

# STATE OF MISSOURI



## DEPARTMENT OF INSURANCE, FINANCIAL INSTITUTIONS AND PROFESSIONAL REGISTRATION

P.O. Box 690, Jefferson City, Mo. 65102-0690

RE: Examination Report of Maiden Reinsurance Company for the period ended December 31, 2010

### ORDER

After full consideration and review of the report of the financial examination of Maiden Reinsurance Company for the period ended December 31, 2010, together with any written submissions or rebuttals and any relevant portions of the examiner's workpapers, I, John M. Huff, Director, Missouri Department of Insurance, Financial Institutions and Professional Registration pursuant to section 374.205.3(3)(a), RSMo., adopt such examination report. After my consideration and review of such report, workpapers, and written submissions or rebuttals, I hereby incorporate by reference and deem the following parts of such report to be my findings and conclusions to accompany this order pursuant to section 374.205.3(4), RSMo: summary of significant findings, subsequent events, company history, corporate records, management and control, fidelity bond and other insurance, pension, stock ownership and insurance plans, territory and plan of operations, growth of the company and loss experience, reinsurance, accounts and records, statutory deposits, financial statements, financial statement changes resulting from examination, and comments on financial statement items.

Based on such findings and conclusions, I hereby ORDER, that the report of the Financial Examination of Maiden Reinsurance Company as of December 31, 2010, be and is hereby ADOPTED as filed and for Maiden Reinsurance Company to take the following action or actions, which I consider necessary to cure any violation of law, regulation or prior order of the Director revealed by such report: (1) implement, and verify compliance with each item, if any, mentioned in the Comments on Financial Statement Items and/or Summary of Recommendations section of such report; (2) account for its financial condition and affairs in a manner consistent with the Director's findings and conclusions.

So ordered, signed and official seal affixed this 2nd day of April, 2012.



John M. Huff, Director  
Department of Insurance, Financial Institutions  
and Professional Registration

REPORT OF  
FINANCIAL EXAMINATION

# Maiden Reinsurance Company

As of:  
DECEMBER 31, 2010

**FILED**  
APR 12 2012  
DIRECTOR OF INSURANCE &  
FINANCIAL INSTITUTIONS &  
PROFESSIONAL REGISTRATION



STATE OF MISSOURI  
DEPARTMENT OF INSURANCE, FINANCIAL INSTITUTIONS  
AND PROFESSIONAL REGISTRATION

JEFFERSON CITY, MISSOURI

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March 1, 2012  
St. Louis, MO

Honorable Joseph Torti III, Superintendent  
Division of Insurance Regulation  
State of Rhode Island  
Chairman, Financial Condition (E) Committee, NAIC

Honorable Ted Nickel, Commissioner  
Department of Insurance  
State of Wisconsin  
Secretary, Midwestern Zone, NAIC

Honorable John M. Huff, Director  
Missouri Department of Insurance, Financial  
Institutions and Professional Registration  
301 West High Street, Room 530  
Jefferson City, Missouri 65101

Gentlemen:

In accordance with your financial examination warrant, a comprehensive financial examination has been made of the records, affairs and financial condition of

### **Maiden Reinsurance Company**

hereinafter referred to as "Maiden" or the "Company." The Company's main office is located at 6000 Midlantic Drive, Suite 200 South, Mount Laurel, New Jersey 08054; telephone number (856) 359-2400. Examination fieldwork began on June 21, 2011 and concluded on the above date.

### **SCOPE OF EXAMINATION**

#### Period Covered

This examination covers the period from January 1, 2007 through December 31, 2010, and was conducted by examiners from the state of Missouri. This examination also considered material transactions or events occurring subsequent to December 31, 2010.

#### Procedures

This examination was conducted as a full scope comprehensive examination. We conducted our examination in accordance with the NAIC Financial Condition Examiners Handbook. The 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 systems controls and procedures used to mitigate those risks. An examination also includes 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. Key activities were: Reinsurance; Investment and Cash Management; Underwriting and Premiums; Claims and Reserving; and Affiliated Parties.

The examiners relied upon information and workpapers provided by the Company's independent auditor, BDO USA, LLP for its audit covering the period from January 1, 2010 through December 31, 2010. Such reliance included fraud risk analysis, internal control narratives and tests of internal controls.

### **SUMMARY OF SIGNIFICANT FINDINGS**

The Company has experienced continued rapid growth in premium and total assets. Adequate capital currently exists to support this growth. After experiencing a loss for 2009, positive net income was generated in 2010. The Company's overall financial condition remains sound and there were no material findings as a result of this examination.

### **SUBSEQUENT EVENTS**

There were no significant subsequent events since the date of examination.

### **COMPANY HISTORY**

#### General

Maiden Reinsurance Company, formerly GMAC Direct Insurance Company, was purchased from Motors Insurance Company on December 23, 2008 by Maiden Holdings North America, Ltd., a Delaware domiciled holding company that is a wholly-owned subsidiary of Maiden Holdings, Ltd., a publicly traded company and the ultimate controlling entity.

On September 1, 2009, Maiden Holdings North America, Ltd. purchased and subsequently contributed 100% of the common stock of Maiden Specialty Insurance Company, formerly Integon Specialty Insurance Company, to Maiden Reinsurance Company, making it a wholly-owned subsidiary of Maiden Reinsurance Company.

Prior to the purchase of Maiden Reinsurance Company, GMAC Insurance sold to Maiden Holdings Ltd. 100% of GMAC Re LLC, a reinsurance managing general agent underwriting business on behalf of Motors Insurance Corporation. Subsequently, GMAC Re LLC changed its name, ultimately to Maiden Re Insurance Services, LLC. Maiden Reinsurance Company is now renewing some of this reinsurance business from Maiden Re Insurance Services, LLC.

Capital Stock

The Company has 20,000 shares of \$200 par value common stock authorized with all 20,000 shares issued and outstanding. All shares are owned by Maiden Holdings North America, Ltd.

Dividends

The Company paid no dividends during the examination period.

Mergers and Acquisitions

Acquisition of the Company was discussed in the General section above.

**CORPORATE RECORDS**

Minutes of the meetings of the Board of Directors and annual meetings of the stockholder were reviewed for the years 2007 through 2010. Those minutes adequately documented evidence of the overall guidance provided by the Board of Directors.

As of December 31, 2010, the following members comprised the Board of Directors:

<u>Name</u>	<u>Position</u>
Patrick J. Haveron	President Maiden Global Servicing Company, LLC
Arturo M. Raschbaum	President and Chief Executive Officer Maiden Holdings, Ltd.
Lawrence F. Metz	General Counsel Maiden Holdings North America, Ltd. and its subsidiaries
Paul W. Hawk, Jr.	Chief Financial Officer Maiden Re Insurance Services, LLC
Karen L. Schmitt	President Maiden Holdings North America, Ltd.

During the second quarter of 2011, the Company added four director positions to comply with 379.035(5) RSMo, which requires companies to maintain a Board of Directors of between nine and twenty-five members. Those directors are:

Cheryl A. Brunette	Vice President – Compliance Maiden Global Servicing Company, LLC
Thomas H. Highet	Executive Vice President Maiden Re Insurance Services, LLC
Dorothy E. Muir	Senior Vice President Maiden Re Insurance Services, LLC
David L. Adams	Executive Vice President Maiden Re Insurance Services, LLC

Officers serving at December 31, 2010 were:

<u>Name</u>	<u>Position</u>
Karen L. Schmitt	President
Paul W. Hawk, Jr.	Vice-President and Treasurer
Lawrence F. Metz	Secretary
Steven A. Calvitto	Assistant Treasurer
Cheryl A. Brunette	Assistant Secretary

#### Committees

The Company has two standing committees. The investment committee evaluates the Company's overall investment objectives and consists of Paul W. Hawk, Jr., Arturo M. Raschbaum, and Karen L. Schmitt.

The Company has elected to use the audit committee of the holding company system. That committee consists of Raymond M. Neff, Steven H. Nigro, and Simcha Lyons.

#### Conflict of Interest

Members of the senior management of this company and related entities provided signed conflict of interest disclosures. No instances of conflict of interest situations were reported.

#### Surplus Debentures

The Company had no surplus debentures.



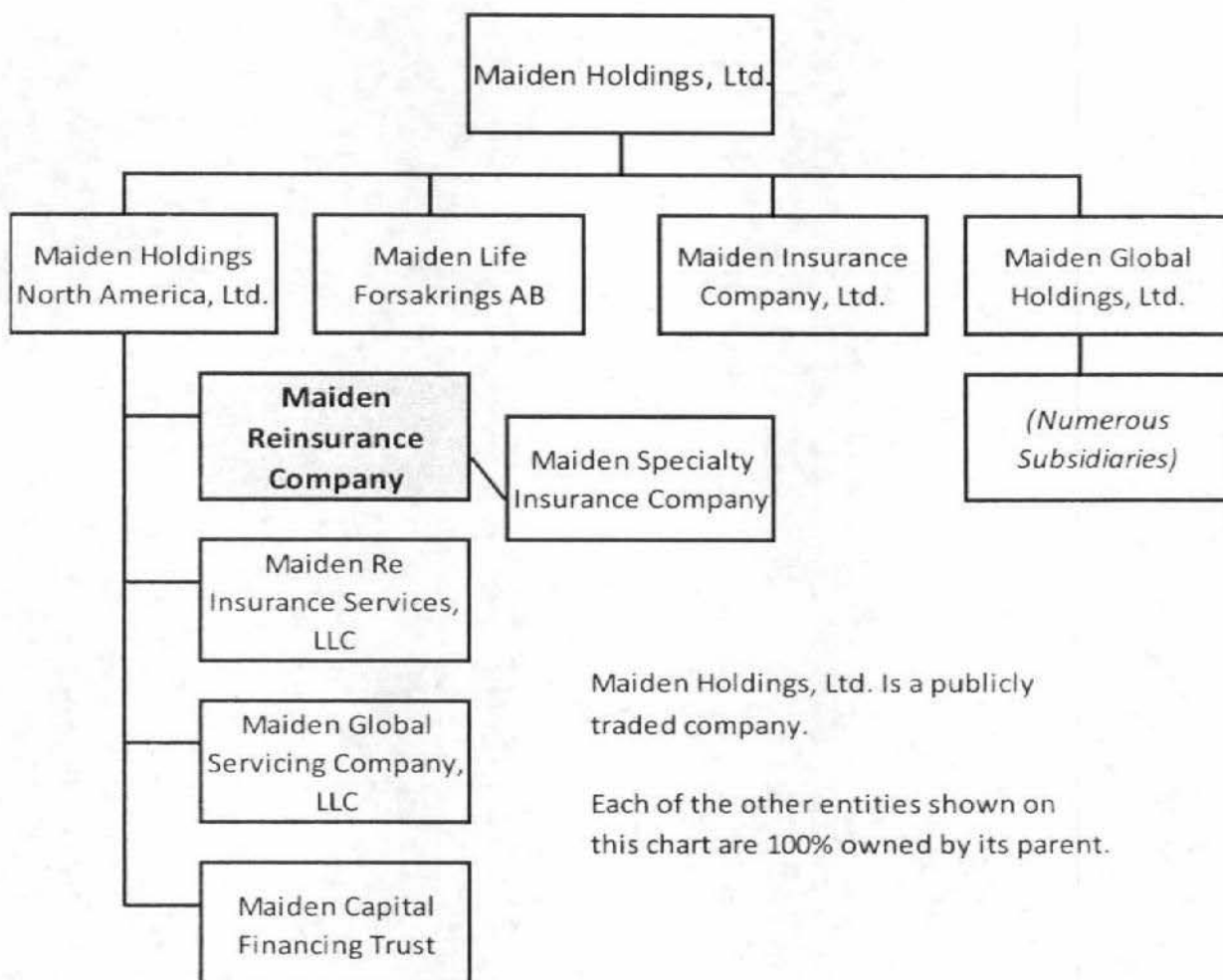
## MANAGEMENT AND CONTROL

### Holding Company

The Company is a member of an insurance holding company system as defined by Chapter 382 RSMo (Insurance Holding Companies). Relationships are discussed in the Company History section above.

### Organizational Structure

The following chart shows the ownership structure of the companies within the holding company system:



### Intercompany Transactions

The Company had submitted all intercompany agreements to the Department of Insurance, Financial Institutions and Professional Registration prior to implementation. The Company was a party to the following affiliated agreements on December 31, 2010:

#### ***Managing General Agent's Contract***

- Parties: Maiden Reinsurance Company; Maiden Re Insurance Services, LLC
- Effective: The original effective date was 12/3/09.
- Terms: Underwriting management and administrative services agreement whereby Maiden Reinsurance Company appointed Maiden Re Insurance Services LLC as its general agent and reinsurance intermediary manager for the purpose of producing and handling its business. The Company grants authority to Maiden Re Insurance Services LLC to (i) solicit, accept and receive submissions for assumed reinsurance; (ii) to secure, at its own expense, reasonable underwriting information through reporting agencies or other appropriate sources relating to each submission; (iii) to issue, renew and countersign reinsurance contracts and endorsements; (iv) to collect and receive premiums thereon; and (v) to adjust and settle claims in accordance with the terms of this agreement.
- Rate(s): Rates are based on a combination of experience and market rates for comparable business. Rates for direct insurance are approved in writing by the insurer and, to the extent necessary, are properly filed with and/or approved by regulatory authorities.

#### ***Treaty Reinsurance Agreement***

- Parties: Maiden Reinsurance Company; Maiden Insurance Company, Ltd.
- Effective: The original effective date was December 23, 2008.
- Terms: This is a quota share reinsurance agreement between Maiden Reinsurance Company and its affiliate, Maiden Insurance Company, Ltd. Under the terms of this agreement, Maiden Reinsurance Company cedes 70% of incurred losses associated with business it assumes under various reinsurance and retrocession contracts.

Rate(s): Maiden Insurance Company, Ltd. pays the Company a ceding commission of 70% of the Company's acquisition costs plus 6% of net written premium on business reinsured.

***Excess of Loss Treaty Reinsurance Agreement***

Parties: Maiden Reinsurance Company; Maiden Specialty Insurance Company

Effective: The original effective date was September 1, 2009.

Terms: Maiden Reinsurance Company will provide stop loss reinsurance to Maiden Specialty Insurance Company if that company's combined ratio exceeds 100%. Maiden Reinsurance Company will indemnify for such amount in excess of 100%. The agreement period will run from the effective date for 12 consecutive months thereafter and for additional 12 month periods after that until amended, terminated or superseded.

Rate(s): Maiden Specialty Insurance Company agrees to pay 1% of net earned premium on business reinsured and such amount shall be credited to Maiden Reinsurance Company from the original date of such business.

***Portfolio Transfer and Variable Quota Share Reinsurance Agreement***

Parties: Maiden Reinsurance Company; Maiden Specialty Insurance Company ("Specialty")

Effective: The original effective date was September 1, 2009. (On July 20, 2011, the Department of Insurance, Financial Institutions and Professional Registration approved the commutation of this agreement.)

Terms: Maiden Specialty Insurance Company cedes and Maiden Reinsurance Company assumes a variable quota share percentage of no more than 90% of Specialty's liability, interest, and responsibilities with respect to risks covered by policies of insurance produced by the affiliate, Maiden Re Insurance Services LLC. The amount of gross premium retained by Specialty, after giving effect to the cession to the Company and pursuant to all other reinsurance, will be at least 10% of the gross premium and all loss reserves relating to losses arising out of the business reinsured prior to September 1, 2009.

Additionally, Specialty agrees to cede and the Company agrees to assume on a treaty reinsurance basis, a variable quota share percentage, of Specialty's unearned premium reserves, other related policy fees, loss reserves, loss adjustment expense and other liabilities including assessments of any kind, premium taxes, commissions and all underwriting expenses incurred by Specialty on or after September 1, 2009.

Rate(s): Based on percentages of ceded insurance as described above.

#### ***Tax Sharing & Allocation Agreement***

Parties: Maiden Reinsurance Company; Maiden Holdings North America, Ltd.; Maiden Specialty Insurance Company; Maiden Re Insurance Services, LLC; and Maiden Global Servicing Company, LLC.

Effective: The original agreement became effective December 31, 2009.

Terms: Tax allocation agreement to allocate consolidated taxes to parties as if each party had filed on a separate return basis with current credit for any net operating losses, capital losses, foreign tax credits, or other items utilized in the consolidated tax return.

Rate(s): Consolidated taxes are allocated to parties as if each had filed on a separate return basis.

#### ***Asset Management Agreement***

Parties: All Insurance Management Limited ("AIM"), a Bermuda corporation; Maiden Reinsurance Company; Maiden Holdings North America, Ltd.; Maiden Insurance Company, Ltd.; Maiden Holdings, Ltd; and Maiden Specialty Insurance Company.

Effective: The original agreement became effective on July 3, 2007. The first amendment was effective also on July 3, 2007. The second amendment became effective on December 23, 2008, and added Maiden Reinsurance Company as a party. The third amendment became effective on September 1, 2009. The fourth amendment was effective as of August 6, 2010.

- Terms: Under the Agreement, AIM provides investment management services to the other companies for general investment accounts and assets held in trust pursuant to reinsurance trust agreements. Maiden is not a party to the trust agreements. In return, the companies pay asset management fees based on the average value of each investor's account for the preceding quarter.
- Rate(s): Currently, the companies pay .0875% of the average value of the account for the preceding calendar quarter.

### **FIDELITY BOND AND OTHER INSURANCE**

The Company receives protection through a fidelity policy, purchased by its parent, providing \$5 million in coverage with a \$2,500 deductible. This coverage exceeds the minimum amount of fidelity insurance recommended by the NAIC.

Additional insurance coverages are provided through policies obtained by affiliates. Those include errors and omissions, directors and officers liability, workers' compensation, employment practices liability, and umbrella coverages. Coverages are adequate, especially given that the Company has no employees and owns no real estate.

### **PENSIONS, STOCK OWNERSHIP AND INSURANCE PLANS**

The Company has no employees. Services are provided by affiliates under various intercompany agreements. Affiliates' employees are provided benefits typical of the industry including group health and dental coverage, group life insurance, short- and long-term disability, a flexible spending account, a 401(k) plan, and paid time off. Employee benefit costs are included in intercompany charges from affiliates.

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

The Company is licensed in Missouri under Chapter 379 RSMo, (Insurance other than life) to write property, liability and miscellaneous insurance. The Company is also licensed in all other states and the District of Columbia with the exception of California, Maine, Massachusetts, New Hampshire, New Jersey, and Rhode Island. The Company is an accredited reinsurer in those six states.

The Company reinsures small to medium size property and casualty companies primarily writing commercial and personal automobile lines, commercial and homeowners' multi-peril, workers' compensation, and other liability coverages.

## **GROWTH OF COMPANY**

The Company has grown rapidly over the past two years. Premium written has seen significant increases as have the assets supporting the increased premium. The Company continues to write reinsurance for small to medium size regional insurance companies. Coverages that lend themselves to catastrophic losses are largely avoided by the Company.

## **LOSS EXPERIENCE**

Despite slight adverse development during 2010, the Company's loss and loss adjustment expense reserves remained adequate as of December 31, 2010. The Company's loss ratio for 2010 was 72.6% while the combined ratio was 103.5%.

## **REINSURANCE**

### Reinsurance Assumed

The Company assumes property and casualty insurance through four main underwriting groups. Broker treaty business is placed, as the name implies, by outside brokers. Direct treaty business is obtained through internal staff. Most business is placed through these two treaty arrangements and is focused mainly on insurers writing personal and commercial automobile, commercial multi-peril, and workers' compensation coverages. Business generated on a facultative basis is primarily written for commercial automobile and workers' compensation coverages written by property and casualty insurers. The last underwriting group concentrates on assuming group accident and health coverages.

The Company prefers to reinsure small to medium sized regional property and casualty insurance companies. Consideration is given to the lines of business written and location of that business so as to avoid potential catastrophic losses as much as possible.

### Reinsurance Ceded

The vast majority of the Company's premium ceded is to an affiliate, Maiden Insurance Company, Ltd. Terms of the agreement covering this arrangement were discussed above in the Intercompany Transactions section of this report.

## **ACCOUNTS AND RECORDS**

### General

The Company's financial statements are prepared based on statutory accounting principles. Accounting entries are recorded on the FLEXI general ledger system. The Company uses the Senator underwriting and claims processing system. All reinsurance contracts and related summaries of contracts are maintained on the Contract Management System.

Independent Auditor

The Company's financial statements are audited annually by the accounting firm BDO Seidman, LLP. The workpapers and reports of the most recent independent audit were reviewed for this examination. These workpapers and reports were used in the course of this examination as deemed appropriate.

Independent Actuaries

Loss reserves, loss adjustment expense reserves and related actuarial accounts reported in the financial statements were certified by Ronald T. Kuelm, FCAS, MAAA, FCA, ARM, CPCU of the actuarial firm Huggins Actuarial Services, Inc.

Under a contract with the Missouri Department of Insurance, Financial Institutions and Professional Registration, Patrick Glenn, ASA, ACAS of the actuarial firm, Lewis & Ellis, Inc., reviewed the adequacy of the Company's loss and loss adjustment expense reserves. His evaluation of the Company's reserves concluded the loss and loss adjustment expense reserves were adequate as of December 31, 2010.

Information Systems

In conjunction with this examination, Andrew Balas, AES, Information Systems Financial Examiner with the Missouri Department of Insurance, Financial Institutions and Professional Registration conducted a review of the Company's information systems. His evaluation did not identify any significant weaknesses.

**STATUTORY DEPOSITS**

Deposits with the State of Missouri

The funds on deposit with the Department of Insurance, Financial Institutions and Professional Registration as of December 31, 2010, are reflected below. These funds were sufficient in par and market value to meet the deposit requirement for the state of Missouri per Section 379.098 RSMo (Security Deposits)

<u>Type of Security</u>	<u>Par Value</u>	<u>Market Value</u>	<u>Statement Value</u>
US Treasury Notes	\$ 2,600,000	\$ 2,874,300	\$ 2,608,873

Deposits with Other States

The Company has funds on deposit with other states in which it is licensed. The funds on deposit as of December 31, 2010, were as follows:

<u>State</u>	<u>Type of Security</u>	<u>Par Value</u>	<u>Market Value</u>	<u>Statement Value</u>
Arizona	US Treasury Note	\$ 111,000	\$ 112,166	\$ 106,835
Arkansas	US Treasury Note	112,000	113,176	107,797
Delaware	US Treasury Note	105,000	106,103	101,060
Florida	US Treasury Note	168,000	169,764	161,696
Idaho	US Treasury Note	262,000	264,751	252,169
Nevada	US Treasury Note	329,000	332,451	316,655
New Mexico	US Treasury Note	335,000	338,518	322,430
North Carolina	US Treasury Note	447,000	451,694	430,227
Oklahoma	US Treasury Note	335,000	338,518	322,430
Oregon	US Treasury Note	120,000	121,260	115,497
South Carolina	US Treasury Note	150,000	165,825	150,152
Virginia	US Treasury Note	<u>559,000</u>	<u>564,870</u>	<u>538,025</u>
		<u>\$ 3,033,000</u>	<u>\$ 3,079,096</u>	<u>\$ 2,924,973</u>

#### Other

The Company entered into sixty separate reinsurance trust agreements, each with a different cedent as beneficiary. These trusts effectively serve as collateral for any unsettled valid claims under the reinsurance contract in the event of the Company's default. The funds held in trust as of December 31, 2010 totaled over \$556 million.

### **FINANCIAL STATEMENTS**

The following financial statements, with supporting exhibits, present the financial condition of the Company as of December 31, 2010, and the results of operations for the year then ended. Any examination adjustments to the amounts reported in the financial statements and/or comments regarding such are made in the "Comments on Financial Statements," which follow the financial statements.

There may have been additional differences found in the course of this examination, which are not shown in the "Comments on Financial Statements." These differences were determined to be immaterial in relation to the financial statements, and therefore were only communicated to the Company and noted in the workpapers for each individual annual statement item.



**BALANCE SHEET**  
As of December 31, 2010

	Assets	Nonadmitted Assets	Net Admitted Assets
Bonds	\$683,610,933	\$0	\$683,610,933
Common stocks	33,477,769	87,601	33,390,168
Cash and short-term investments	80,779,213	0	80,779,213
Receivables for securities	21,903	0	21,903
Investment income due and accrued	3,651,705	0	3,651,705
Uncollected premiums	19,371,878	0	19,371,878
Deferred premiums	80,042,841	0	80,042,841
Amounts recoverable from reinsurers	24,733,407	0	24,733,407
Net deferred tax asset	7,473,331	7,473,331	0
Guaranty funds receivable or on deposit	1,110	0	1,110
Totals	\$933,164,090	\$7,560,932	<u>\$925,603,158</u>
Losses			\$118,048,711
Reinsurance payable on paid losses and LAE			13,695,229
Loss adjustment expenses			247,418
Commissions payable			(35,519,838)
Other expenses			414,785
Taxes, licenses and fees			(3,426)
Current federal income taxes			7,896,461
Unearned premiums			49,559,069
Ceded reinsurance premiums payable			3,202,913
Funds held by company under reinsurance treaties			467,255,867
Provision for reinsurance			200
Payable to parent, subsidiaries and affiliates			5,412,726
Aggregate write-ins for liabilities			32,669,086
Total liabilities			<u>\$662,879,201</u>
Common capital stock			4,000,000
Gross paid in and contributed surplus			295,983,304
Unassigned funds (surplus)			(37,259,347)
Surplus as regards policyholders			<u>262,723,957</u>
Total Liabilities and Surplus			<u>\$925,603,158</u>

**INCOME STATEMENT**  
**For Year Ending December 31, 2010**

Premiums earned		\$184,851,970
Losses incurred	134,205,365	
Loss adjustment expenses incurred	2,425,266	
Other underwriting expenses incurred	58,534,368	
Total underwriting deductions	<u>195,164,999</u>	
Net underwriting gain (loss)		(10,313,029)
Net investment income earned	12,117,217	
Net realized capital gains (losses)	1,440,329	
Net investment gain (loss)	<u>13,557,546</u>	
Aggregate write-ins for miscellaneous income	2,114,841	
Total other income		<u>2,114,841</u>
Net income before dividends to policyholders		5,359,358
Dividends to policyholders		<u>0</u>
Net income before all other federal income taxes		5,359,358
Federal and foreign income taxes incurred		<u>4,091,407</u>
Net income		<u><u>\$1,267,951</u></u>

**RECONCILIATION OF SURPLUS**  
**Changes from January 1, 2007 to December 31, 2010**

	<b>2007</b>	<b>2008</b>	<b>2009</b>	<b>2010</b>
Surplus as regards policyholders, beginning	\$8,754,813	\$8,570,406	\$8,254,313	\$258,556,405
Net income	317,545	235,910	(7,825,975)	1,267,951
Change in net unrealized capital gains or (losses)	0	0	(1,124,482)	1,846,316
Change in net deferred income tax	(1,952)	(2,003)	4,887,779	2,979,187
Change in nonadmitted assets	0	0	(5,634,410)	(1,926,522)
Change in provision for reinsurance	0	0	(820)	620
Surplus adjustments paid in	0	0	291,983,304	0
Dividends to stockholders	(500,000)	(550,000)	(31,983,304)	0
Change in surplus as regards policyholders	(184,407)	(316,093)	250,302,092	4,167,552
Surplus as regards policyholders, ending	<u>\$8,570,406</u>	<u>\$8,254,313</u>	<u>\$258,556,405</u>	<u>\$262,723,957</u>

**EXAMINATION CHANGES**

No changes were made as a result of this examination.

**COMMENTS ON FINANCIAL STATEMENTS**

There are no comments on the financial statements.

**SUMMARY OF RECOMMENDATIONS**

There are no recommendations as a result of this examination.

