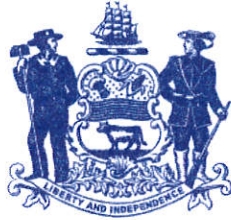


REPORT ON EXAMINATION
OF THE
AMERICAN CENTENNIAL INSURANCE COMPANY
AS OF
DECEMBER 31, 2012

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 OF EXAMINATION, made as of December 31, 2012 of the

AMERICAN CENTENNIAL INSURANCE COMPANY

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

Attest By: Brandi Bidde

Date: June 11, 2014



In Witness Whereof, I have hereunto set my hand and affixed the official seal of this Department at the City of Dover, this 11th day of June, 2014.

Karen Weldin Stewart, CIR-ML
Insurance Commissioner

Karen Weldin Stewart, CIR-ML
Commissioner



Delaware Department of Insurance

REPORT OF EXAMINATION
OF THE
AMERICAN CENTENNIAL INSURANCE COMPANY
AS OF
DECEMBER 31, 2012

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

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

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

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

Karen Weldin Stewart, CIR-ML
Insurance Commissioner

Dated this 11th day of June, 2014

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SALUTATION

May 30, 2014

Honorable Karen Weldin Stewart, CIR-ML
Delaware Insurance 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. 13.081, dated April 11, 2013, an examination has been made of the affairs, financial condition and management of the

AMERICAN CENTENNIAL INSURANCE COMPANY

hereinafter referred to as “the Company” or “ACIC” and incorporated under the laws of the State of Delaware as a stock company. The Company’s registered office in the State of Delaware is located at 1209 Orange Street, Wilmington, Delaware 19801-1120. The examination was conducted at the Company’s administrative offices located at 1801 Market Street, Philadelphia, Pennsylvania. 19103.

The report of examination report thereon is respectfully submitted.

SCOPE OF EXAMINATION

The last examination was completed as of December 31, 2008, by the Delaware Insurance Department. This examination covered the period of January 1, 2009 through December 31, 2012, and encompasses a general review of transactions during the period, the Company's business policies and practices, as well as management and relevant corporate matters, with a determination of the financial condition of the Company at December 31, 2012. Transactions subsequent to the examination date were reviewed where deemed necessary.

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

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

During the course of this examination, consideration was given to work performed by the Company's external accounting firm, Deloitte & Touché, LLP. (D&T). Certain auditor work papers of their 2012 audit have been incorporated into the work papers of the examiners and

have been utilized in determining the scope, areas of emphasis in conducting the examination and in the area of risk mitigation and substantive testing.

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

Fidelity Bonds and Other Insurance
Pensions, Stock Ownership and Insurance Plans
Statutory Deposits
Reinsurance
Subsequent Events

SUMMARY OF SIGNIFICANT FINDINGS

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

COMPANY HISTORY

ACIC was incorporated in 1970 for the purpose of underwriting primary and excess liability insurance for many large, national and international chemical, manufacturing and pharmaceutical companies, as well as for the purpose of underwriting facultative and treaty reinsurance for the same types of risks. On May 22, 1987, ACIC became a subsidiary of First Delaware Holdings, Inc., which changed its name in 1996 to Consolidated International Group, Inc. (“CIG”). On August 16, 1999, the Delaware Insurance Department approved the application of White Mountains Insurance Group, Inc. (“White Mountains”), to acquire control of ACIC through the cash purchase of all outstanding shares of ACIC’s parent, CIG. On October 30, 2008, ACIC and its parent company became subsidiaries of Railsplitter Holdings Corporation, still a wholly owned subsidiary of the White Mountain Group. On October 31, 2008, Railsplitter Holdings Corporation and its subsidiaries, including ACIC, became subsidiaries of Berkshire

Hathaway, Inc. pursuant to an Exchange Agreement between Berkshire Hathaway Inc., White Mountains Insurance Group, Ltd. and others.

MANAGEMENT AND CONTROL

Directors

Pursuant to the General Corporation Law of the State of Delaware, as implemented by the Company's Certificate of Incorporation and bylaws, all corporate powers and its business property and affairs are managed by, or under the direction of, its Board of Directors (Board). The Board shall consist of at least seven members and subject to a maximum of eighteen members. The Board at December 31, 2012, was comprised of seven members, each elected or appointed in accordance with Company bylaws. Each Director shall hold office until his successor is elected and qualified, or until earlier resignation or removal.

The Board of Directors, duly elected in accordance with the Company's bylaws and serving at December 31, 2012, is as follows:

<u>Name</u>	<u>Principal Occupation</u>
Erika Bunner Duffy	National Liability & Fire Insurance Company
Dale David Geistkemper	National Indemnity Company
David Ronald Gold	President – Resolute Management Inc.
Forrest Nathan Krutter, Chairman	National Liability & Fire Insurance Company
Joseph Rocco Liuzzi	National Liability & Fire Insurance Company
Luann Marie Petrellis	Resolute Management Inc.
Brain Gerard Snover	National Liability & Fire Insurance Company

Officers

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

The officers have been duly appointed in accordance with the bylaws and serving at December 31, 2012, are as follows:

<u>Name</u>	<u>Title</u>
Forrest Nathan Krutter	President
Luann Marie Petrellis	COO, Secretary
Carolyn Anne Scully	Vice President, Treasurer
David R. Gold	Vice President
Rodney Rathburn	Assistant Vice President
Janelle K. Kay	Assistant Secretary
Mark D. Millard	Assistant Secretary
Brennan S. Neville	Assistant Secretary
Karen K. Peterson	Assistant Secretary
James R. May Jr.	Assistant Treasurer
Carmel O' Sullivan	Assistant Controller

Corporate Records

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

Inspection of Company files indicated that an ethics statement/conflict of interest statement was completed by all employees for the examination period. A review of the Company's bylaws revealed that no changes were made during the examination period.

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

Insurance Holding Company System

The Company is a member of an insurance holding company system as defined under 18 Del. C. Ch.50, "Insurance Holding Companies". Based upon a review of information provided, an abbreviated ownership structure at December 31, 2012, is as follows:

<u>Name</u>	<u>Domicile</u>	<u>NAIC No.</u>	<u>Ownership</u>
Berkshire Hathaway (1)	DE		
General Re Corporation	DE		100%
General Reinsurance Corporation	DE	22039	100%
Railsplitter Holdings Corporation	DE		100%
International American Group, Inc. (IAG)	DE		100%
American Centennial Insurance Co.	DE	10391	100%

- 1 Publicly traded under the ticker “BRKA” and “BRKB”. According to publicly available documents filed with the SEC and with information provided by management, shares outstanding were as follows:

February 18, 2013—Class A common stock, \$5 par value	892,722 shares
February 18, 2013—Class B common stock, \$0.0033 par value	1,125,695,637 shares

There were no changes in ownership during the examination period.

Affiliated Agreements

International American Management Company Service Agreement

Effective July 1, 1997 the Company and International American Management Company (IAMC) entered into an agreement wherein the Company agreed to compensate IAMC for actual cost plus 10% for designated services. Services include but are not limited to corporate functions such as management, accounting, personnel, investments and treasury, legal, tax, and computer services and actuarial for the Company's benefit.

Resolute Management Inc. Service agreement

Effective December 17, 2008 the Company and Resolute Management Inc. (RMI) entered into an agreement wherein the Company agreed to reimburse RMI for services rendered for direct and directly allocable expenses plus a reasonable charge of direct overhead. Services rendered include underwriting, claims, accounting and tax, auditing, claims accounts, recoveries,

and reporting and support services. Quarterly settlement shall occur 45 days after quarter close with payment within 15 days from receipt.

National Liability and Fire Insurance Company Service Agreement

Effective January 20, 2009 the Company and National Liability and Fire Insurance Company (NLF) entered into an agreement wherein the Company agreed to reimburse NLF for services rendered for direct and directly allocable expenses plus a reasonable charge of direct overhead. Services rendered include underwriting, claims, accounting and tax, auditing, claims accounts, recoveries, and reporting and support services. Quarterly settlement shall occur 45 days after quarter close with payment within 15 days from receipt.

National Indemnity Company - Investment Services Agreement

Effective November 1, 2008, the Company and National Indemnity (Manager) entered into an agreement wherein the Manager agrees to render investment services to the Company. The manager will supervise and direct the investments of the Company subject to limitations established by the Company's Board of Directors or committees of said Board. The Manager has full authority to buy and sell investments or otherwise effect investment transactions for the Company. The Manager shall submit a report to the company of all investment activity 10 days after each calendar month. Fees for services rendered shall be payable quarterly for costs incurred by the Manager. Fees are payable 20 days after receipt by the Company.

Tax Allocation Agreement

The Company is a party to a tax allocation agreement with its parent Berkshire Hathaway Inc. (parent), effective January 27, 2009. The agreement allows the Company and the parent to file federal income tax returns on a consolidated basis under Section 1501 of the Internal Revenue Code of 1986. The agreement allows for the consolidated tax liability to be allocated to

members who on a separate return basis have a liability. This is called a positive percentage share. Members who generate a tax benefit will be reimbursed by the members of the positive percentage share. Settlement amounts are due within thirty days after the date the consolidated federal income tax return is filed.

Unaffiliated Agreements

Custodian agreement

Effective June, 2 2009, Wells Fargo acts as custodian over the Company's invested assets in exchange for a fee as structured in the agreement. Review of the terms of the custodian agreement indicates that the agreement contains the minimum standards required under the NAIC Financial Condition Examiners Handbook.

TERRITORY AND PLAN OF OPERATION

Territory

At December 31, 2012, the Company is licensed to write property and/or casualty insurance in 44 states, the District of Columbia and the U.S. Virgin Islands.

Plan of Operation

ACIC was incorporated in 1970 for the purpose of underwriting primary and excess liability insurance for many large, national and international chemical, manufacturing and pharmaceutical companies, as well as for the purpose of underwriting facultative and treaty reinsurance for the same types of risks. Due to poor profitability and financial problems encountered by many of the Company's reinsurers, ACIC stopped writing business on or about 1983. Since then, the Company has managed the run-off of its business and has concentrated on commuting its loss exposures.

GROWTH OF THE COMPANY

The following information was extracted from the Company's filed Annual Statements and covers the period from the last examination (2008), and the intervening period to this examination (2012):

<u>Year</u>	<u>Assets</u>	<u>Liabilites</u>	<u>Surplus</u>
2008	28,998,179	10,548,625	18,449,554
2009	28,859,922	10,647,996	18,211,926
2010	28,103,389	9,862,164	18,241,225
2011	28,560,326	12,869,819	15,690,507
2012	42,941,938	31,690,928	11,251,010

Assets

Assets have increased \$13,943,759 or 48% over the examination period, primarily due to the termination of the retroactive reinsurance. Please see surplus section below for more details.

Liabilities

Loss reserves decreased from \$37.1 million at year-end 2008 to \$31.3 million in 2012. Overall liabilities have increased \$21,142,303 or 200% due to the termination of the retroactive reinsurance agreement.

Surplus

Policyholder surplus has decreased \$7,198,544 or (39%) over the exam period primarily due to the approximate \$8 million loss in surplus due to the retroactive reinsurance termination. The Company has not paid any dividends during the examination period.

The Company writes no business in its run-off status. Occasionally, minimal adjustment premiums will be booked due to loss experience. Liabilities in run-off consist of direct liability coverages written when the Company was part of the Beneficial Group, prior to May 1987. Throughout the late 1980s and early 1990s, ACIC was extremely aggressive and successful in commuting both its assumed and ceded coverages. Remaining assumed liability exposures of the Company were transferred to a Cayman affiliate, British Insurance Company of Cayman in 1996, greatly reducing the level of liabilities and assets. In 1997, the Company entered into a retroactive reinsurance agreement with Global International Reinsurance Company, Ltd. (previously known as Gerling Global International Reinsurance Company Ltd.) whereby initial reserves of \$30 million were reinsured. This retroactive agreement provided five layers and \$65,500,000 of coverage. The contract with Global International Reinsurance Company has been profitable for ACIC. During November of 2012 the Company terminated the agreement with Global. The following is a recent summary of significant activity:

Reserves transferred	2012	2011
Initial	<u>\$30,000,000</u>	<u>\$30,000,000</u>
Adjustments prior years	30,996,000	31,060,000
Adjustments current year (2012)	<u>(8,262,000)</u>	<u>(64,000)</u>
Total	\$52,734,000	\$60,996,000
Initial Consideration	\$30,000,000	\$30,000,000
Paid losses:		
Prior year	\$38,491,000	\$34,273,000
Current (2012)	<u>14,243,000</u>	<u>4,218,000</u>
Current Total	<u>52,734,000</u>	<u>38,493,000</u>
Special Surplus from retroactive reinsurance		
Initial gain (loss)	22,504,000	26,787,000
Adjustment	<u>(22,504,000)</u>	<u>(4,283,000)</u>
Current year restricted	<u>-0-</u>	<u>22,504,000</u>
Cumulative transferred to unassigned funds	<u>\$22,734,000</u>	<u>\$8,491,000</u>

LOSS EXPERIENCE

Reserves as of December 31, 2011 were \$33,255,635. As of December 31, 2012, \$969,788 was paid for loss and loss adjustment expense attributable to insured events of prior years. Reserves remaining for prior years are now \$31,369,253 as a result of re-estimation of ultimate liability principally on other liability lines of insurance. Therefore, there has been a \$916,594 favorable prior year development since December 2011 to December 2012.

ACCOUNTS AND RECORDS

Accounting System

During the examination period, all necessary accounting records of the Company were maintained on electronic data processing equipment. 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. Investment transactions are administered and processed by the

National Indemnity Company as per an investment services agreement entered into November 1, 2008.

Information Systems

INS Services, Inc. reviewed the Company's responses to the Evaluation of Controls in Information Systems Questionnaire (Exhibit C) but did not, however, perform any tests of the systems because the Company utilizes minimal levels of technology for processing financial transactions.

Independent Accountants

The Company's financial statements are audited each year by D&T, which issues a statutory audit opinion and report. For all of the years under review, D&T issued an unqualified opinion.

Actuarial Opinion

The Company's loss and loss adjustment expense (LAE) reserves and related actuarial items were reviewed by Christopher Lattin, FCAS, MAAA, of Towers Watson, who issued a statement of actuarial opinion for each of the years under examination, based on the financial information presented by the Company. The opinions stated that the reserves and related actuarial values carried on the balance sheets were fairly stated and met the requirements of the insurance laws of the State of Delaware.

FINANCIAL STATEMENTS

The following pages contain the Company's Financial Statements for the year ending December 31, 2012, as determined by this examination, with supporting exhibits as detailed below:

Analysis of Assets
 Statement of Liabilities, Surplus and Other Funds
 Statement of Income
 Capital and Surplus Account
 Reconciliation of Surplus since last Examination
 Capitalization

Narratives on certain individual accounts were included to provide the reader with additional supporting information.

Analysis of Assets

As of December 31, 2012

	<u>Assets</u>	<u>Non-admitted assets</u>	<u>Net Admitted Assets</u>	<u>Note</u>
Bonds	\$ 6,690,500		\$ 6,690,500	1
Real Estate	16,364	16,364	-	
Cash, cash equivalents and Short-term investments	32,899,489		32,899,489	2
Other Invested Assets	322,165		322,165	
Investment income due and accrued	13,682		13,682	
Current federal and foreign income tax recoverable	3,015,136		3,015,136	
Aggregate writeins for other than invested assets	966		966	
Total Assets	<u>\$ 42,958,302</u>	<u>\$ 16,364</u>	<u>\$ 42,941,938</u>	

Statement of Liabilities, Surplus and Other Funds

As of December 31, 2012

		Note
Losses	\$ 29,769,253	3
Loss adjustment expense	1,600,000	3
Other expenses	140,000	
Payable to parent, subsidiaries and affiliates	181,675	
Total Liabilities	31,690,928	
Common captial stock	6,000,000	
Gross paid in and contributed capital	42,520,652	
Unassigned funds (surplus)	(37,269,642)	
Surplus as regards policyholders	11,251,010	
Total Liabilites, Capital and Surplus	\$ 42,941,938	

Statement of Income

As of December 31, 2012

Underwriting Income

Premiums earned -

Deductions

Losses incurred \$ (2,022,632)

Loss adjustment expenses incurred 1,106,038

Other underwriting expenses incurred 304,820

Total underwriting deductions (611,774)

Net underwriting gain (loss) 611,774

Investment Income

Net investment income earned 222,447

Net realized capital gain 733,648

Net investment income earned 956,095

Other Income

Aggregate write-in for misc. income (loss) (8,278,239)

Total other income (8,278,239)

Net income before dividend to policyholders
after capital gains tax and before all other federal
and foreign income tax (6,710,370)

Federal and foreign income tax (2,935,156)

Net income \$ (3,775,214)

Capital and Surplus Account

As of December 31, 2012

Surplus regards policyholders December 31, 2011	\$ 15,690,507
Net income	(3,775,214)
Change in net unrealized capital gains	(677,823)
Change in deferred income tax	13,540
Change in surplus as regards policyholders for the year	<u>(4,439,497)</u>
Surplus as regards policholders December 31, 2012	<u>\$ 11,251,010</u>

Reconciliation of Surplus Since Last Examination

Year	<u>Common</u> <u>Stock</u>	<u>Change in</u> <u>Provisions for</u> <u>retro active</u> <u>reinsurance</u>	<u>Gross paid in</u> <u>capital</u>	<u>Unassigned funds</u>	<u>Total</u>
2008	\$ 6,000,000	\$ 26,541,036	\$ 42,520,652	\$ (56,612,124)	\$ 18,449,564
2009				(237,638) (1)	(237,638)
2009		349,085		(349,085) (2)	-
2010				29,299 (1)	29,299
2010		(102,378)		102,378 (2)	-
2011				(2,550,718) (1)	(2,550,718)
2011		(4,282,913)		4,282,913 (2)	-
2012				(4,439,497) (1)	(4,439,497)
2012		(22,504,830)		22,504,830 (2)	-
Total	\$ 6,000,000	\$ -	\$ 42,520,652	\$ (37,269,642)	\$ 11,251,010

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

(2) Change in provision for retroactive reinsurance. Contract was terminated in 2012.

Capitalization

The Company is authorized to issue 30,000 shares of common capital stock capital with a par value of \$200 per share. All shares have been issued and currently, all owned by IAG. The capital stock and gross paid in have remained unchanged over the examination period.

NOTES TO FINANCIAL STATEMENTS

(1) Bonds \$6,690,500

The above-captioned amount, which is the same as that reported by the Company in its Annual Statement, has been accepted for purposes of this report. All of the Company's bonds have a NAIC SVO rating of 1 with the exception of one security rated as 4. The value of this security is \$314,643. With the exception of bonds held for statutory purposes, investments are primarily held by Wells Fargo Bank under a custodial agreement. A review of corporate records indicates that the Board of Directors has approved the Company's investment transactions made during the examination period in accordance with 18 Del. C. §1304.

(2) Cash, cash equivalents and short-term investments \$32,899,489

This balance consists of the following components: \$30,494,971 in US Treasury bills, \$963,733 in mutual funds and \$1,440,785 in cash.

(3) Losses \$29,769,253
Loss Adjustment Expenses \$1,600,000

The above-captioned amounts, which are the same as those reported by the Company in its Annual Statement, have been accepted for purposes of this report.

LossesReported Losses (Case)

Direct	\$9,488,253
Reinsurance Ceded	<u>0</u>
Net Reported Losses	<u>\$9,488,253</u>

Incurred but not reported (IBNR)

Direct	\$20,281,000
Reinsurance Ceded	<u>0</u>
Net IBNR	<u>\$20,281,000</u>

Net Losses Unpaid \$29,769,253

Loss Adjustment Expenses (LAE) \$1,600,000

The Delaware Insurance Department retained the firm of INS Consultants, Inc. (INS or consulting actuary) to review the Company's stated reserves. The consulting actuary was provided with the Company's statement of actuarial opinion and an actuarial report as supporting documentation of the actuarial opinion with loss and loss adjustment expense reserves evaluated as of December 31, 2012. In addition, INS was provided with other reports, schedules, exhibits and relevant information as requested.

The Consulting actuary's review of loss and allocated loss adjustment expenses (ALAE) reserves consisted of separately analyzing the Company's property and casualty books of business on a gross and net basis. INS accepted the methodology and factor selections utilized by the Company's actuaries and ultimately found the Company's reserves to be reasonable.

SCHEDULE OF EXAMINATION ADJUSTMENTS

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

COMPLIANCE WITH PRIOR EXAM REPORT RECOMMENDATIONS

There were no formal recommendations in the previous examination.

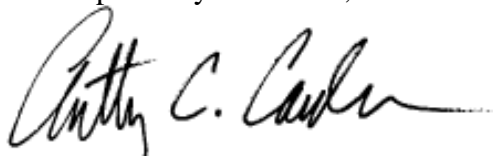
CONCLUSION

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

<u>Description</u>	<u>December 31, 2008</u>	<u>December 31, 2012</u>	Increase <u>(Decrease)</u>
Assets	\$ 28,998,179	\$ 42,941,938	\$ 13,943,759
Liabilities	\$ 10,548,625	\$ 31,690,928	\$ 21,142,303
Provision for retroactive Reinsurance	26,541,026		
Common Capital Stock	6,000,000	6,000,000	-
Gross Paid In and Contributed Surplus	42,520,652	42,520,652	-
Unassigned Funds (Surplus)	(56,612,124)	(37,269,642)	19,342,482
Total Surplus as Regards			
Policyholders	\$ 18,449,554	\$ 11,251,010	\$ 19,342,482
Totals	<u>\$ 28,998,179</u>	<u>\$ 42,941,938</u>	<u>\$ 40,484,785</u>

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

Respectfully submitted,



Anthony Cardone, CFE
Examiner-In-Charge
State of Delaware