage relevant work completed.

The format of this report is designed to explain the procedures employed on the examination and the text will explain changes wherever made. If necessary, comments and recommendations have been made in those areas in need of correction or improvement. In such cases, these matters were thoroughly discussed with responsible personnel and/or officials during the course of the examination.

The examination followed rules established by the National Association of Insurance Commissioners (NAIC) Committee on Financial Condition Examiners Handbook (Handbook) as adopted by the Delaware Department of Insurance under 18 Del. C. §526, and generally accepted statutory insurance examination standards. In planning and conducting the examination, consideration was given to the concepts of materiality and risk, and examination efforts were directed accordingly.

Work papers prepared by the Company's external accounting firm, PricewaterhouseCoopers LLC ("PwC"), New York, NY, in connection with its annual audit, were extensively reviewed in order to ascertain its analysis, review of controls, audit procedures and conclusions. We relied upon, and utilized, PwC's work papers to the fullest extent possible. The Company was not required to be Sarbanes Oxley ("SOX") section 404 compliant. The Company's upstream parent and management services provider, Odyssey Re, is however SOX compliant and we reviewed, relied on and leveraged work completed by the Connecticut examination team, to the fullest extent considered applicable to Company financial reporting, and relevant to its management service providers overall control environment. Based upon the review of PwC work papers, as well as the performance of other examination planning procedures including; account analysis, the assessment of management and the Odyssey Re organization (as a whole), the assessment of account specific and cycle controls, and the assessment of the Odyssey Re control environment, an overall assessment was made determining; compliance risk, operational risk, financial reporting risk, and risk of material misstatement. In those areas in which a high reliance was placed on controls, and where we determined a low likelihood of material misstatement, limited examination procedures were performed. In other areas, we attempted to identify examination procedures to specifically address those concerns or risk noted, based on professional judgment.

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

- Corporate Records
- Custodial Agreements
- NAIC Ratios
- Legal Actions
- Employee and Agents Welfare
- Regulatory Agency Correspondence
- Compliance with Prior Report Recommendations - None

All Asset and Liability Items not mentioned

The examination was conducted in accordance with the Association Plan of Examination guidelines established by the NAIC. No other states participated in this examination.

**SUMMARY OF SIGNIFICANT FINDINGS**

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

**SUBSEQUENT EVENTS**

On January 1, 2011, ORH transferred ownership of CIC to TIG Insurance Group, Inc. (“TIG”), which is a Fairfax subsidiary and a shareholder of ORH, in exchange for 5,921 shares of ORH held by TIG. Prior to this transaction, but in 2011, certain CIC business was reinsured with Odyssey America Reinsurance Corporation (Odyssey Re), (including a Novation Agreement that replaced CIC with Odyssey Re concerning the Company’s assumed reinsurance business that was previously novated to CIC) and CIC distributed, by means of a dividend of its ownership interest in common stock of the Company and HIC, to Odyssey Re; Odyssey Re then distributed its ownership interest in CIC to ORH by means of a dividend. CIC’s dividends of CSIC and HIC common stock were declared by CIC’s Board of Directors on December 9, 2010 but not payable until January 1, 2011. A liability was established as of December 31, 2010 through a reduction of CIC’s policyholders’ surplus. Included in the balance sheet of CIC that was transferred to TIG as of January 1, 2011 was \$29.3 million in preferred shares in HIC and CSIC.

The Company is now directly owned by Odyssey Re.

**COMPANY HISTORY**

On July 2, 2004, the Company was sold by Overseas Partners, Ltd., a Bermuda domiciled insurer, to ORH. Subsequent to its sale, the Company was contributed to an ORH subsidiary, Clearwater Insurance Company, and its name was changed from Overseas Partners US Reinsurance Company to its current name, Clearwater Select Insurance Company.



Prior to ORH's acquisition of the Company, during 2002 the Company made the decision to enter into run-off and as of this examination date, the Company remains in run-off.

#### Common Capital Stock

At December 31, 2010, the Company's authorized capital stock was 10,000 shares, of which 500 were issued and outstanding at a par value of \$10,000 per share, totaling \$5,000,000.

#### Preferred Capital Stock

At December 31, 2010, the Company's authorized preferred stock was 6,000 shares, of which 5,492 shares were issued and outstanding at a par value of \$.01 per share, totaling \$55.

#### Dividend

On December 29, 2010, the Company issued, in the form of a dividend, all of its 5,492 shares of authorized 5.5% Series A preferred stock, with a liquidation par value of \$1,000 per share, totaling \$5,492,000, to its then immediate parent and sole shareholder, CIC.

### **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.

#### Stockholder

In accordance with Article II, Section 1 of the Company's bylaws the annual shareholder's meeting shall be held each year on a date and time designated by the Board of Directors.

#### Board of Directors

The Board of Directors shall consist of no less than three (3) and no more than nine (9) members. Currently the Board is comprised of six (6) members. Directors are elected for one year

terms at the annual meeting of the stockholder. Individuals elected and serving on the Board of Directors at December 31, 2010 were:

<u>Directors</u>	<u>Principal Business Affiliation</u>
Andrew Acheson Barnard	President and Chief Executive Officer, Fairfax Insurance Group; Vice Chairman, Odyssey Re Holdings Corp.
Robert Stanley Bennett	Executive Vice President and Chief Actuary, Odyssey Reinsurance Company
Jan Christiansen	Executive Vice President and Chief Financial Officer, Odyssey Re Holdings Corp.
Christopher Liam Gallagher	President and Chief Operating Officer, Hudson Insurance Company
Michael Gerard Wacek	Executive Vice President, Odyssey Re Holdings Corp.
Brian David Young	Director, CEO and President, Odyssey Re Holdings Corp.

The Company's bylaws provide for the Board to designate one or more committees, each committee to consist of at least three (3) directors of the corporation. As of December 31, 2010, the Board of Directors had appointed the following committees.

<u>Investment Committee</u>	<u>Benefit Committee</u>	<u>Compensation Committee</u>
Andrew A. Barnard	Andrew A. Barnard	Andrew A. Barnard
Jan Christiansen	Jan Christiansen	Jan Christiansen
Michael G. Wacek	Michael G. Wacek	Michael G. Wacek

Audit Committee\*

Brandon W. Sweitzer - Chairman  
Alan D. Horn  
Anthony F. Griffiths

\* In 2010, Clearwater Select Insurance Company designated the Audit Committee of Odyssey Re Holdings Corporation (ORH) as its Audit Committee. Notification was sent to the Delaware Insurance Department on December 22, 2010.

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

#### Officers

The bylaws of the Company state that the officers of the Company shall be a Chairman of the Board, a President, one or more Vice Presidents, a Controller, and a Corporate Secretary, or other officers as may be elected or appointed by the Board of Directors. As of December 31, 2010, the Company's principal officers and their respective titles are as follows:

<u>Officer</u>	<u>Office</u>
Andrew Acheson Barnard	Chief Executive Officer
Jan Christiansen	President
Peter Hamilton Lovell	Senior VP, General Counsel & Corp Secretary
Robert Stanley Bennett	Executive Vice President & Chief Actuary
Christopher Liam Gallagher	Executive Vice President
Brian Dalmar Quinn	Executive Vice President
Michael Gerard Wacek	Executive Vice President
Brian David Young	Executive Vice President
James Brian Salvesen	Senior Vice President & Chief Financial Officer
Richard Frederick Coerver IV	Senior Vice President & Controller
Gerald Aloysius Dugan	Senior Vice President
Patrick Edward Gentile	Senior Vice President
Joseph Angelo Guardo	Senior Vice President
Kent Alan Peterson	Senior Vice President
Jeffery Mark Rubin	Senior Vice President
Christopher Thomas Suarez	Senior Vice President

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 "Change in Officer and Director Notice".

#### 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 pursuant to 18 Del. C. §5001(4) “Insurance Holding Company System”. The Company’s immediate parent is CIC which is ultimately owed by Fairfax Financial Holdings Ltd. (Fairfax), a Canadian company.

The following abbreviated 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:

Fairfax Financial Holding Limited *	Canada
Hamblin Watsa Investment Counsel Ltd.	Canada
Fairfax, Inc.	Wyoming
United States Fire Insurance Company	Delaware
Crum & Forster Specialty Insurance Company	Arizona
Crum & Forster Indemnity Company	Delaware
The North River Insurance Company	New Jersey
Crum and Forster Insurance Company	New Jersey
TIG Holdings, Inc.	Delaware
TIG Insurance Group, Inc.	Delaware
Odyssey Re Holdings Corp.	Delaware
Odyssey America Reinsurance Corporation	Connecticut
Clearwater Insurance Company	Delaware
<b>Clearwater Select Insurance Company</b>	<b>Delaware</b>
Hudson Insurance Company	Delaware
Hudson Specialty Insurance Company	New York

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

### Intercompany Agreements

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

#### Expense Sharing Agreement

Effective November 1, 2008, the Company and Odyssey Re entered into an expense sharing agreement. Under the provisions of this agreement Odyssey Re provides the Company with office space and management services including, but not limited to, underwriting, actuarial, claims, accounting, financial, legal, personnel, data processing services and treasury. Clearwater Select paid \$200,000 to Odyssey Re in 2010 for these services.

#### Intercompany Tax Allocation Agreement

Effective December 31, 2004, the Company and ORH entered into a tax allocation agreement. The purpose of this agreement was to determine the amount of federal and state income tax allocated to subsidiary and amount each subsidiary will pay to, or receive from, ORH. ORH and subsidiary have elected to file a consolidated federal income tax return with the Fairfax, Inc. affiliated group under the provisions of Section 1502, et seq., of the Internal Revenue Code of 1986. Under terms of the agreement, the affiliated group exercises the privileges granted under IRS Code Section 1501 to file a consolidated return. Each company's tax liability is calculated based upon its respective share of consolidated income. The agreement further provides that each member shall receive reimbursement to the extent that its losses' and other credits result in a reduction of the current year's consolidated tax liability, not to exceed its liability as if filed on an individual basis.

### Tax Services Agreement

Effective December 31, 2004, the Company entered into a tax services agreement with Fairfax Inc. Under the provisions of this agreement, Fairfax Inc. provides the Company with tax consulting and tax preparation return services which include federal and state tax return preparation, tax planning and research, and compliance related to tax reporting in the Company's financial statements.

### Investment Management Agreement

The Company is party to an investment agreement with Hamblin Watsa and Fairfax Holdings, dated November 15, 2004. Under terms of the agreement, Hamblin Watsa manages, on a continuous basis, the Company's investment account in accordance with investment objectives communicated in writing by Company management. The Company pays a base fee of .20% per annum on marketable securities managed, plus a graduated incentive fee for equity investment performance greater than the S&P 500, plus 200 basis points.

### **FIDELITY BONDS AND OTHER INSURANCE**

The Company is covered by a Financial Institution Bond (Fidelity Bond) under coverage provided to Odyssey Re and its subsidiaries. The coverage is provided by St. Paul Fire & Marine Insurance Company, with a limit of liability of \$10,000,000, and it exceeded the suggested minimum limits of insurance per the NAIC Handbook.

In addition to the fidelity bond insurance, Odyssey Re provides general insurance coverage for itself and other subsidiary companies.

### **TERRITORY AND PLAN OF OPERATION**

#### Territory

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

and Virginia.

### Plan of Operation

The Company has been in run-off since 2002 and writes no direct business. Company operations involve the on-going run-off of environmental liability business assumed when it was owned by Overseas Partners, Ltd. Per Odyssey Re, “while Clearwater Select Insurance Company has not been actively writing business for the past several years, the Odyssey Group has continued to maintain its state insurance and reinsurance licenses. While there are no immediate plans to write new business in the Company, it continues to exist as an additional licensed carrier within the group for future opportunities or transactions where it would benefit the Group to utilize the company.”

### **GROWTH OF THE COMPANY**

The Company had no material changes in balance sheet items during the exam period.

The Company has never written direct business during its ownership under CIC but continues to run-off assumed asbestos and environmental business. This business was included in a Novation Agreement whereas CIC replaced Overseas Partners, Ltd., the Company’s prior owner. Effective with the change in direct ownership of the Company, Odyssey Re replaced CIC in a Novation Agreement effective January 1, 2011 for this business.

### **LOSS EXPERIENCE**

CSIC’s net loss and loss adjustment expenses reserves as of December 31, 2009 were \$9,872,482. During 2010, \$2,213,000 was paid for incurred loss and loss adjustment expenses attributable to insured events of prior years. Reserves remaining for the prior years are now \$7,410,000 as a result of re-estimation of unpaid claims and claims adjustment expenses across all lines. Therefore, there has been \$249,482 in favorable prior year development since 2009. The decrease is generally the result of ongoing analysis of loss development trends.

**REINSURANCE**

A schedule of the Company's premiums written during the exam period is as follows:

	<u>2010</u>	<u>2009</u>	<u>2008</u>	<u>2007</u>
Direct	\$ 0	\$ 0	\$ 0	\$ 0
Assumed from Affiliates	0	0	0	(249)
Assumed from Non-affiliated	<u>(11,783)</u>	<u>2,992,784</u>	<u>512,380</u>	<u>(716,304)</u>
Gross Premiums	<u>\$ (11,783)</u>	<u>\$ 2,992,784</u>	<u>\$ 512,380</u>	<u>\$ (716,553)</u>
Ceded to Affiliates	\$ (9,456)	\$ 296,751	\$ (438,550)	\$ (536,745)
Ceded to Non-affiliated	30	(51)	-	26
Net Premiums	<u><u>\$ (2,357)</u></u>	<u><u>\$ 2,696,084</u></u>	<u><u>\$ 950,930</u></u>	<u><u>\$ (179,834)</u></u>

Business assumed represents the remaining business accepted prior to the Company being placed into run-off. Attendant with its 2004 acquisition, the Company entered into a novation and replacement agreement with CIC and Overseas Partners Re Limited (OPL), the Company's former parent company, under which CIC replaced OPL under the terms of a 75% Quota Share Retrocessional reinsurance agreement. This agreement, effective January 1, 2001, provides for a cession of 100% of net losses up to \$10 million on a 75% quota share basis. CIC and this agreement were replaced in a Novation Agreement with Odyssey Re effective January 1, 2011.

**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, organizational structure and the processing structure. The Company operates in a computer dominated environment. The Company's general ledger is manually updated from system reports generated by Reinsurance Systems Group (RSG) and Princeton Asset Management (PAM) for reinsurance and investment transactions, respectively. The general ledger account balances were reconciled and traced to amounts reported in the annual statement for the most recent year under



review. All balance sheet accounts with a category class of statutory ledger, non-ledger and non-admitted were summarized and traced to the appropriate asset exhibits and liability lines within the annual statement.

PwC audits the statutory financial statements of Odyssey Re, its subsidiaries and certain affiliates (including the Company) annually. PwC reviewed the internal control structure of Odyssey Re in order to establish necessary audit procedures required to express an opinion on the December 31, 2010 financial statements. No material qualifying deficiencies were found to exist in either the design or oversight of the internal control structure of Odyssey Re.

Based on the examination review of the Company's accounts and records related to its filed Annual Statements, observations, discussions with management, and our review of financial reporting processes and controls, the accounting systems, processes, and procedures were found to conform to required insurance accounting practices.

**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			\$ 113,118	\$ 121,747
Delaware	\$ 2,160,829	\$ 2,606,924		
Georgia			87,789	96,438
Idaho			289,217	294,570
Kansas			107,298	117,869
Kentucky			97,544	107,154
Massachusetts			604,772	664,355
Nevada			231,373	235,656
New Mexico			287,509	309,441
North Carolina			352,844	359,376
Oklahoma			379,452	386,476
Oregon			471,326	507,280
Rhode Island			132,914	143,053
South Carolina			300,785	306,353
Tennessee			117,831	126,820
Puerto Rico			1,032,354	1,003,352
Collateral for Reinsurance			7,049,294	7,633,119
<b>TOTAL DEPOSITS</b>	<b>\$ 2,160,829</b>	<b>\$ 2,606,924</b>	<b>\$ 11,655,420</b>	<b>\$ 12,413,059</b>

**FINANCIAL STATEMENTS**

The following pages contain the Company's Financial Statements for the year ending December 31, 2010, 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

It should be noted that the various schedules and exhibits may not add to the totals shown due to rounding. Narratives on certain individual accounts have been included in order to provide the reader with additional supporting information. Based on the results of this examination, no financial adjustments have been made.

**Assets**

**As of December 31, 2010**

	<u>Assets</u>	<u>Non admitted Assets</u>	<u>Net Admitted Assets</u>	<u>Notes</u>
Bonds	\$ 86,412,931		\$ 86,412,931	1
Cash, Cash Equivalents and Short-term Investments	19,013,039		19,013,039	
Receivable for securities	8,912		8,912	
Subtotals, cash and invested assets	<u>\$ 105,434,882</u>	<u>\$ 0</u>	<u>\$ 105,434,882</u>	
Investment income due and accrued	1,453,476		1,453,476	
Uncollected premiums and agents' balances in the course of collection	145,723		145,723	
Funds held by or deposited with reinsured companies	407,382		407,382	
Net deferred tax asset	2,473,117	1,895,514	577,603	3
Receivable from parent, subsidiaries, and affiliates	2,894		2,894	
Prepaid expenses	59,379	59,379	-	
Totals	<u><u>\$ 109,976,853</u></u>	<u><u>\$ 1,954,893</u></u>	<u><u>\$ 108,021,960</u></u>	

**Liabilities, Capital and Surplus**

**As of December 31, 2010**

		<u>Notes</u>
Losses	\$ 7,221,091	2
Reinsurance payable on paid losses and LAE	861,790	
Loss adjustment expenses	188,718	2
Commissions payable, contingent commissions	(133,276)	
Other expenses	336,062	
Current federal and foreign income taxes	155,625	
Total liabilities	<u>\$ 8,630,010</u>	
Special surplus - tax election SSAP 10R 10.e	\$ 160,000	3
Common capital stock	5,000,000	
Preferred capital stock	55	
Gross paid in and contributed surplus	69,180,242	
Unassigned funds (surplus)	25,051,653	
Surplus as regards policyholders	<u>\$ 99,391,950</u>	
Totals	<u><u>\$ 108,021,960</u></u>	

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

		<u>Notes</u>
Premiums earned	\$ (2,357)	
Losses incurred	\$ (308,928)	
Loss adjustment expenses incurred	60,046	
Other underwriting expenses incurred	2,174,303	
Total underwriting deductions	<u>\$ 1,925,421</u>	
Net underwriting gain (loss)	<u>\$ (1,927,778)</u>	
Net investment income earned	4,681,160	
Net realized capital gains or (losses)	716,162	
Net investment gain (loss)	<u>\$ 5,397,322</u>	
Interest on funds held contracts	<u>\$ 263,891</u>	
Total other income	<u>\$ 263,891</u>	
Net income after dividends to policyholders	3,733,435	
Federal and foreign income taxes incurred	154,933	
Net income	<u><u>\$ 3,578,502</u></u>	
Surplus as regards policyholders, December 31, 2009	<u>\$ 95,996,439</u>	
Net income (losses)	3,578,502	
Change in net deferred income tax	568,243	
Change in non-admitted assets	(911,234)	
Capital changes: Transferred from surplus (Stock Dividend)	5,492,000	4
Surplus adjustments: Transferred to capital (Stock Dividend)	(5,492,000)	4
SSAP 10R 10.e Tax Election	160,000	3
Net change in capital and surplus for the year	<u>\$ 3,395,511</u>	
Surplus as regards policyholders, December 31, 2010	<u><u>\$ 99,391,950</u></u>	

**Reconciliation of Surplus since last Examination**

		Notes
Capital and Surplus, December 31, 2007	<u>\$ 84,914,024</u>	
Net Income	\$ 15,052,419	
Change in net deferred income tax	213,117	
Change in non-admitted assets and related items	(947,610)	
Capital changes transferred from surplus (stock dividend)	5,492,000	
Surplus adjustments transferred to capital (stock dividend)	(5,492,000)	
SSAP 10R 10.E tax election	160,000	3
Change in surplus as regards policyholders for the year	<u>\$ 14,477,926</u>	
Capital and Surplus, December 31, 2010	<u>\$ 99,391,950</u>	

**NOTES TO FINANCIAL STATEMENTS**Assets

Note 1 - Bonds: \$ 86,412,931

The Company's bond holdings totaled \$86.4 million and were approximately 80.0% of total admitted assets and 82.0% of the Company's total cash and invested assets. Security composition for the year ending 2010 was comprised of the 100% U.S. Government bonds.

Liabilities

Note 2 – Losses: \$ 7,221,091  
Note 2 – Loss Adjustment Expenses (LAE): \$ 188,718

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 loss and loss adjustment expense reserves as of December 31, 2010. Based on their analysis, the above reported amount for loss and loss adjustment expense reserves were concluded to be reasonably

stated. Aggregate loss and LAE reserves represent 85.9% of the Company's liabilities at year-end 2010.

Note 3 - Net Deferred Tax Assets (DTA): \$ 577,603

Note 3 - Write-in for Special Surplus Funds - Additional admitted DTA: \$ 160,000

The Company took advantage of its option and qualified for provisions provided for in SSAP No. 10R to calculate its Net Deferred Tax Assets. As provided for in the temporary provisions of SSAP No. 10R, the Company gained an additional "Special Surplus Funds" as of December 31, 2010 in the amount of \$160,000.

Note 4 – Transfer from surplus (Stock Dividend): \$ 5,492,000

Note 4 – Transfer to capital (Stock Dividend): \$ (5,492,000)

On December 29, 2010, the Company paid to CIC, in the form of a dividend, all of the Company's authorized 5.5% Series 'A' shares of preferred stock (5,492 shares), par value \$0.01 per share and a liquidation preference of \$1,000 per share, totaling a \$5,492,000 dividend.

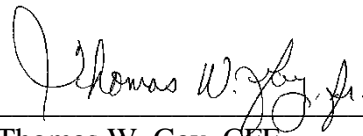
### **SUMMARY OF RECOMMENDATIONS**

No recommendations were made as a result of this examination.

**CONCLUSION**

The assistance and cooperation of examiners representing the states of Connecticut in this coordinated examination is acknowledged and was appreciated. In addition, the assistance and cooperation of the consulting actuarial firm, INS Consultants, Inc., the Company's outside audit firm PricewaterhouseCoopers LLC, and the Company's management and staff was appreciated and is acknowledged.

Respectfully submitted,

A handwritten signature in cursive script that reads "Thomas W. Gay, Jr." is written over a horizontal line.

Thomas W. Gay, CFE  
Examiner-In-Charge  
State of Delaware  
Northeastern Zone, NAIC