REPORT ON EXAMINATION

OF THE

LM GENERAL INSURANCE COMPANY

AS OF

DECEMBER 31, 2006

I, Matthew Denn, Insurance Commissioner of the State of Delaware, do hereby certify that the attached REPORT ON EXAMINATION, made as of DECEMBER 31, 2006 of the

LM GENERAL INSURANCE COMPANY

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

ATTEST BY: Antoinette Handy

DATE: 13 JUNE 2008

In Witness Whereof, I HAVE HEREUNTO SET MY HAND AND AFFIXED THE OFFICIAL SEAL OF THIS DEPARTMENT AT THE CITY OF DOVER, THIS 13TH DAY OF JUNE 2008.

Insurance Commissioner

REPORT ON EXAMINATION

OF THE

LM GENERAL INSURANCE COMPANY

AS OF

December 31, 2006

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

Consideration has duly been 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.

MATTHEW DENN
INSURANCE COMMISSIONER

DATED this 13TH Day of JUNE 2008.

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SALUTATION

January 11, 2008

Honorable Mathew Denn
Delaware Department of Insurance
841 Silver Lake Boulevard
Dover, Delaware 19904

Commissioner:

In compliance with instructions and pursuant to statutory provisions contained in Certificate of Authority No. 07-046, dated August 30, 2007, an examination has been made of the affairs, financial condition and management of the

LM GENERAL INSURANCE COMPANY

hereinafter referred to as "Company" and incorporated under the laws of the State of Delaware as a stock company with its home office located at 2711 Centerville Road, Suite 400, Wilmington, Delaware 19808. The examination was conducted at the main administrative office of the Company, located at 175 Berkley Street, Boston, MA 02116.

The report of such examination is submitted herewith.

SCOPE OF EXAMINATION

The last examination was conducted as of December 31, 2002. This examination covers the period since that date through December 31, 2006, and consisted of a general review of the Company's business policies and practices, management, any corporate matters incident thereto, a verification and evaluation of assets and determination of liabilities. Transactions subsequent to the latter date were reviewed where deemed necessary.

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

The general procedures of the examination followed the rules established by the Committee on Financial Condition Examiners Handbook of the National Association of Insurance Commissioners ("NAIC") and generally accepted statutory insurance examination standards consistent with the Insurance Laws and Regulations of the State of Delaware.

In addition to items hereinafter incorporated as a part of the written report, the following areas were checked and made part of the work papers of this examination:

Statutory Deposits
Legal Actions Pending Settlement
Fidelity Bonds and Other Insurance
Accounts and Records
Compliance with prior Report Recommendations
All Asset & Liability Items not mentioned

HISTORY

The Company was originally incorporated on November 17, 1978, under the laws of the state of Delaware and began operations on December 29, 1978 as Prudential General Insurance Company (PruGen). From the time of incorporation until December 31, 1998, the Company was 100% owned by Prudential Property and Casualty Insurance Company (PruPac), an Indiana domestic insurer, which was

100% owned by PRUCO, Inc., a New Jersey holding company, which was 100% owned by The Prudential Insurance Company of America, a New Jersey mutual life insurer.

The ultimate parent Company underwent a demutualization effective December 18, 2001, whereby the parent entity was merged into Prudential Financial, Inc. (Prudential), which became the surviving entity and ultimate controlling entity.

On May 22, 2003, Prudential Financial announced that it had reached a definitive agreement to sell PruPac, Prudential Commercial Insurance Company (PruCom) and PruGen to the Liberty Mutual Group. A “Form A” filing was made on June 30, 2003, with regulatory approvals and closings occurring on October 31, 2003, effective November 1, 2003. Effective March 29, 2004, the Company changed it’s name from Prudential General Insurance Company to LM General Insurance Company.

The Company is a multiple line property and casualty company, licensed in 46 states and the District of Columbia. The Company reported no direct business written since 2004. Virtually all business is ceded to LM Property and Casualty Insurance Company (LMPac, formerly PruPac), an affiliate domiciled in Indiana. Subsequently, LMPac participates in a 100% Quota Share Reinsurance Agreement with Liberty Mutual Insurance Company (LMIC), the lead company in the Liberty Mutual Inter-Company Reinsurance Agreement (LM Pool). The Company does not assume any business, but does retain defined lines of business pursuant to the purchase of the company by Liberty.

The Company’s registered office in the State of Delaware is located at 2711 Centerville Road, Suite 400, Wilmington, Delaware 19808. Common Capital Stock amounted to $3,500,000 consisting of

2,000 shares of $1,750 par value per share. Gross paid in and contributed surplus was $4,500,000 at December 31, 2002. Gross paid in and contributed surplus was reduced by $2,488,368 in connection with a 2006 return of capital approved by the Delaware Insurance Department. As of December 31, 2006, Gross paid in and contributed surplus was $2,011,632.

CAPITALIZATION

Common Capital Stock

The capital stock of the Company has not changed since the previous examination. The Company has 5,000 authorized shares of $1,750.00 par value common capital stock of which 2,000 shares are issued and outstanding to its immediate parent, Liberty Mutual Insurance Company, representing a total of $3,500,000 Capital Paid up. The following changes occurred in the capital and surplus accounts since the prior examination:

	Common Capital Stock	Gross Paid In and Contributed Surplus	Unassigned Surplus	Total Surplus
12/31/2002	$3,500,000	$4,500,000	$5,708,519	$13,708,519
Operations:				
2003			543,271	543,271
2004			123,013	123,013
2005			451,070	451,070
2006			401,477	401,477
Capital Changes:				
None				
Capital Contribution/ (Distribution):				
2006		(2,488,368)		(2,488,368)
Dividends Paid:				
2006			(7,337,632)	(7,337,632)
12/31/2006	$3,500,000	$2,011,632	$ (110,282)	$5,401,350

Subsequent to the examination period, the Company received a capital contribution of $1,200,000, bringing total Gross Paid in and Contributed Surplus to $3,211,632. Reference is made to the caption, "Subsequent Events" for a further desciption.

Dividends

During 2006, the Company paid an ordinary dividend to its parent, LMIC of $1,482,587. Pursuant to the approval by the Delaware Insurance Department, the Company also paid its parent an extraordinary dividend of $5,855,045.

MANAGEMENT AND CONTROL

Stockholders

Under the terms of the bylaws as amended, meetings of the shareholders shall be held at such time and place, either within or outside the State of Delaware, as shall be designated from time to time by the Board of Directors. The directors appointed by the Stockholders were traced from the minutes of the Annual Stockholders Meeting to the Jurat page of the December 31, 2006 Annual Statement without exception.

Directors

Pursuant to the general corporation laws of the State of Delaware, as implemented by the Company's Certificate of Incorporation and Bylaws, the business and affairs of the Company shall be managed by or under the direction of the Board of Directors, which shall be determined by the shareholders, consisting of not less than five, nor more than fifteen directors.

As of the examination date, the Board of Directors was comprised of six members, all of whom were elected at the Annual Meeting of Stockholders held on June 30, 2006. The members of the Board are elected for a term of one year and serve until their successors are qualified and elected. The members of the Board of Directors duly elected and serving at December 31, 2006 and their principal business affiliations are as follows:

Name	**Business Affiliation**
J. Paul Condrin, III	Executive Vice President, Liberty Mutual Ins. Co.
Margaret Dillon	VP and Chief Financial Officer, Liberty Mutual Ins. Co.
Edward J. Gramer, III	Senior Vice President and Claims Manager, Liberty Mutual Ins. Co.
Elizabeth J. Morahan	VP and Assistant General Counsel-Liberty Mutual Ins. Co.
Himanshu I. Patel	SVP and Manager – Regional Operations, Liberty Mutual Ins. Co.
Timothy M. Sweeney	SVP and Manager – Personal Market Sales, Liberty Mutual Ins. Co.

The Company's By-laws provide for Board of Director committees as deemed appropriate. There were no committees of the Board as of December 31, 2006. A review of the Board of Directors meeting minutes during and subsequent to the examination period indicated that investment transactions were reviewed and approved and that the Directors were actively involved in the affairs of the Company.

Officers

The By-laws of the Company provide that the Officers of the Corporation shall consist of a President, a Treasurer, a Comptroller and a Secretary. In addition, the Board of Directors may elect a Chairman of the Board, one or more Vice Presidents, and such other officers and assistant officers as the Board of Directors may determine. Officers are appointed by the Board of Directors and serve until terminated, replaced, retired or resigned. At December 31, 2006, the Company's officers and their respective titles are as follows:

Officer	**Title**
J. Paul Condrin, III	Chairman of the Board, President & CEO
Dexter Robert Legg	Vice President and Secretary
Laurence Henry Soyer Yahia	Vice President and Treasurer
John Derek Doyle	Vice President and Comptroller
Margaret Dillon	Vice President and CFO
Elizabeth Morahan	Vice President and General Counsel
Anthony Alexander Fontanes	Vice President and Assistant Treasurer
Edward Joseph Gramer, III	Vice President
Gary Jay Ostrow	Vice President
Himanshu Indravadan Patel	Vice President
Timothy Michael Sweeney	Vice President

It was noted during the course of the examination, certain changes were made in the directors and principal officers of the Company, without corresponding filings with the Delaware Insurance Department. This is a violation of Title 18, Section 4919 which states, "*Every domestic stock or mutual insurer shall promptly notify the Commissioner in writing of any change of personnel among its directors or principal officers*".

Therefore,

> **It is recommended that the Company comply with the requirements of Title 18, Section 4919 of the Delaware Insurance Code by timely filings of any changes among its directors or principal officers.**

Conflicts of Interest

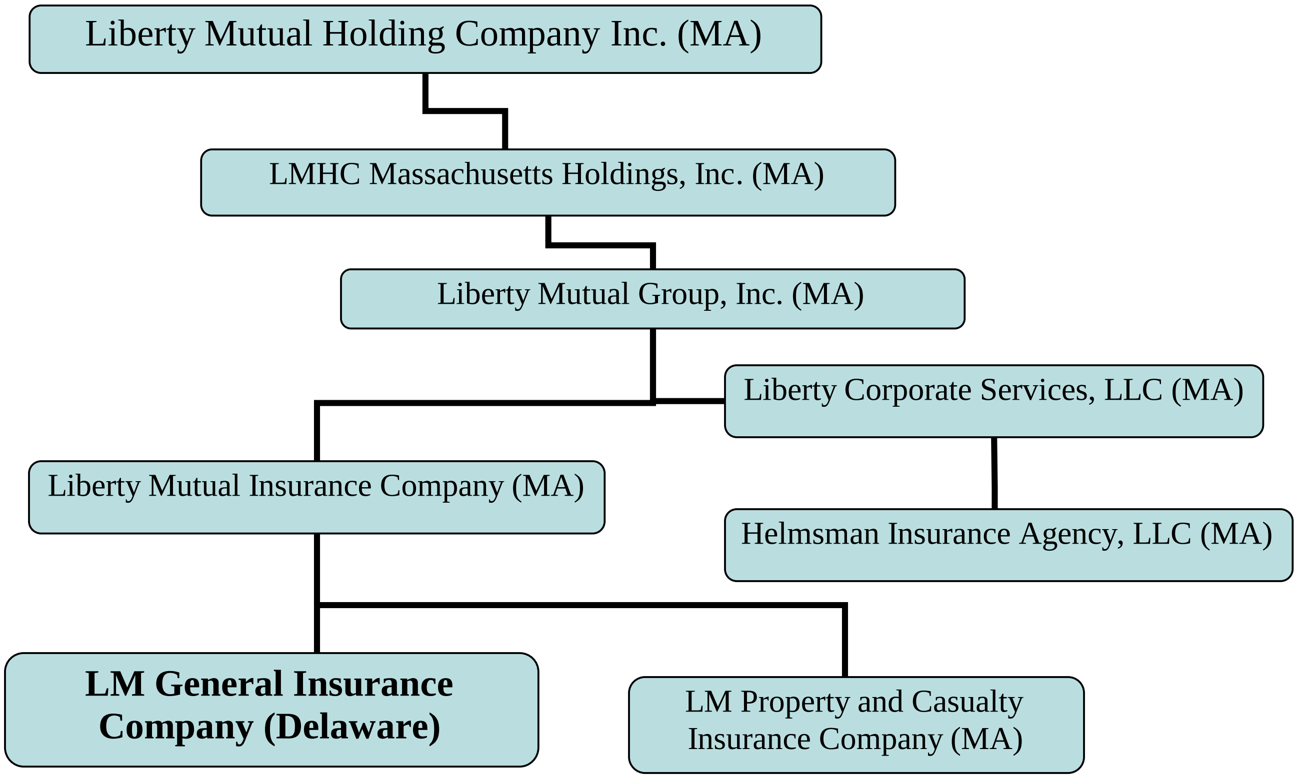
It was noted that the Company has a conflict of interest disclosure policy which requires officers and directors to complete and sign an annual conflict of interest disclosure statement. A review of the signed conflict of interest statements for the years under examination did not disclose any material conflicts of interest. All officers and directors signed annual disclosure statements for each year under examination.

Corporate Records

A review was made of the Company's corporate records, including the Articles of Incorporation, bylaws, corporate stock ledger and the minutes of meetings of the stockholder and directors. The minutes reflect resolutions appropriate to the scope of operations of the Company, such as appointment of directors and officers, approval of investment activity, approval of dividends, approved annual conflict of interest reports, as well as the Statement of Actuarial Opinion.

HOLDING COMPANY SYSTEM

The Company is a member of an Insurance Holding Company System as defined under Title 18 of the Delaware Insurance Code. All of the outstanding capital stock is owned by Liberty Mutual Insurance Company, a Massachusetts stock insurance company. The ultimate controlling entity is Liberty Mutual Holding Company Inc., a Massachusetts mutual holding company. The organizational chart below shows the relationship and domicile of the Company, immediate Parent and direct upstream affiliates, as well as any company in the System that the Company has agreements with:



Copies of the Form B and Form C Holding Company Registration Statements filed with the Delaware Insurance Department, during the period under examination, were reviewed. It appears that the Company has complied with the provisions of Title 18 DE Administrative Code, Section 1800 [formerly Regulation 13].

MANAGEMENT AGREEMENTS

Inter-Company

The Company participated in the following inter-company agreements during the period under examination:

Investment Management Agreement

The Company was a party to an investment management agreement with Liberty Mutual Insurance Company (LMIC) effective October 31, 2003. LMIC provides investment management services in conformity with the general investment guidelines established by the Company, which are included in the agreement. The method for calculating the compensation to be paid by the Company is intended to result in LMIC being reimbursed at a fair and reasonable rate. The Company filed the investment management agreement with the Delaware Department of Insurance as part of the Form A filing on July 1, 2003 and the Department of Insurance approved the agreement on October 29, 2003. During 2006, the amount paid pursuant to the terms of this agreement was $7,091.

For disclosure purposes, it is noted this agreement was replaced effective January 1, 2007 by a revised Investment Management Agreement.

Agency Agreement

As of December 31, 2006, the Company was party to an Agent-Company Agreement under which the affiliated Helmsman Insurance Agency LLC (formerly known as Helmsman Insurance Agency, Inc.) provides all usual and customary services of an insurance agent on all insurance contracts placed by Helmsman.

This agreement was filed with the Delaware Insurance Department (and approved) with the Form A filing made at the time of acquisition of the Company by the Liberty Mutual Group. There has been no charge for these services since inception of the agreement.

Management Services Agreement

The Company was party to a Management Services Agreement with Prudential Property and Casualty (PruPac), filed and approved by the Delaware Insurance Department prior to this examination period. In connection with the acquisition of the Company by Liberty Mutual Group, this agreement was replaced. The new agreement, executed with Liberty Mutual Insurance Company, was approved by the Delaware Insurance Department on October 29, 2003. Under the terms of this agreement, LMIC provides services of personnel, office space, supplies, equipment, telephone and wire services, the use of computers and similar machines to the extent necessary or appropriate. This agreement was filed with the Delaware Insurance Department (and approved) with the Form A filing made at the time of acquisition of the Company by Liberty Mutual. There has been no charge for these services since inception of the agreement.

Tax Allocation Agreement

As of December 31, 2006, the Company was party to a Federal Tax Sharing Agreement under which the Company's Federal income tax filing is consolidated with that of LM Personal Insurance Company and Liberty Mutual Holding Company Inc. The agreement meets the requirements of SSAP #10 (*Income Taxes*). The duration of the agreement is perpetual, and each party has an enforceable right to recoup prior year payments in the event of future losses. By terms of the contract, there are no charges to be paid by the Company to LMHC for preparing, calculating and filing the return. Allocation is based upon separate return calculations with credit applied for losses as appropriate.

The amount of federal income taxes paid and available for recoupment in the event of future losses is $126,000 from 2006, and $100,000 from 2005.

Non-Intercompany

There were no non-intercompany agreements at December 31, 2006.

TERRITORY AND PLAN OF OPERATION

Territory

As of the examination date, the Company was a State of Delaware property and casualty insurer admitted in forty-six states (all except Alaska, Hawaii, Massachusetts and New Jersey) and the District of Columbia to sell property and casualty products. The Company's primary business is insuring preferred risks in the private passenger auto liability and auto physical damage lines.

Plan of Operation

In 2003, Liberty Mutual Holding Company, Inc. purchased Prudential Property and Casualty Insurance Company, the Company (then named "Prudential General Insurance Company), as well as the affiliate, LM Personal Insurance Company (then named "Prudential Commercial Insurance Company") to gain access to the Prudential Agent relationship. With the purchase, Liberty Mutual entered into an exclusive agent agreement with the Prudential agents. With this exclusive agreement, Liberty Mutual then offered its products from Liberty Mutual's core legal entities through the agents.

Prudential historically wrote six-month policies and Liberty did not want to change its policy of writing twelve-month policies. Since Liberty entities already had twelve-month rates filed, they opted to use their existing companies. This plan was fully disclosed in the Form A filing made with the Delaware Insurance Department upon acquisition of the Company by Liberty Mutual. As a result, direct writings in the Company were discontinued as of April 2004.

Operations are conducted at the corporate home office of LMIC, Boston, Massachusetts. The Company has no employees and utilizes the services of LMIC employees to conduct operations.

The following is a breakdown of premiums written by line of business during the examination period:

Line of Business	2006	2005	2004	2003
PP Auto Liability	$ (4,566)	$ (302,064)	$ 41,936,717	$ 107,045,977
Auto Physical Damage	(4,859)	(199,867)	27,698,639	68,807,725
Total	$ (9,425)	$ (501,931)	$ 69,746,258	$ 176,371,938

Immaterial negative premium in 2005 and 2006 resulted from runoff of prior business.

GROWTH OF THE COMPANY

The following information was extracted from copies of the Company's filed Annual Statements with the Delaware Insurance Department for each year indicated:

Year	Net Admitted Assets	Surplus As Regards Policyholders	Direct Premiums Written	Net Premiums Earned	Net Income
2006	15,508,853	5,401,350	(9,425)	0	401,127
2005	21,591,181	14,825,873	(501,931)	0	455,582
2004	28,325,261	14,374,803	69,746,258	0	261,613
2003	39,813,586	14,251,790	176,371,938	0	653,949

The decrease in surplus during 2006 relates primarily to the ordinary and extraordinary dividends, and the return of capital (see the caption, "Capital"). All direct writings were discontinued in 2004, and 100% of the Company's net underwriting activity is ceded. Due to the limited operations of the Company, and Parent's desire to deploy capital on a risk basis, the Company sought and obtained approval of the Delaware Insurance Department for the dividends and return of capital. The RBC ratio remained high even after the referenced transactions; with December 31, 2006 total adjusted capital of $5,401,350, and Authorized Control Level RBC of only $95,817.

Cash and invested assets accounted for 86.1% of total admitted assets of December 31, 2006, with the bond portfolio consisting of 100% US Treasury Bonds/Notes.

NAIC "IRIS" RATIOS

The Company's NAIC IRIS Ratio results were reviewed for all years under examination. During the examination period, two (2) IRIS ratios produced "unusual values" in 2006 and one (1) IRIS ratio produced an "unusual value" in 2004, as shown in the following table:

Year	Ratio	Ratio Description	Unusual Values Equal to or Over/Under	Company Result
2006	7	Gross Change in Policyholder Surplus	50/-10	64
2006	8	Net Change in Adjusted Policyholder Surplus	25/-10	47
2004	6	Investment Yield	10/4.5	3.1
2003	1	Gross Premiums Written to Policyholders Surplus	900/0	999

Following is a brief description of the underlying circumstances, which produced the "unusual values" in the Company's IRIS Ratios by examination year:

2006

Both ratios compare current and prior year surplus and measure significant fluctuations. Both "unusual values" occurred as a result of the significant decrease in surplus between 2005 and 2006 resulting from the 2006 ordinary and extraordinary dividends, and the distribution of capital. Reference is made to the caption "Growth of Company" for further details.

2004

The investment yield is calculated using the investment income divided by the simple average of the current and prior year ending balances for invested assets. In October 2004 there was a large increase in invested assets, so the average invested assets is not representative of the balances held for the majority of the year. The assets added in October 2004 did not have a full year to earn investment income, yet they were a significant component in the calculation.

2003

Prudential had been steadily increasing its Gross Written Premium/ Surplus Ratio through 2003. Since Liberty acquired the Company it has decreased the Gross Written Premium/ Surplus levels. This can be seen above under the caption "Growth of the Company".

REINSURANCE

General

For the years under examination, the Company reported the following distribution of net premiums written:

Description	2003	2004	2005	2006
Direct Business	$176,371,939	$69,746,258	$(501,930)	$(9,425)
Reinsurance				
Assumed From Affiliates	$0	$0	$0	$0
Assumed From Non-Affiliates	0	0	0	0
Total Direct and Assumed	$176,371,939	$69,746,258	$(501,930)	$(9,425)
Reinsurance				
Ceded to Affiliates	$176,312,939	$67,595,715	$(1,913,466)	$(7,308)
Ceded to Non-Affiliates	59,000	2,150,543	1,411,536	(2,117)
Net Premiums Written	$0	$0	$0	$0

The Company discontinued direct premium writings in mid-2004, as can be seen in the above table. During 2005 and 2006, the Company reported negative premium resulting from runoff activity of prior business written.

Assumed

The Company did not assume any business for the years under examination.

Ceded

The Company is party to three reinsurance treaties in effect at December 31, 2006, one with the affiliate LMPac and the other two with Vantage Casualty Insurance Company (Vantage). The business ceded under the treaty with LMPac accounted for 98.5%, of total premiums ceded during the examination period. The agreements with Vantage provide stop-loss reinsurance coverage for certain liabilities that the Company did not desire to acquire as part of the acquisition from Prudential Financial, Inc. These contracts are on an excess of loss basis, and were filed with the Delaware Insurance Department as part of the Form A filing upon acquisition of the Company by the Liberty Mutual Group. Details of each are as follows:

100% Quota Share with LMPac

Pursuant to a quota share reinsurance agreement with LMPac, the Company cedes 100% of direct loss and loss adjustment expense with respect to all personal lines property and casualty direct insurance written or renewed by the Company on or after January 1, 1982 with the exception of the "excluded" and "discontinued channels" described below. The contract may be terminated at any time by either party giving ninety days prior written notice. The account balances are reported quarterly on a net paid basis. This treaty represents the clear majority of all ceded business during the examination period and results in the Company having no net written premium for all years under examination.

"Excluded Business" ceded to Vantage

Pursuant a reinsurance agreement with Vantage dated October 30, 2003; the Company cedes 100% of certain "Excluded Business" to Vantage. The contract covers certain special PIP claims, mold, earthquake, A&E business, extra-contractual obligations, and California wildfire claims. Liberty Mutual received cash representing the net reserve balances, after applicable underlying insurance such as UCJF and MCCA, as of the date of sale. Negative development on this book of business is ceded to Vantage, favorable development is retained by Liberty Mutual. Final settlement will occur after all contract obligations with claimants have been satisfied.

"Discontinued Channels" ceded to Vantage

The Company and Vantage entered into a reinsurance agreement, dated October 30, 2003, relating to the Prudential distribution channels, Independent Agents and Prudential Personal Lines. These channels are referred to as the "discontinued channels." The contract stipulates that with regard to "Pre-effective date" business, premium earned and claims incurred through November 1, 2003, Liberty Mutual shall cede all negative development on this book to Vantage. Liberty Mutual will retain all favorable development on the pre-effective date business. For "Post-effective date" business, premium earned and claims incurred after November 1, 2003, Liberty Mutual shall cede the net incurred losses and earned premium to Vantage and shall settle these amounts on a quarterly basis.

FINANCIAL STATEMENTS

The following pages contain a statement of assets, liabilities, surplus and other funds as of December 31, 2006, as determined by this examination, along with supporting exhibits as detailed below:

Analysis of Assets, December 31, 2006

Statement of Liabilities, Surplus and Other Funds, December 31, 2006

Statement of Income, December 31, 2006

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 are presented on an “exception basis” in the Notes to the Financial Statements section of this report.

Analysis of Assets

As of December 31, 2006

	Assets	Assets Not Admitted	Net Admitted Assets	Note
Bonds	$9,195,093	0	$9,195,093	1
Cash and short-term investments	4,163,349	0	4,163,349	
Investment income due and accrued	75,647	0	75,647	
Amounts recoverable from reinsurers	2,069,077	0	2,069,077	
Net deferred tax asset	3,000	2,650	350	
Other Assets	5,337	0	5,337	
Total Assets	$15,511,503	$2,650	$15,508,853	

Liabilities, Surplus and Other Funds

As of December 31, 2006

		Note
Losses	$754,868	
Loss adjustment expenses	10000	
Current federal income taxes	134,308	
Ceded reinsurance premiums payable	(2,350)	
Funds held by Company under reinsurance treaties	654,103	
Payable to parent, subsidiaries, and affiliates	4,315,591	
Other liabilities	143,561	
Collateral held for securities loaned	4,097,422	
Total Liabilities	10,107,503	
Common capital stock	3,500,000	
Gross paid-in and contributed surplus	2,011,632	
Unassigned funds (surplus)	-110,282	
Surplus as regards policyholders	5,401,350	
Total liabilities and surplus	$15,508,853	

Underwriting and Investment Exhibit:

Statement of Income

Capital & Surplus

UNDERWRITING INCOME	
Premiums earned	$0
DEDUCTIONS:	
Losses incurred	($1,222)
Loss expenses incurred	10,027
Other underwriting expenses incurred	0
Aggregate write-ins for underwriting deductions	
Total underwriting deductions	8,805
Net underwriting gain or (loss)	($8,805)
INVESTMENT INCOME	
Net investment income earned	692,703
Net realized capital gains or (losses)	(89,193)
Net investment gain or (loss)	603,510
OTHER INCOME	
Net gain or (loss) from agents' or premium balances charged off	0
Aggregate write-ins for miscellaneous income	
Total other income	0
Net income before dividends to policyholders and before federal income taxes	594,705
Dividends to policyholders	0
Net income after dividends to policyholder but before federal income taxes	594,705
Federal and foreign income taxes incurred	193,578
NET INCOME	$401,127
CAPITAL AND SURPLUS ACCOUNT	
Surplus as regards policyholders, December 31, 2005	$14,825,873
GAINS AND (LOSSES) IN SURPLUS	
Net income	401,127
Net unrealized capital gains or (losses)	0
Change in net unrealized foreign exchange capital loss	0
Change in net deferred income tax	(38,000)
Change in nonadmitted assets	38,350
Surplus adjustments: Paid In	(2,488,368)
Dividends to stockholders	(7,337,632)
Change in surplus as regards policyholders for the year	($9,424,523)
Surplus as regards policyholder, December 31, 2006	$5,401,350

Schedule of Examination Adjustments

As of December 31, 2006

	Per Company	Per Examination	Increase (Decrease)
Total Admitted Assets	$15,508,853	$15,508,853	$0
Total Liabilities	$10,107,503	$10,107,503	$0
Common capital stock	$3,500,000	$3,500,000	$0
Gross paid in and contributed capital	2,011,632	2,011,632	0
Unassigned Surplus	(110,282)	(110,282)	0
Total Capital and Surplus	$5,401,350	$5,401,350	$0
Total Liabilities, Capital and Surplus	$15,508,853	$15,508,853	$0

NOTES TO FINANCIAL STATEMENTS

Assets

(1) Bonds: $9,195,093

The Company participates in a securities lending program. The investment guidelines provide that no more than twenty-five percent (25%) of total asset holdings may be on loan at any point in time. Note #17B of the Notes to Financial Statements indicates that as of December 31, 2006, the Company had a total of $5,393,965 on loan. With total assets of $15,508,853 at that time, this represents a total of 34.78 percent, which is in violation of the investment guidelines. Therefore,

It is recommended that the Company comply with the investment guidelines as established in the Investment Management Agreement, by limiting loaned securities to twenty-five percent (25%) of total assets.

SUMMARY OF RECOMMENDATIONS

Management and Control (Page #7)
It is recommended that the Company report all changes in directors and principal officers to the Delaware Insurance Department as required by 18 Del.C. §4919.

Loaned Securities (Page #22)
It is recommended that the Company comply with the investment guidelines as established in the Investment Management Agreement, by limiting loaned securities to twenty-five percent (25%) of total assets.

CONCLUSION

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

Description	**December 31, 2002**	**December 31, 2006**	**Increase/(Decrease)**
Assets	$33,550,696	$15,508,853	($18,041,843)
Liabilities	$19,842,177	$10,107,503	($9,734,674)
Capital and Surplus	$13,708,519	$5,401,350	($8,307,169)

Respectfully submitted,

David Carter

David Carter, CFE, CIE, FLMI
Examiner-In-Charge
State of Delaware

SUBSEQUENT EVENTS

Capital Contribution

The Company received a capital contribution of $1,200,000 in 2007. The Company indicated that upon review of the impact of the 2006 dividend, extraordinary dividend, and return of capital (see "Capitalization") it was determined that a capital contribution was needed to meet the capital requirements of certain jurisdictions for licensing purposes.

This was properly disclosed in Note #10 of the March 31, 2007 Quarterly Statement.