REPORT ON EXAMINATION

OF THE

ULLICO CASUALTY COMPANY

AS OF

DECEMBER 31, 2008

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, 2008 of the

ULLICO CASUALTY COMPANY

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

Attest By: Sonia C. Harris

Date: 29 June 2010

In Witness Whereof, I have hereunto set my hand and affixed the official seal of this Department at the City of Dover, this 29th day of June, 2010.

Karen Weldin Stewart, CIR-ML
Insurance Commissioner

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Karen Weldin Stewart, CIR-ML
Commissioner

Delaware Department of Insurance

REPORT ON EXAMINATION

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ULLICO CASUALTY COMPANY

AS OF

DECEMBER 31, 2008

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

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

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

Karen Weldin Stewart, CIR-ML
Insurance Commissioner

Dated this 29th day of June, 2010

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SALUTATION

April 1, 2010

Honorable Alfred W. Gross
Chairman, Financial Condition (E)
Committee, NAIC
Commissioner
Bureau of Insurance
Virginia State Corporation Division
PO Box 1157
Richmond, VA 23218

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

Honorable Paulette J. Thabault
Secretary, Northeastern Zone (I), NAIC
Commissioner
Vermont Insurance Division
Dept. of Banking, Insurance, Securities, and
Health Care Administration
89 Main Street
Montpelier, Vermont 05620-3101

Honorable James J. Donelson
Secretary, Southeastern Zone (II), NAIC
Louisiana Department of Insurance
1702 North Third Street
Baton Rouge, LA 70802

Honorable Mary Jo Hudson
Secretary, Midwestern Zone (III), NAIC
Director
Ohio Department of Insurance
50 West Town Street
Third Floor, suite 300
Columbus, OH 43215

Honorable Christina Urias
Secretary, Western Zone (IV), NAIC
Director
Arizona Department of Insurance
2910 N. 44th Street, suite 210
Phoenix, Arizona 85018-7269

Dear Commissioners:

In compliance with instructions and pursuant to statutory provisions contained in Certificate of Authority No. 09.025, dated June 26, 2009, an Association examination has been made of the affairs, financial condition and management of the

ULLICO CASUALTY COMPANY

hereinafter referred to as "Company" or "UCC", incorporated under the laws of the State of Delaware as a stock company with its statutory home office located at 1209 Orange Street, Wilmington, Delaware. The examination was conducted at the main administrative office of the

Company, located at 1625 Eye Street, NW, Washington, DC 20006. The report of this examination is submitted herewith.

SCOPE OF EXAMINATION

We have performed our association examination of ULLICO Casualty Company. The last examination was completed as of December 31, 2005. This examination covers the period of January 1, 2006 through December 31, 2008.

The examination was conducted in accordance with the National Association of Insurance Commissioners (NAIC) *Financial Condition Examiners Handbook*, incorporating the risk-focused examination techniques and in accordance with examination policies and standards established by the Delaware Department of Insurance and, accordingly, included such tests of the accounting records and other examination procedures as considered necessary.

The examination included a review of the Company's business policies and practices, management and corporate matters, a verification and evaluation of assets and a determination of the existence of liabilities and identification of risks, assessing and analyzing those risks, documenting the results of the analysis, and developing recommendations for how the analysis can be applied to the ongoing monitoring of the insurer. In addition, the examination included tests to provide reasonable assurance that the Company was in compliance with applicable laws, rules and regulations. In planning and conducting the examination, consideration was given to the concepts of materiality and risks, and the examination efforts were directed accordingly.

The Company's independent accounting firm made available for review all workpapers pertinent to its audit of the Company's financial statements for the year ended December 31, 2008. The workpapers of the independent accounting firm were reviewed in order to ascertain its analysis, audit procedures and conclusions. To the extent possible, these workpapers and analyses were utilized in the examination.

In addition to items hereinafter incorporated as a part of this report, the following were reviewed without exception and made part of the workpapers of this examination.

Fidelity Bonds and Other Insurance
Officers, Employees and Agents' Welfare
NAIC Ratios
Legal Actions
All Asset & Liability items not mentioned

COMPLIANCE WITH PRIOR REPORT RECOMMENDATIONS

A review was performed of appropriate balance sheet and forepart files to verify corrective action had been taken with regard to prior examination report comments and recommendations. The Company had complied with all prior examination report comments and recommendations.

SUMMARY OF SIGNIFICANT FINDINGS

The examination established amount for the liability account "Provision for Reinsurance" is $6,421,403 more than reported by the Company in its 2008 Annual Statement. Refer to Schedule of Examination Adjustments and Notes to the Financial Statements Note 2 for further details of the examination finding and recommendation.

SUBSEQUENT EVENTS

Subsequent to December 31, 2008, the Company entered into the following external agreements as part of its continued business operations:

Investment Management Agreements

In January 2009, the Company transferred the majority of its asset management operations to two external asset management companies as follows:

- *General Re - New England Asset Management, Inc.* - Effective January 1, 2009, the Company entered into an Investment Management Agreement with General Re - New England Asset Management (GRNEAM) for the purpose of investment management and recordkeeping functions for the investment portfolio assets held in the Bank of New York (BNYM) Casualty Hudson reinsurance trust account, as well as the First Tennessee Casualty reinsurance trust account.

- *Mesirow Financial Investment Management, Inc.* - Effective January 1, 2009, the Company entered into an Investment Management Agreement with Mesirow Financial Investment Management, Inc. (Mesirow) for the purpose of investment management and recordkeeping functions for the investment portfolio assets held in the BNYM Casualty Three account, the Company's investment portfolio account held by BNYM.

<u>Claims Handling Agreements</u>

In addition to the three TPA claims handling agreements discussed in the “External Agreements” section of this Report, under the caption “Claims Handling Agreements” which remain in place subsequent to December 31, 2008, the Company entered into three additional TPA claims handling agreements as follows:

- *Patriot Risk Management (Traditional WC and Alt Market WC)* - Effective April 1, 2009 for an initial term of one (1) year, the Company entered into a Program Administrator Agreement with Patriot Risk Services, Inc. (Patriot) for the purpose of underwriting traditional and alternative market workers' compensation business, as well as the processing of workers’ compensation claims associated with the traditional and alternative market workers' compensation business issued under these agreements.
- *Wells Fargo Insurance Services of WV d/b/a Wells Fargo Disability Management* - Effective July 1, 2009 for an initial term of two (2) years, the Company entered into a claims administration agreement with Wells Fargo Insurance Services of West Virginia d/b/a Wells Fargo Disability Management (Wells Fargo) for the purpose of processing all workers’ compensation claims of the West Virginia Workers' Compensation

Consortium. Wells Fargo shall administer all claims in accordance with the terms and conditions of policies, procedures, instructions and guidelines of the Company.

- *Emerald Claims Management* - Effective September 11, 2009 for an initial term of two (2) years, the Company entered into a claims administration agreement with Emerald Claims Management (Emerald) for the purpose of processing workers' compensation claims other than those from the programs handled by Risk Management Planning Group, Wells Fargo and Gallagher Bassett

Reinsurance Trust Agreements

The Company entered into the following reinsurance trust agreements subsequent to December 31, 2008:

- *First Tennessee - National Specialty Insurance Company* - Effective January 1, 2009, the Company entered into a Security Fund Agreement with First Tennessee Bank, N.A. (First Tennessee), and in conjunction with the Quota Share Reinsurance Agreement between the Company and National Specialty Insurance Company, Inc. (National Specialty). The purpose of this Agreement is for the Company to secure the payment of liabilities and the performance of its obligations to National Specialty under the terms of the Quota Share Reinsurance Agreement.
- *First Tennessee - State National Insurance* Company - Effective January 1, 2009, the Company entered into a Security Fund Agreement with First Tennessee Bank, N.A. (First Tennessee), in conjunction with the Quota Share Reinsurance Agreement between the Company and State National Insurance Company, Inc. (State National). The purpose of this Agreement is for the Company to secure the payment of liabilities and the performance of its obligations to State National under the terms of the Quota Share Reinsurance Agreement.

- *Bank of New York-Mellon (BNYM) (Legion)* - Effective June 10, 2009, the Company entered into a Reinsurance Trust Agreement with Legion Insurance Company (Legion) and BNYM for the purpose of the Company securing its obligations under the terms of the Quota Share Reinsurance Agreement entered into effective August 1, 2001 between the Company and Legion. The Company has agreed to reinsure certain risks under policies of insurance issued by Legion, and BNYM shall act for the benefit of Legion for the purpose of holding securities as collateral under the terms of the Quota Share Reinsurance Agreement.
- *Bank of New York-Mellon (Zurich)* - Effective June 24, 2009, the Company entered into a Reinsurance Trust Agreement with Zurich America Insurance Company (Zurich) and BNYM for the purpose of the Company securing its obligations under the terms of the Quota Share Reinsurance Agreement entered into effective October 1, 2004 between the Company and Zurich. The Company has agreed to reinsure certain risks under policies of insurance issued by Zurich, and BNYM shall act for the benefit of Zurich for the purpose of holding securities as collateral under the terms of the Quota Share Reinsurance Agreement.

General Agency Agreement

Effective January 1, 2009, the Company, State National, National Specialty Insurance Company (National Specialty) and ULLICO Casualty Group (UCG) entered into a General Agency Agreement pursuant to the requirements of the reinsurance agreement entered into between the Company, State National and UCG effective January 1, 2009 covering Workers Compensation.

SIU Services Agreement

Effective April 1, 2009 (entered into March 29, 2009), the Company entered into a nonexclusive Special Investigations Unit (SIU) Services Agreement with GlobalOptions Fraud & SIU Services (GlobalOptions). Under the terms of the agreement, GlobalOptions will provide the Company the following services: fraud training; anti-fraud plan filing; annual and mandatory reporting; vendor management; and upon request perform surveillance and investigation with due diligence on any and all suspicious claims

Commutation of the Loss Portfolio Transfer Agreements – Surety and Workers Compensation

As noted in previous examinations, effective July 1, 2000, the Company entered into three separate Loss Portfolio Transfer (LPT) Agreements with ULLICO Standard of America Casualty Company (USACC), covering one hundred percent (100%) of the Company's losses and LAE on conventional (non-ADR) workers' compensation, surety and commercial lines contractor liability policies in force before July 1, 2000 and incurred on or after July 1, 2000. Effective October 1, 2007, the Company commuted the LPT agreement with USACC for discontinued commercial contractors' business. There was no gain or loss on the commutation as the treaty was commuted at the book value of the reserves. Subsequent to the exam period, effective July 1, 2009, the Company commuted the LPT agreement with USACC for the discontinued workers' compensation and surety business, i.e., the remaining business under the LPT. These commutations received approval from both the Delaware Insurance Department (September 24, 2009) and California Insurance Department (October 28, 2009). There was no gain or loss on the commutations as the treaties were commuted at the book value of the reserves.

Roundstone Commutation Agreement – Public Livery

Effective January 1, 2007, the Company entered into a 50% Quota Share Agreement with Roundstone Insurance Ltd for its Public Livery business also known as the Medical Transportation

Vehicle Insurance program. Effective December 28, 2008, the Company and Roundstone entered into a Novation Agreement. The Novation stipulates that the value in the Segregated Account was to be returned to the Company. Effective January 1, 2009 the agreement was commuted. Per the Commutation Agreement, the payment constitutes full and final settlement, and the Company is to release the Letter of Credit (LOC). The LOC attached to this program was terminated on April 8, 2009.

HISTORY

ULLICO Casualty Company (UCC) was incorporated by The Union Labor Life Insurance Company on May 2, 1979, in the State of Delaware. UCC is a wholly-owned subsidiary of ULLICO Inc.

On May 2, 2005, the Company sold its sole subsidiary, UIC to Darwin National Assurance Company.

In 2007, the Company changed its name from Ulico Casualty Company to ULLICO Casualty Company. On November 17, 2006, the Delaware Department of State approved the Company's name change and on March 2, 2007, the Delaware Department of Insurance approved the Company's name change.

CAPITALIZATION

Common Capital Stock and Paid-in Surplus

The Certificate of Incorporation, as amended, provides that the authorized capital stock of the Company shall be 500 shares of $10,000 par value per share. At December 31, 2008, 500 shares were issued and outstanding, all of which were owned by ULLICO Inc.

On December 29, 2008, the Company received a $25 million capital contribution from its Parent. No other contributions were received during the examination period.

Dividends

There were no stockholder dividends paid in 2006, 2007 or 2008.

Reconciliation of Capital and Surplus

The following reconciliation of capital and surplus for the period from its last examination as of December 31, 2005 to December 31, 2008, was extracted from the Company's filed Annual Statements:

Capital and Surplus, December 31, 2005		$58,261,576
Net income	13,837,181	
Change in net deferred income tax	4,597,876	
Change in non-admitted assets	(10,587,135)	
Change in provision for reinsurance	(1,714,083)	
Surplus Paid-in	25,000,000	
	31,133,839	
Capital and Surplus, December 31, 2008		$89,395,415

MANAGEMENT AND CONTROL

Stockholder

Article II, Section 2.3 of the Company's amended bylaws, states in part; "An Annual Meeting of Stockholders shall be held during the month of May for the purpose of electing Directors and the transaction of other business that may be brought before the meeting". Further, any action taken by "Written Consent" shall constitute a valid meeting of Stockholders as if held in person, including, action to be taken at an Annual Meeting of Stockholders.

Board of Directors

The bylaws stipulate that the number of Directors shall not be less than five (5), and consist of such a number as determined from time to time by resolution of the Board of Directors. Directors shall be elected at the annual meeting of the Stockholders by majority vote of the Stockholders entitled to vote at the annual meeting. The term of office of all Directors shall be one year.

At December 31, 2008, the members of the BOD together with their principal business affiliations were as follows:

Name, Location and Date Appointed	Principal Business Affiliation
Daniel Aronowitz Washington, DC May 16, 2008	President of ULLICO Casualty Group and ULLICO Casualty Company
David Joseph Barra Washington, DC July 1, 2008	Senior Vice President, CFO of ULLICO Inc., ULLICO Casualty and subsidiary companies
David Allen Christhilf Washington, DC May 16, 2008	Chief Actuary of ULLICO Casualty Company
Damon Gasque Silver Spring, MD May 16, 2008	Vice President & Controller of The Union Labor Life Insurance Company, ULLICO Life Insurance Company, ULLICO Inc., Treasurer, ULLICO Casualty Company
Sarah Christine Gustafson Washington, DC May 16, 2008	Vice President & Controller of ULLICO Casualty Company
John Francis Hoffen, Jr. Silver Spring, MD July 1, 2008	AVP Tax Director of ULLICO Inc. and subsidiary companies
James McKee Paul Washington, DC May 16, 2008	Senior Vice President - Operations of ULLICO Inc.
Mark Ernest Singleton – Chairman (1) Washington, DC May 16, 2008	No longer on Board. Previously, CEO of ULLICO Inc.

(1) Mark Singleton resigned from the Company effective April 27, 2009. Ed McElroy replaced Mr. Singleton as Chairman and CEO effective April 27, 2009.

Committees

Article IV, Section 4.1 of the bylaws states the Board of Directors, may from time to time appoint permanent or temporary Committees as it deems appropriate to serve its purposes. During the period covered by this examination, there were no Committees of the Board of Directors of the Company.

Officers

Article VI, Section 1 of the Company's bylaws state that the officers of the Company shall be chosen by the Board of Directors and shall include a Chairman/Chief Executive Officer, and may include a President, Secretary, Treasurer, and one or more Vice Presidents and Assistants Secretaries or Assistant Treasurers. The Chairman/Chief Executive Officer may appoint any officer other than a replacement Chairman/Chief Executive Officer. The same person may hold any number of officer positions, but no person may serve concurrently as both President and Vice President.

At December 31, 2008, the Company's principal officers and their respective titles were as follows:

Officer	Title
Mark Ernest Singleton	Chairman & CEO (1)
Daniel Aronowitz	President
Damon Gasque	Treasurer & Acting CFO (2)
Teresa Elizabeth Valentine	Secretary, SVP, General Counsel & CCO
James McKee Paul	Senior Vice President, Human Resources
Douglas Ray Dvorak	Vice President of Claims
Jeffery Hayden Jacobs	Vice President of Underwriting (3)
Adam Mark Fried	Vice President, Enterprise Risk Management
Sarah Christine Gustafson	Vice President & Controller
David Allen Christhilf	Assistant Vice President, P&C Chief Actuary
Jim Tierney	Vice President & CIO

(1) Mark Singleton resigned from the Company effective April 27, 2009. Ed McElroy replaced Mr. Singleton effective April 27, 2009.
(2) David Barra – SVP, appointed CFO of the Company effective January 1, 2009
(3) Jeffery Jacobs resigned from the Company effective September 4, 2009

In addition to the above officers, additional vice presidents, assistant vice presidents and other assistant officers were also appointed.

Numerous changes in directors and officers occurred during the period under review. As required, proper notification was provided to the Delaware Department of Insurance with minor exception.

Corporate Governance

UCC is not a public company and is not required to be compliant with the Sarbanes-Oxley Act (SOX); however, ULLICO has (voluntarily) implemented a well-defined SOX process including an annual review and certifications by management, which is likewise reviewed and tested by both Internal Audit and the external CPA.

Effective January 1, 2010, the Company will be subject to the new Model Audit Rule.

The Company does have a corporate governance framework. The framework is in writing and is memorialized in the Company's Certificate of Incorporation, bylaws and Board of Directors meeting minutes as well as its consents in lieu of meeting minutes.

ULLICO has an Enterprise Risk Management (ERM) Department and process, which applies to all entities in the ULLICO Inc. group. Annually, management of the various business units, with the assistance of ERM, performs an annual Enterprise Risk Assessment, which identifies key risks and assessments for those risks. The Company's business units own the risks in their areas and are responsible for controlling them. ERM is there to help coordinate and provide oversight to the risk management process.

The Company does not have its own Internal Audit Department (IAD) but is subject to the IAD of ULLICO, which as of December 31, 2008 was outsourced to an external third-party and remains outsourced as of the date of this examination report. A review of internal audits performed noted that most were performed at the corporate level covering processes that affect the Company's operations both directly and indirectly, rather than drilling down into specific processes of the Company.

The Company does not have its own Audit Committee, but is subject to the Audit Committee of ULLICO. The examiners were able to ascertain that the members of the Audit Committee were independent of the Company.

Conflicts of Interest

The Company maintains a formal written conflict of interest policy, which officers, directors, and all employees of ULLICO and its subsidiaries must fill out on an annual basis. ULLICO's Conflict of Interest procedures were adopted by resolution to comply with the State of Maryland and other regulatory jurisdictions as a means to disclose possible conflicts of interest on the part of officers, directors and employees whose positions are such that they exercise judgments or make decisions which may be influenced so as to result in a conflict of interest. If possible conflicts were disclosed, Company officials scrutinized them further to determine if corrective action was necessary. Conflict of interest questionnaires are not required for principals of managing general underwriters, third party administrators or independently contracted consultants.

A review of executed disclosure statements was conducted during the examination period without material exception.

Articles of Incorporation and Bylaws

The Company amended its Articles of Incorporation effective November 17, 2006 to reflect its name change from Ulico Casualty Company to ULLICO Casualty Company. No other amendments were made during the exam period.

The Company amended its bylaws effective November 17, 2006 to reflect its name change from Ulico Casualty Company to ULLICO Casualty Company. No other amendments were made during the exam period.

Corporate Records

The recorded minutes of the sole shareholder and Board of Directors were reviewed for the period under examination. The recorded minutes of the Board adequately documented its meetings and approval of Company transactions and events, including the authorization of investments as required by 18 Del.C.13 § 1304.

HOLDING COMPANY SYSTEM

The Company is a member of an Insurance Holding Company System. The immediate parent of the Company at December 31, 2008 was ULLICO Inc. (Maryland). The Company had no subsidiaries as of December 31, 2008.

Organization Chart

The following presentation of the holding company system reflects the identities and interrelationships between the Company, its Parent, affiliated insurers and other members of the holding company system as of December 31, 2008:

Company	Domicile	% own
ULLICO Inc.	Maryland	
ULLICO Management Company	Maryland	100%
Ulico Standard of America Casualty Company	California	100%
The Union Labor Life Insurance Company	Maryland	100%
Ullicare, Ltd. (1)	Maryland	50%
ULLICO Life Insurance Company	Texas	100%
URE Fund LLC	Delaware	100%
UNIONCARE, LLC	Maryland	100%
ULLICO Casualty Company	Delaware	100%
ULLICO Casualty Group Inc.	Delaware	100%
MRCO Inc.	Maryland	100%
ULLICO Investment Advisors, Inc.	Maryland	100%
Ullicare, Inc.	Maryland	100%
Ullicare, Ltd. (1)	Maryland	50%
ULLICO Investment Company, Inc.	Maryland	100%
ULLICO REF, LLC	Delaware	100%
ULLICO Risk Solutions, LLC	Delaware	100%
ULLICO Captive, PCC	Washington, DC	100%

(1) Ullicare, Ltd was dissolved in Maryland as of February 8, 2008; however, Union Labor Life had to dissolve it in other states where it was qualified as well. One of those states, Pennsylvania, required Union Labor Life to advertise the dissolution for a period of time. As such, it remained on Schedule Y until the

first quarter of 2009. Ullicare, Inc. was the general partner and Union Labor Life was the limited partner of Ullicare, Ltd.

A review of the Insurance Holding Company Annual Registration Statement filings (*Form B* and *Form C)* made by ULLCO Inc. on behalf of the Company for all years under examination revealed that the Company had complied with the requirements of 18 Del. Admin. Code 1801.

INTERCOMPANY AGREEMENTS

The Company had the following intercompany agreements and arrangements in effect as of December 31, 2008

Consolidated Income Tax Agreement

Effective May 2, 1979 and as amended, the Company, along with ULLICO Inc. and affiliates, entered into a Federal Income Tax Sharing Agreement. The Agreement provides that a consolidated federal income tax return shall be filed by the parent for each taxable year the affiliated group is required or permitted to file such a return.

The Agreement specifies the allocation and individual methods to use to compute each members share of the consolidated tax liability, and stipulates that the inter-company settlement of tax liabilities or tax recoverable is to be made within thirty-days after the filing of the consolidated tax return.

Consolidated Services Agreement

Effective February 1, 2008, the Company entered into a Consolidated Services Agreement with its parent, ULLICO Inc, and affiliates; collectively referred to as the ULLICO Group.

Under the terms of the Agreement, services which may be performed in whole or in part under the Agreement may include, but are not limited to: accounting; tax and auditing services; legal services; actuarial services; financial management services; underwriting services; claims management services; risk management services; employee benefit and personnel administration;

sales services; electronic data processing operations; communications operations; and investment services. Participating affiliates that perform any of these services for another member of the Group may charge a fee based upon the cost of the services rendered. Settlement of intercompany balances is to be made within 15 days of the end of each quarter.

Marketing and Underwriting Agreement

Effective September 1, 2004 and as amended, the Company entered into an Inter-Company Marketing and Underwriting Agreement with affiliate UCG. Under the terms of the Agreement, the Company appointed UCG to perform its exclusive marketing and underwriting functions in all states in which the Company is licensed. UCG does not have claims handling or reinsurance authority.

EXTERNAL AGREEMENTS

In addition to the above intercompany agreements, the Company had the following external agreements in effect at December 31, 2008:

Custodial Agreements

The Company is party to two custodial agreements for the purpose of safekeeping invested assets. A review of these agreements showed them to contain necessary and required safeguards protecting the Company's investments being held by the custodian. The agreements in place at December 31, 2008 are as follows:

- Effective November 15, 2006, the Company entered into an Amended and Restated Custodial Agreement with Bank of New York - Mellon for the purpose of safekeeping the Company's invested assets. This agreement represents the restated custodial agreement originally entered into effective July 2, 2003 to incorporate changes regarding indemnification language as documented in the prior exam report.

- Effective August 31, 1997 the Company entered into a Workers' Compensation Deposit Trust and Security Agreement with BNY Western Trust Company (c.k.a. BNYM) and the Commissioner of the State of California for the establishment of a trust account as part of the requirements of writing workers' compensation business in the State of California Asset Management Agreements.

<u>Reinsurance Trust and Escrow Agreements</u>

The Company is party to five reinsurance trust and escrow agreements. The agreements in place at December 31, 2008 are as follows:

- *Bank of America Safekeeping Agreement* - Effective July 28, 2008, the Company entered into a safekeeping agreement with Bank of America (f.k.a. LaSalle Bank N.A.) for the purpose of holding investments pledged as collateral in support of the Letter of Credit issued by Bank of America in support of reinsurance recoverables under the Zurich and Legion reinsurance agreements. The the Bank of New York-Mellon (Legion) and Bank of New York-Mellon (Zurich) reinsurance trust agreements replaced the account associated with this agreement, effective June 10, 2009 and June 24, 2009, respectively. Refer to the "Subsequent Events" section of this Report, under the caption "Reinsurance Trust and Escrow Agreements" for details.
- *First Tennessee Bank Security Fund Agreement* (FBO State National Insurance Company, Inc.) - Effective February 1, 2004, and as amended February 1, 2005, the Company entered into a Security Fund Agreement with First Tennessee Bank, N.A. (First Tennessee), and in conjunction with the Quota Share Reinsurance Agreement between the Company and State National Insurance Company, Inc. (State National). The purpose of this Agreement is for the Company to secure the payment of liabilities and the performance of its obligations to State National under the terms of the Quota Share Reinsurance Agreement.

- *Bank of New York-Mellon* (FBO Darwin National Assurance Company as purchaser of Ulico Indemnity Company) - Effective April 30, 2005, the Company entered into a Trust Agreement with BNYM and Ulico Indemnity Company (UIC) pursuant to the terms of the Stock Purchase Agreement between the Company and Darwin National Assurance Company (Darwin) that was consummated May 5, 2005. Collateral held under this trust agreement are in support of the liabilities assumed from UIC under terms of the 100% Quota Share Reinsurance Agreement between the Company and UIC that was likewise entered into pursuant to the terms of the Stock Purchase Agreement. Under the terms of the Agreement, BNYM shall act for the benefit of UCG for the purpose of holding securities as collateral pursuant to terms of the 100% Quota Share Reinsurance Agreement.
- *Bank of New York-Mellon* (FBO Hudson Insurance Company) - Effective October 1, 2007, the Company entered into a Reinsurance Trust Agreement with Hudson Insurance Company (Hudson) and BNYM for the purpose of the Company securing its obligations under terms of the Quota Share Reinsurance Agreement entered into effective October 1, 2007 between the Company and Hudson. Under the terms of the Agreement, BNYM shall act for the benefit of Hudson for the purpose of holding securities as collateral under terms of the Quota Share Reinsurance Agreement.
- *Loss Portfolio Transfer (LPT) Escrow Agreement* - Effective April 25, 2003 the Company entered into an Escrow Agreement with USACC and Mellon Trust of Delaware, N.A. for the establishment of an escrow account to provide for the safekeeping and recordkeeping of property deposited by USACC (for the benefit of UCC) upon the exhaustion of the Funds Held Account originally established by USACC under the LPT agreement effective on June 30, 2000. Effective October 1, 2007, the Company commuted the LPT with regards to discontinued commercial contractors' liability. Refer to the **"Reinsurance"** section of

this Report, under the caption **"Loss Portfolio Transfer Agreement"** for details of the LPT which remained in effect for discontinued workers' compensation and discontinued surety business as of December 31, 2008. Refer to the **"Subsequent Events"** section of this Report, under the caption **"Commutation of the Loss Portfolio Transfer Agreements – Surety and Workers' Compensation"** for details regarding he Company's commutation of the two remaining LPT's effective July 1, 2009.

General Agency Agreement

Effective February 1, 2004, the Company, State National Insurance Company, Inc. (State National) and UCG entered into a General Agency Agreement pursuant to the requirements of the reinsurance agreement entered into between the Company, State National and UCG effective February 1, 2004 covering Trustee and Fiduciary Liability (effective April 1, 2005 Union Liability was added). Pursuant to this Agreement, UCG is appointed as the General Agent to perform all functions necessary for the production, service and management of policies issued under the Reinsurance Agreement in accordance with the terms set forth in that agreement, on behalf of the Company and State National.

Administrative Services Agreement

Effective December 31, 1997, and as amended, the Company, USACC and Union Labor Life Insurance Company entered into a TPA agreement with CHCS Services, Inc. (f.k.a. American Insurance Administration Group, Inc.) for the purpose of providing services for Individual Conversion Major Medical Accident & Health policies for business that is written on ULLICO Casualty's paper and 100% ceded on a net basis to Union Labor Life, i.e., ULLICO Casualty does not retain any risk on this business. The agreement automatically renews unless terminated upon one-hundred twenty (120) days written notice to CHCS and any state insurance department requiring notice.

Underwriting Agreements

At December 31, 2008, the Company utilized the services of seven MGUs (including UCG) and two TPAs for the underwriting, binding and premium collection of workers' compensation, surety, commercial and professional liability. Subsequent to December 31, 2008, the Company terminated agreements with two surety writing MGUs, while adding five new MGUs; one for commercial automobile and four for surety. None of the MGUs are classified as MGAs in accordance with 18 Del.C.18 §1802, nor do any of the MGUs have claims handling authority.

Claims Handling Agreements

The Company was party to three TPA claims handling agreements as of December 31, 2008. The agreements in place are as follows:

- *Risk Management Planning Group* – Effective June 1, 1996, and automatically renewed on an annual basis beginning June 1, 1999, the Company entered into a third party administrator agreement with Risk Management Planning Group (RMPG). The Agreement defines claims administrative services (for workers' compensation claims incurred in New York primarily related to the Hudson Waterfront Projects) to be provided by RMPG during the term of the agreement, relative to the day-to-day affairs of the Company, subject, to the superior authority of the Company. As of December 31, 2008, this agreement was in run-off as no new business was being produced.
- *Gallagher Bassett Claims Administration Agreement* - Effective January 1, 2008 to January 1, 2009, the Company entered into an exclusive claims administration agreement with Gallagher Bassett Services, Inc. (GB) for the purpose of processing all workers' compensation claims other than those from the programs handled by RMPG, Patriot, Wells Fargo and Emerald.

- *Pacesetter National Corporation* - Effective July 1, 2007, the Company entered into a third-party Claims Service Agreement with Pacesetter National Corporation (Pacesetter) for processing of the Company's public livery auto claims, i.e., business written by ABI Insurance Services, Inc. for members of the Medical Transportation Purchasing Group, Inc

<u>Strategic Alliance Agreement - Farmers Group, Inc.</u>

Effective May 8, 2001 and as amended, the Company, UIC and UCG entered into a strategic alliance agreement with Farmers Group, Inc. on behalf of its affiliated exchanges and subsidiaries for the purpose of jointly marketing property and casualty insurance products and services to union members through local and national union leaders, and the reinsurance of a portion of the program thereof by the Company.

Under terms of the Agreement, the Farmers Insuring Entities shall be given the exclusive right to offer and sell personal lines property and casualty insurance to union members through local and national union leaders. Conversely, the Company will be the only entity in the United States with which Farmers enters into an alliance for the purpose of establishing an affinity group for union members to be marketed and endorsed by local and national union leaders.

In conjunction with this agreement, effective May 8, 2001, the parties executed "Trademark License Agreement(s)", which allows either party to use the other's trademarks and service marks for the purpose of co-branding products in accordance with the provisions set forth in the Strategic Alliance Agreement and the Service Mark and Trademark License Agreement, while at the same time protecting the commercial reputation of the Company, UIC and UCG and the goodwill of the Licensed Marks.

TERRITORY AND PLAN OF OPERATION

Territory

As of December 31, 2008, the Company was licensed to write business in all states and the District of Columbia with the exception of Maine, New Hampshire and Rhode Island. The Company operates on a surplus lines or non-admitted basis in Puerto Rico and Rhode Island.

UCC's mission is to be a risk solution provider to unions, union-sponsored employee benefit plans, and organized employers in North America. The Company primarily provides fiduciary liability for union pension and benefit plans, union liability D&O and E&O for labor officials, and commercial products (workers' compensation, surety and commercial package products) to organized employers. The Company's customers are institutional (benefit trusts funds, including Taft-Hartley Trust Funds) and commercial (union organizations, union offices, union officers and organized employers).

Plan of Operation

At December 31, 2008, approximately seventy-nine percent (79.8%) of the direct premium written was produced in five states.

Major 2008 direct premium writings by state ($000) were: California, $17,432 (37.4%); Illinois, $11,428 (24.5%); Florida, $5,026 (10.8%); Texas $1,885 (4.0%); Minnesota, $1,435 (3.1%); all other jurisdictions, $9,402 (20.2%).

UCC is comprised of three business units: Professional Liability, Commercial (including Workers' Compensation) and Surety.

Professional Liability

The Company's Professional Liability lines of business consist of both Fiduciary Liability and Union Liability products.

Fiduciary Liability: Since the mid-1980's, the Company has maintained a long-term commitment to multiemployer benefit funds. The multiemployer market includes pension, annuity, health and welfare, training, vacation and other related funds. The Company offers a broad scope of coverage including (a) Pension Protection Act coverage; (b) duty to defend with choice of counsel; (c) defense of non-fiduciary claims against trustees; and (d) expanded benefit coverage. It is estimated that the Company has twenty-five to thirty percent of the market share in terms of plans insured.

Union Liability (UL): The Company's UL policy is an Association Professional Liability (APL) policy to meet the needs of unique 501(c)(5) entities in their market sector, Labor Unions. The UL policy provides coverage for (a) union exposure, including collective bargaining, duty of fair representation, and handling grievances; (b) employment practices liability, including discrimination, harassment, and constructive termination; (c) personal injury, including libel, slander, and invasion of privacy; and (d) management exposures from running the union.

Commercial Lines – Workers Compensation

The Company markets workers' compensation to Union Halls, Commercial Contractors, Non-Profits, and to other niche markets through Managing General Underwriters (MGU). The Company is also looking into marketing workers' compensation products to main street businesses that are considered union-neutral. Main street business is a small niche market that could potentially provide a solid premium base.

The Company also utilizes agency captive programs that enable independent insurance agencies to partner with UCC to share in the underwriting profit produced by their controlled books of business. Currently, the Company has two workers' compensation agency captive programs with an unaffiliated insurance agency. In addition to the agency captive program, the Company has also developed a captive program that can be individually crafted for a group or organization that has chosen to seek an alternative workers' compensation solution and is willing to retain a part of the underlying risk. Currently, three union captives are being actively marketed: (1) West Virginia Workers' Compensation Consortium Captive; (2) Trowel Trades Captive through Bricklayers and Allied Crafts (BAC) International; and (3) Association of General Contractors (Las Vegas) Captive. Although each captive is structured differently, the Company allows the group captive to assume some share of the first layer of risk, and the Company reinsures the remainder. In 2009, the Company plans to establish a segregated portfolio cell captive facility in Washington, D.C., which can be offered to groups interested in "renting" a captive.

Commercial Lines - Other

In 2007, the Company re-entered the commercial lines market, offering commercial multi-peril, commercial auto, and general liability in key union states where an opportunity existed to offer these lines to affinity policyholders. Much of the recent growth has come from the addition of managing general underwriters who brought established books of business in which they have a profit incentive as well as the addition of a new workers' compensation program, described previously. As part of the Company's strategic growth plan, UCC intends to leverage its unique position as the largest labor-owned property casualty insurer to expand its product offerings in key labor states.

Surety

Following demand from affinity employers, the Company re-entered the surety line of business in late 2007 by successfully launching a surety pilot program to small and medium contractors in several selected union-friendly markets with established MGUs. The Company writes both contract and commercial (started in 2009) bonds limiting new contract accounts to $5 million on a single job and $15 million aggregate work on hand, and commercial bonds to maximum limits ranging from $50,000 to $500,000. The Company's target market will focus on contract surety accounts in the smaller bonded work program segment so as to reduce the likelihood of having a material impact on the surplus of the Company. The commercial bond surety business will serve as a balance to the contract bond business. It is anticipated that the premium mix will be 85% Contract Surety and 15% Commercial Surety. As a means to better serve the surety bond market, in 2009, the Company opened its first branch office in Burbank, CA to address this need. After proving that the branch office model is successful, the Company plans on opening other branch offices in future years.

Fronting Arrangements

To meet the needs of customers requiring an A.M. Best financial strength rating of "A-" or higher, the Company has forged partnerships with fronting carriers to issue UCC underwritten policies on their higher rated paper. On October 1, 2007, the Company seamlessly transitioned to its current fronting partner, Hudson Insurance Company, for their fiduciary and union liability coverages offered to labor unions and jointly managed trust funds. Refer to the "Reinsurance" section of this Report, under the caption "Hudson Insurance Company" for details of the reinsurance portion of the fronting arrangement.

At the end of 2008, the Company developed a partnership with Patriot Risk Management Company (Patriot), the parent company of Guarantee Insurance Company (Guarantee), an unrated workers' compensation company in Florida. In return for a loan from ULLICO Inc. to support their capital needs, the Company received a reinsurance position on Guarantee's business in three states, including their primary Florida market, with a reduced ceding commission. Starting in 2009, the Company increased its partnership by agreeing to front for Guarantee in states where they are not licensed. The Company retains a small portion of the risk and receives a fronting fee on all business written. Patriot typically uses UCC paper to offer agency captives for workers' compensation business (discussed previously) that ensures that the producing agent shares in the risk of the underwriting results.

Agency Relations and Third Party Administrators (TPA):

The Company markets its products through a network of key brokers and MGUs who distribute the various lines of business. The Company uses MGUs to market and distribute workers compensation, surety, and certain lines of commercial business; however, an affiliate, UCG, is the MGU for all lines of business. Refer to the **“Intercompany Agreements”** section in this Report, under the caption **“ULLICO Casualty Group MGU Agreement”** for details of this agreement.

The Company uses the services of various TPAs to perform claims handling for workers compensation and certain commercial auto programs, i.e., public livery. All other claims; Professional Liability, Surety and Commercial, are handled in house by the Washington, DC home office. Refer to the **“External Agreement”** section of this Report, under the caption **“Claims Handling Agreements”** for additional details regarding the use of TPAs to perform claims handling.

GROWTH OF THE COMPANY

The following information was extracted from copies of the Company’s filed Annual Statements, for each year indicated, and covers the period from the Company’s last examination.

Year	Net Admitted Assets	Surplus as Regards to Policyholders	Change in Capital and Surplus	Direct Premiums Written	Net Premiums Earned	Net Income
2008*	202,837,071	82,974,013	41.60%	46,608,176	53,925,334	2,429,003
2007	150,631,761	58,596,632	(12.41)%	18,320,518	34,439,260	3,937,511
2006	142,250,940	66,896,459	14.82%	10,123,275	26,126,673	7,470,667
2005	136,133,767	58,261,577	28.58%	12,904,299	23,623,471	9,841,698
2004	133,290,179	45,311,083	4.46%	19,355,283	30,064,308	(3,755,323)

* 2008 surplus includes adjustments as a result of the current examination

The Company's historical trend of adverse loss reserve development has given way to a more stable reserve development pattern in recent years. This stabilization of adverse reserve development is due in part to a change in reserve practices associated with the new management that took control in 2003, which resulted in a significant strengthening of IBNR loss reserves for all lines of business. The company's recent operating performance has been profitable, driven by improved underwriting results. The favorable trend in underwriting performance in recent years is evidenced by the significant improvement and generation of consistent annual loss and loss adjustment expense ratios and underwriting expense ratios over the last four calendar years. These strong results are due to underwriting and pricing discipline, proactive claims management, diminished claim frequency and severity trends and continued good development of historical loss reserves.

REINSURANCE

For 2008, the Company reported the following distribution of net premiums written:

Direct business	$46,608,176
Reinsurance assumed (from affiliates)	0
Reinsurance assumed (from non-affiliates)	32,066,983
Total direct and assumed	78,675,159
Reinsurance ceded (to affiliates)	0
Reinsurance ceded to (non-affiliates)	(19,034,595)
Net premiums Written	$59,640,564

The Company had the following reinsurance programs and agreements in effect as of December 31, 2008:

Assumed:

The Company had five assumed reinsurance contracts in place with unaffiliated companies as of December 31, 2008, with the two largest being Hudson Insurance Co (60%) and State National Insurance Company, Inc. (39%). The balance of the total was derived from Farmers

Insurance Exchange, Fire Insurance Exchange and London Life Reinsurance Company. Following is a discussion of the two material agreements:

- *Hudson Insurance Company* - On October 1, 2007, UCG and Hudson Insurance Company entered into a Program Administrator Agreement to offer fiduciary and union liability for the business known as union liability and fiduciary liability for the Labor Management Trusts Program. Under a quota share agreement, the Company assumes 100% of the written premium and loss and loss adjustment expenses. ULLICO Inc. entered into a Guarantee Agreement with Hudson Insurance Company, where ULLICO Inc. provides a guarantee for the performance of the Company under the reinsurance agreement.
- *State National Insurance Company* - On February 1, 2004, UCG and the Company entered into an agreement with State National Insurance Company to offer fiduciary liability coverage to labor unions and jointly managed trust funds. Refer to the section **"External Agreements"** in this Report, under the caption **"General Agency Agreements"** for details of services provided by UCG. Under a quota share agreement, the Company assumes 100% of the written premium and loss and loss adjustment expenses. The Company administers premium billing and claims processing on behalf of State National.

  On July 1, 2005, UCG and the Company amended this agreement to add union liability coverage to labor unions.

  Under the terms of the reinsurance agreement, the Company was required to establish a Security Fund equivalent to 110% of the anticipated ceded outstanding unearned premium and 150% of loss and loss adjustment expense reserves. Refer to the section **"External Agreements"** in this Report, under the caption **"Reinsurance Trust and Escrow Agreements - First Tennessee Bank Security Fund Agreement"** for additional details of the Security Fund. As of December 31, 2008, pledged assets totaled $40,442,443 which exceeded estimated ceded liabilities of $32,433,154. The amount in excess of ceded liabilities, totaling $8,009,269, was properly non-admitted.

Ceded:

The Company's ceded reinsurance program consists of primarily six components. The first component is coverage for Workers Compensation. The Workers Compensation agreement with Midwest Employers Casualty Company was terminated effective October 31, 2007 on a cut-off basis and replaced by an agreement with Safety National Casualty Corporation effective November 1, 2007, under which there are three layers to the agreement: First Excess covers $500,000 in excess of $500,000 per occurrence with a $5,000,000 aggregate limit of liability and excludes the Harbor America PAYG program; Second Excess covers $1,000,000 in excess of $1,000,000 per occurrence with a $4,000,000 aggregate limit of liability; and Third Excess covers $8,000,000 in excess of $2,000,000 per occurrence with a $24,000,000 aggregate limit. Guy Carpenter is a reinsurance intermediary who administers the reinsurance program and who places the cessions with a pre-approved list of reinsurers.

The second component is coverage for the Fiduciary lines of business referred to as Union/Taft Hartley Trustee, Corporate Trustee and Fiduciary Liability. The Company obtained excess of loss coverage for these lines of business. The First Trustee and Fiduciary Liability and Union Liability Excess of Loss (referred to as the Layer A-Primary Business) covers $3,000,000 in excess of $2,000,000 any one claim and in the aggregate per policy. The reinsurers liability for all claims made during the term of the policy is $18,000,000.

The Second Trustee and Fiduciary Excess of Loss policy has two layers (Layer A-Primary Business and Layer B-Excess Business). Layer A-Primary Business covers $10,000,000 in excess of $5,000,000 any one claim and in the aggregate per policy. The reinsurers liability for all claims made during the term of the policy for Layer A is $40,000,000. Layer B-Excess Business provides coverage in the event the Company issues an excess policy up to a limit of $15,000,000 over another company's primary policy. Under the Layer B coverage, the Company will retain up to $5,000,000 of the limit, and will cede the remaining on a pro-rata basis. Guy Carpenter is a reinsurance intermediary who administers the reinsurance program and who places the cessions with a pre-approved list of reinsurers.

The third component consists of a facultative reinsurance agreement. The Company entered into a Property Facultative Reinsurance Agreement with several reinsurers effective September 6, 2007. The reinsurance covers property damage, time element, all risks including earthquake except flooding and earthquake in California. The coverage provides for $3,000,000 per occurrence excess of $2,000,000 primary per occurrence. Guy Carpenter is a reinsurance intermediary who administers the reinsurance program and who places the cessions with a pre-approved list of reinsurers.

The fourth component is a quota share agreement with Factory Mutual Insurance Company for boiler and machinery coverage effective September 1, 2007. The Company ceded 100% of net retained liability. Cessions under this agreement do not exceed a limit of liability of $25,000,000 on any one risk. The Company received a profit sharing payment equal to half of any amount by which actual losses are less than 30% of earned premium.

The fifth component is a quota share agreement with United States Indemnity and Casualty Company effective January 1, 2007 for surety bonds issued to small union contractors for policies brokered by McNish Group (McNish). The Company cedes 50% quota share participation in all liabilities that accrue with respect to the Bonds covered and receives a commission of 39%.

Lastly, during the exam period, the Company entered into several reinsurance agreements with Roundstone Insurance Ltd (Roundstone), a Bermuda captive insurance company. Roundstone Management Ltd. administers the reinsurance programs through a General Agency Agreement.

Roundstone Management Ltd solicits, receives and accepts applications, countersigns and issues policies and endorsements, collects premium and provides reporting. Following is a description of the reinsurance programs:

- *Public Livery* – Effective January 1, 2007, the Company entered into a Quota Share Agreement with Roundstone for its Public Livery program, also known as the Medical Transportation Vehicle Insurance Program. Under the terms of the Quota Share Agreement, the Company ceded 50% of the risk and premium in relation to the program to Roundstone in a segregated account. This program was Novated effective December 31, 2008, whereby Roundstone assigned the Segregated Account to the Company. Under the terms of the Commutation Agreement effective January 1, 2009, the Company is to release the letter of credit. Refer to the section "Subsequent Events" in this Report, under the caption "Roundstone Commutation Agreement – Public Livery" for details.
- *Residential Contractors* – Effective June 1, 2007, the Company entered into a Quota Share Agreement with Roundstone for a Residential Contractors Program. Under the terms of the Quota Share Agreement, the Company ceded 75% of the risk and premium in relation to the program to Roundstone in a segregated account. The program was commuted effective December 31, 2008. Under the terms of the Commutation Agreement, the Company is to release the letter of credit.
- *Harbor America PEO and Pay as You Go* – Effective August 15, 2008, the Company entered into a Quota Share Agreement for workers' compensation identified as the Harbor America PEO and Pay as You Go programs. Under the terms of the Quota Share Agreement, Roundstone indemnifies the Company for a 50% quota share of each and every loss under the policies less Roundstone's proportional share of reinsurance recoverable paid or payable to the Company from other pro rata or excess reinsurance. The minimum

liability of Roundstone for all losses in any one underwriting year is equal to 120% of the ceded premium for that underwriting year. The Company retains the net ceded premium as "Funds Withheld."

- *West Virginia Workers' Compensation Cooperative (WVWCC)* - Effective November 1, 2008, the Company entered into a Quota Share Reinsurance Agreement with Roundstone, covering workers' compensation policies issued to unionized contractor participants of the WVWCC. Under the terms of the Quota Share Agreement, Roundstone is liable for the first $250,000 for each and every loss.

Loss Portfolio Transfer Agreements:

Refer to the "Subsequent Events" section of this Report, under the caption "Commutation of the Loss Portfolio Transfer Agreements – Surety and Workers' Compensation" for details regarding the Company's Loss Portfolio Transfer Agreements and the subsequent commutation of the two remaining LPT's effective July 1, 2009.

ACCOUNTS AND RECORDS

Accounting System and Information

During the examination period, all necessary accounting records of the Company were maintained on electronic data processing equipment ("EDP"). The general ledger is maintained on a statutory basis with additional accounts used to convert to the accrual basis suitable for Generally Accepted Accounting Principles.

Independent Accountants

The Company's financial statements are audited each year by the firm of Ernst & Young or "E&Y", of Philadelphia, PA. The examiners reviewed the audited statutory financial statements for all years under examination. For all years under review, E&Y issued an unqualified opinion.

The examiners reviewed E&Y's 2008 workpapers, and incorporated their work and findings as deemed pertinent to the current examination.

Actuarial Opinion

The Company's loss reserves and related actuarial items were reviewed by Brian Z. Brown, FCAS, MAAA, of Milliman, Inc., who issued a statement of actuarial opinion, based on the financial information presented by the Company. The opinion stated that the reserves and related actuarial values carried on the balance sheet were fairly stated and met the requirements of the insurance laws of the State of Delaware.

STATUTORY DEPOSITS

The following statutory deposits were on file with the listed states:

	Deposits For The Benefit of ALL Policyholders		All Other Sepcial Deposits	
STATE	**Book/Adjusted Carrying Value**	**Fair Value**	**Book/Adjusted Carrying Value**	**Fair Value**
Arizona	114,410	124,344		
Arkansas			250,223	253,388
California			29,085,274	30,279,457
Delaware	2,654,092	2,936,553		
Georgia			100,031	102,410
Idaho	253,695	277,690		
Kansas			114,733	115,957
Kentucy			111,428	125,056
Louisiana	70,641	78,159		
Massachusetts	1,688,230	1,765,240		
Montana	26,225	27,914		
Nebraska	99,483	108,898		
Nevada			125,857	142,656
New Mexico	369,915	415,873		
North Carolina	650,481	668,129		
Oklahoma	327,977	362,882		
Oregon	388,004	424,702		
South Carolina			165,030	168,977
Texas			22,256	26,069
Virginia	211,924	234,478		
Aggregate other Alien			60,941,365	62,328,352
TOTAL DEPOSITS	6,855,077	7,424,862	90,916,197	93,542,322

FINANCIAL STATEMENTS

The following pages contain a statement of assets, liabilities, surplus and other funds as of December 31, 2008, as determined by this examination, along with supporting exhibits as detailed below:

Assets, December 31, 2008
Liabilities, Capital and Surplus, December 31, 2008
Statement of Income, December 31, 2008
Capital and Surplus Account, December 31, 2008
Schedule of Examination Adjustments

It should be noted that the various schedules and exhibits may not add to the totals shown due to rounding. The narratives on the individual accounts, with the exception of the reserve related balances, are presented on the "exception basis" in the Notes to the Financial Statements section of this report.

Assets
As of December 31, 2008

	Assets	Non-admitted Assets	Net Admitted Assets	Notes
Bonds	$135,002,609	$8,828,234	$126,174,375	
Preferred stock	98,100		98,100	
Mortgage loans - First liens	2,352,816		2,352,816	
Cash	30,149,454		30,149,454	
Short-Term Investments	17,094,365		17,094,365	
Investment income due or accrued	1,015,509		1,015,509	
Uncollected premiums and agents' balances	7,900,992	433,244	7,467,748	
Deferred premiums	1,686,245		1,686,245	
Amounts recoverable from reinsurers	9,697,934		9,697,934	
Funds held by or deposited with reinsured companies	71,828		71,828	
Net Deferred Tax Asset	9,065,019	4,165,019	4,900,000	
Guaranty funds receivable or on deposit	33,058		33,058	
Electronic data processing equipment and software	1,955,186	1,955,186	0	
Receivable from parent, subsidiaries and affiliates	1,002,428		1,002,428	
Aggregate write-ins for other than invested assets:				
Ceded contingent commissions receivable	1,060,823		1,060,823	
Taxes receivable	29,800		29,800	
Accounts receivable	73,823	73,823	0	
Assets non-admitted	36,871	36,871	0	
CHCS wire transfer suspense	2,589		2,589	
Total	$218,329,449	$15,492,377	$202,837,072	

Liabilities, Capital and Surplus
As of December 31, 2008

	Current Year	Notes
Losses	$52,475,091	1
Reinsurance payable on paid losses and loss adjustment expenses	120,629	
Loss adjustment expenses	26,567,253	1
Commissions payable, contingent commissions and other similar	100,000	
Other expenses	400,084	
Taxes, licenses and fees	1,472,863	
Current federal and foreign income taxes	1,619,111	
Unearned premiums	20,299,655	
Ceded reinsurance premiums payable	3,900,111	
Funds held by company under reinsurance treaties	61,828	
Provision for reinsurance	8,195,819	2
Payable to parent, subsidiaries and affiliates	2,555,152	
Aggregate write-ins for other liabilities:		
Escheated funds	71,907	
Clearing/suspense accounts	1,193,855	
Claims processing due	307,354	
Cash not yet applied	522,346	
Total liabilities	$119,863,058	
Common Capital Stock	5,000,000	
Gross paid in and contributed surplus	99,595,515	
Unassigned funds (surplus)	(21,621,502)	
Total capital and surplus	$82,974,013	
Total liabilities, capital and surplus	$202,837,071	

Statement of Income
As of December 31, 2008

UNDERWRITING INCOME	
Premiums earned	$53,925,334
DEDUCTIONS	
Losses incurred	21,756,804
Loss expenses incurred	7,575,001
Other underwriting expenses incurred	24,593,391
Total underwriting deductions	$53,925,196
Net underwriting gain or (loss)	$138
INVESTMENT INCOME	
Net investment income earned	6,509,325
Net realized capital gains or (losses)	(841,150)
Net investment gain or (loss)	$5,668,175
OTHER INCOME	
Net gain or (loss) from agents' or premium balances charged off	8,379
Aggregate write-ins for miscellaneous income	269,558
Total other income	$277,937
Net income before dividends to policyholders and before federal income taxes	5,946,250
Dividends to policyholders	0
Net income after dividends to policyholder but before federal income taxes	5,946,250
Federal and foreign income taxes incurred	3,517,247
Net income	$2,429,003

Capital and Surplus Account
As of December 31, 2008

Surplus as regards policyholders, December 31 prior year	$58,596,632
Net income	2,429,003
Change in net deferred income tax	402,941
Change in non-admitted assets	4,164,409
Change in non-admitted assets	(1,197,570)
Surplus adjustments: Paid-in	25,000,000
Adjustment to surplus as a result of December 31, 2008 Examination	(6,421,403)
Change in surplus as regards policyholders	$24,377,380
Surplus as regards policyholders, December 31 current year*	$82,974,013

* Includes a $1 difference due to rounding

SCHEDULE OF EXAMINATION ADJUSTMENTS

Description	Per Examination	Per Company	Surplus Increase (Decrease)	Notes
Assets:				
No changes				
Adjusted Admitted Assets	$202,837,071	$202,837,071	$0	
Liabilities and Surplus:				
Provision for reinsurance	(8,195,819)	(1,774,416)	(6,421,403)	2
Unassigned Funds (Surplus)	21,621,502	15,200,099	6,421,403	
Adjusted Liabilities and Surplus	$13,425,683	$13,425,683	$0	

NOTES TO FINANCIAL STATEMENTS

Liabilities

(Note 1) Losses $52,475,091

Loss Adjustment Expenses $26,567,253

The Delaware Insurance Department retained the services of a consulting actuary, David Macesic, ACAS, MAAA with the actuarial firm of 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, 2008. The Company provided the Consulting Actuary with their statement of actuarial opinion. The statement was prepared and signed by Brian Z. Brown, FCAS, MAAA, with the actuarial firm of Milliman, Inc., who was appointed by the Board of Directors of the Company to render an opinion of the loss and loss adjustment expenses (LAE) reserves of the Company. Mr. Brown relied upon the data and related information prepared by the Company by David Christhilf, ACAS, MAAA, Chief Actuary for the Company as of December 31, 2008

The Department's Consulting Actuary's review of loss and LAE reserves consisted of separately analyzing the ULLICO Property and Casualty Companies (the Company and USACC combined) book of business on a gross and net basis. In addition, for unallocated loss adjustment expense, the Department's Consulting Actuary reviewed the methodology employed by Milliman, Inc.

Upon completion of the Department's Consulting Actuary's review, the Company's net loss and LAE reserves were estimated at $75.9 million. This compares to the Company's reported statutory net reserve of $79.0 million. This represents a redundancy of $3.1 million, which represents 4.0% of the Company's reported statutory net reserve. The gross reserves, as determined on a consolidated/pre-allocation (combined Company and USA Casualty) basis, are estimated at $135.4 million, which compares to the held reserve of $133.4 million. The gross reserve redundancy is $2.0 million, or 1.5% of the held statutory gross reserve. In summary, the Company's stated year-end 2008 reserves (both gross and net) are reasonably stated as determined by the Department's Consulting Actuary.

(Note 2) Provision for reinsurance $8,195,819

The above-captioned amount is $6,421,403 more than reported by the Company in its 2008 Annual Statement, to incorporate the financial adjustment reported in the Company's audited financials but not its filed Annual Statement as of December 31, 2008.

Subsequent to the issuance of the 2008 Annual Statement, Management became aware of an error in the application of an accounting principle in the calculation of the provision for reinsurance. The Company had incorrectly aged its reinsurance recoverables based upon billing date rather than the date the paid loss recoverable was recorded on the Company's books. The misapplication resulted in an understatement of this liability of $6,421,403. The Delaware Insurance Department has authorized the Company to correct this error on a prospective basis in its June 30, 2009 quarterly statement, based upon the proper calculation of the provision for reinsurance as of June 30, 2009. Therefore,

It is recommended that the Company properly age reinsurance recoverables in accordance with NAIC Annual Statement Instructions, Schedule F, Part 4, and SSAP 62.

SUMMARY OF RECOMMENDATIONS

1. **It is recommended that the Company properly age reinsurance recoverables in accordance with NAIC Annual Statement Instructions, Schedule F, Part 4, and SSAP 62. (See Notes to Financial Statements: Note 2 - Provision for Reinsurance, page 41)**

CONCLUSION

The following schedule shows a comparison of the results from the December 31, 2008 examination to the 2005 Annual Statement balances, with changes between:

Description	December 31, 2005	December 31, 2008	Increase (Decrease)
Assets	$136,133,767	$202,837,071	$66,703,304
Liabilities	$77,872,190	$119,863,058	$41,990,868
Common Capital Stock	5,000,000	5,000,000	0
Gross Paid In and Contributed Surplus	74,595,513	99,595,515	25,000,000
Unassigned Funds (Surplus)	(21,333,936)	(21,621,502)	(287,566)
Total Capital and Surplus	58,261,577	82,974,013	24,712,436
Total Liabilities, Capital and Surplus	$136,133,767	$202,837,071	$66,703,304

The assistance of Delaware's consulting actuarial firm, INS Consultants, Inc. is acknowledged. In addition, the assistance and cooperation of the Company's outside audit firm, E&Y, and the Company's management and staff was appreciated and is acknowledged.

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Respectfully submitted,

Keith E. Misenheimer, CFE, ALMI
Examiner-In-Charge
State of Delaware
Northeastern Zone, NAIC

Hillary C. Solomon, CFE
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