

**REPORT ON EXAMINATION  
OF THE  
LM PERSONAL INSURANCE COMPANY  
AS OF  
DECEMBER 31, 2006**

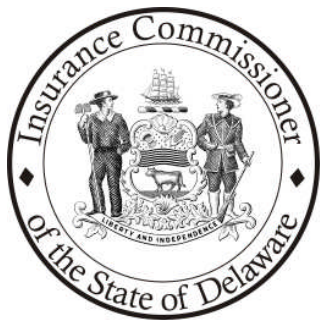
I, Matthew Denn, Insurance Commissioner of the State of Delaware, do hereby certify that the attached REPORT ON EXAMINATION, made as of DECEMBER 31, 2006 of the

**LM PERSONAL 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.*

Matthew Denn  
Insurance Commissioner

**REPORT ON EXAMINATION**  
OF THE  
**LM PERSONAL 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.

A handwritten signature in black ink, appearing to read "Matt Denn", written in a cursive style.

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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. 07-047, dated August 30, 2007, an examination has been made of the affairs, financial condition and management of the

### **LM PERSONAL 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 Commercial Insurance Company (PruCom). 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, PruCom and Prudential General Insurance Company (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 its name from Prudential Commercial Insurance Company to LM Personal Insurance Company.

The Company is a multiple line property and casualty company, licensed in 42 states and the District of Columbia. The Company reported no direct business written since 2004. 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.



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 \$3,500,000 at December 31, 2002. Gross paid in and contributed surplus was reduced by \$1,443,062 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 \$2,056,938.

### CAPITALIZATION

#### Common Capital Stock

The capital stock of the Company has not changed since the previous examination of the Company. 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
<b>12/31/2002</b>	<u>\$3,500,000</u>	<u>\$3,500,000</u>	<u>\$7,077,675</u>	<u>\$14,077,675</u>
<u>Operations:</u>				
2003			593,545	593,545
2004			494,975	494,975
2005			566,780	566,780
2006			794,457	794,457
<u>Capital Changes:</u>				
None				
<u>Capital Contribution/ (Distribution):</u>				
2006		(1,443,062)		(1,443,062)
<u>Dividends Paid:</u>				
2006			<u>(9,289,938)</u>	<u>(9,289,938)</u>
<b>12/31/2006</b>	<u>\$3,500,000</u>	<u>\$2,056,938</u>	<u>\$ 237,494</u>	<u>\$5,794,432</u>

Subsequent to the examination period, the Company received a capital contribution of \$800,000, bringing total Gross Paid in and Contributed Surplus to \$2,856,938. Reference is made to the caption, "Subsequent Events" for a further description.

#### Dividends

During 2006, the Company paid an ordinary dividend to its parent, LMIC of \$1,573,298. Pursuant to the approval by the Delaware Insurance Department, the Company also paid its parent an extraordinary dividend of \$7,716,640.

### **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 or 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:

<b><u>Name</u></b>	<b><u>Business Affiliation</u></b>
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 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**

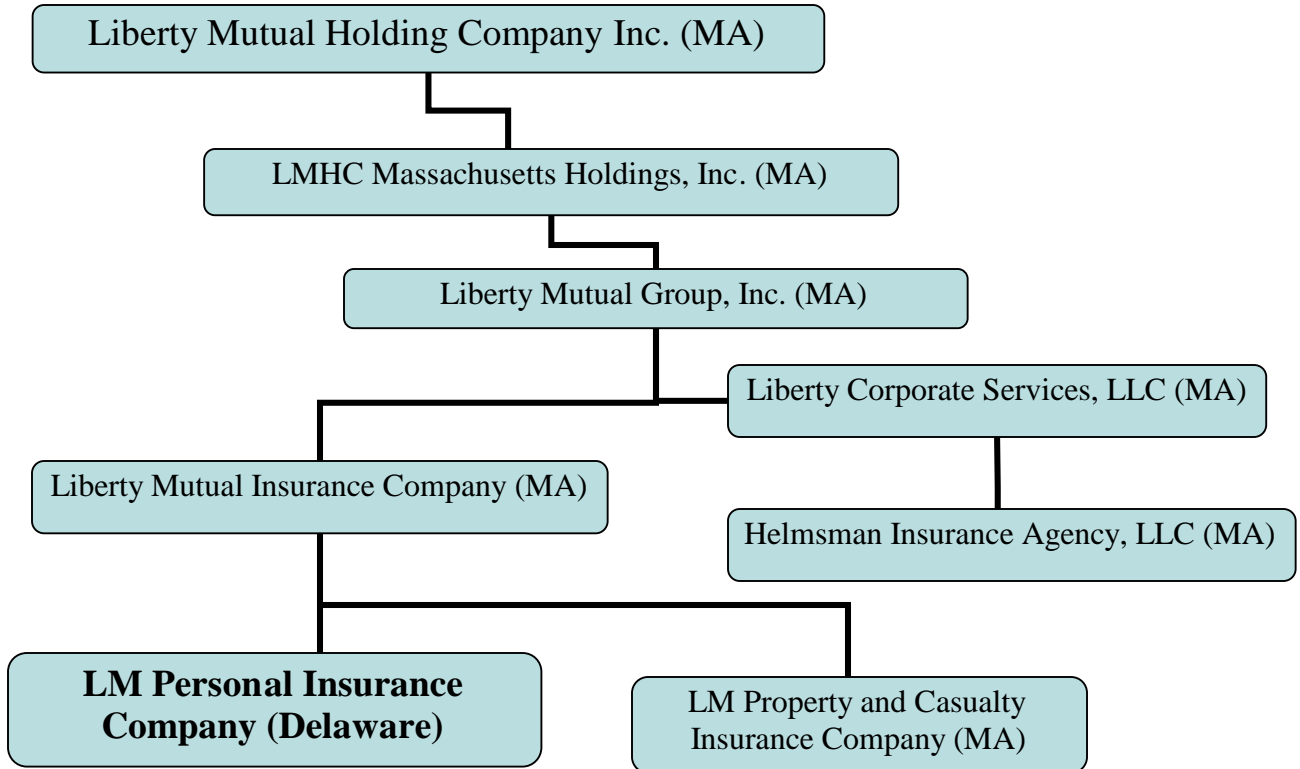
It was noted that the Company has a conflict of interest disclosure policy which requires officers and directors to complete and sign an annual conflict of interest disclosure statement. A review of the signed conflict of interest statements for the years under examination did not disclose any material 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 stockholders 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 \$6,472.

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 General 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 \$272,000 from 2006, and \$148,000 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-two states (all except Alaska, Hawaii, Louisiana, Maine, Massachusetts, New Jersey, Vermont and Wyoming) 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 Commercial Insurance Company), as well as the affiliate, LM General Insurance Company (then named "Prudential General 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:

<u>Line of Business</u>	<u>2006</u>	<u>2005</u>	<u>2004</u>	<u>2003</u>
PP Auto Liability	\$ 0	\$(67,737)	\$ 29,879,364	\$ 44,556,651
Auto Physical Damage	<u>\$ 0</u>	<u>\$(19,825)</u>	<u>21,727,733</u>	<u>31,990,297</u>
Total	<u>\$ 0</u>	<u>\$(87,562)</u>	<u>\$ 51,607,097</u>	<u>\$ 76,546,948</u>

Immaterial negative premium in 2005 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:

<b>Year</b>	<b>Net Admitted Assets</b>	<b>Surplus As Regards Policyholders</b>	<b>Direct Premiums Written</b>	<b>Net Premiums Earned</b>	<b>Net Income</b>
2006	\$10,692,208	\$5,794,432	\$ 0	\$ 0	\$801,457

2005	23,010,492	15,732,975	(87,562)	0	570,780
2004	19,481,622	15,166,195	51,607,097	0	514,875
2003	24,111,271	14,671,220	76,546,948	0	599,622

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 \$5,794,432, and Authorized Control Level RBC of only \$37,386.

#### 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:

<b>Year</b>	<b>Ratio</b>	<b>Ratio Description</b>	<b>Unusual Values Equal to or Over/Under</b>	<b>Company’s Result</b>
2006	7	Gross Change in Policyholder Surplus	50/-10	63
2006	8	Net Change in Adjusted Policyholder Surplus	25/-10	54
2004	6	Investment Yield	10/4.5	4.1

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.

**REINSURANCE**General

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

<u>Description</u>	<u>2003</u>	<u>2004</u>	<u>2005</u>	<u>2006</u>
Direct Business	\$76,546,948	\$51,607,097	\$(87,562)	\$0
Reinsurance				
Assumed From Affiliates	0	0	0	0
Assumed From Non-Affiliates	<u>0</u>	<u>0</u>	<u>0</u>	<u>0</u>
Total Direct and Assumed	\$76,546,948	\$51,607,097	\$(87,562)	\$0
Reinsurance				
Ceded to Affiliates	\$76,546,948	\$50,314,539	\$(1,437,316)	\$0
Ceded to Non-Affiliates	<u>0</u>	<u>1,292,558</u>	<u>1,349,754</u>	<u>0</u>

Net Premiums Written	<u>\$0</u>	<u>\$0</u>	<u>\$0</u>	<u>\$0</u>
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The Company discontinued direct premium writings in mid-2004, as can be seen in the above table. During 2005, the Company reported immaterial 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 97.9%, 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. 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 and 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

	<u>Assets</u>	<u>Assets Not Admitted</u>	<u>Net Admitted Assets</u>	<u>Note</u>
Bonds	\$7,855,743	0	\$7,855,743	1
Cash and short-term investments	2,397,587	0	2,397,587	
Interest, dividends and real estate income due and accrued	78,621	0	78,621	
Amounts recoverable from reinsurers	333,657	0	333,657	
Other Assets	26,600	0	26,600	
<b>Total Assets</b>	<u>\$10,692,208</u>	<u>\$0</u>	<u>\$10,692,208</u>	

Liabilities, Surplus and Other FundsAs of December 31, 2006

Current federal income taxes	\$164,700
Net deferred tax liability	12,000
Ceded reinsurance premiums payable	(5,930)
Funds held by Company under reinsurance treaties	291,312
Payable to parent, subsidiaries, and affiliates	2,721,845
Other liabilities	22,038
Collateral held for securities loaned	<u>1,691,771</u>
<b>Total Liabilities</b>	<u>\$4,897,776</u>
Common capital stock	\$3,500,000
Gross paid-in and contributed surplus	2,056,938
Unassigned funds (surplus)	<u>237,494</u>
Surplus as regards policyholders	<u>\$5,794,432</u>
<b>Total liabilities and surplus</b>	<u>\$10,692,208</u>

## Underwriting and Investment Exhibit:

Statement of IncomeCapital & Surplus**UNDERWRITING INCOME**

Premiums earned	\$0
<b>DEDUCTIONS:</b>	
Losses incurred	\$0
Loss expenses incurred	0
Other underwriting expenses incurred	0
Aggregate write-ins for underwriting deductions	
Total underwriting deductions	\$0
Net underwriting gain or (loss)	\$0

**INVESTMENT INCOME**

Net investment income earned	846,627
Net realized capital gains or (losses)	157,853
Net investment gain or (loss)	\$1,004,480

**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	\$1,004,480
Dividends to policyholders	0
Net income after dividends to policyholder but before federal income taxes	\$1,004,480
Federal and foreign income taxes incurred	203,023
<b>NET INCOME</b>	<b>\$801,457</b>

**CAPITAL AND SURPLUS ACCOUNT**

Surplus as regards policyholders, December 31, 2005	\$15,732,975
<b>GAINS AND (LOSSES) IN SURPLUS</b>	
Net income	801,457
Net unrealized capital gains or (losses)	0
Change in net unrealized foreign exchange capital loss	0
Change in net deferred income tax	(7,000)
Surplus adjustments: Paid In	(1,443,062)
Dividends to stockholders	(9,289,938)
Aggregate write-ins for gains and losses in surplus	0
Change in surplus as regards policyholders for the year	(\$9,938,543)
<b>Surplus as regards policyholder, December 31, 2006</b>	<b>\$5,794,432</b>



Schedule of Examination AdjustmentsAs of December 31, 2006

	<u>Per Company</u>	<u>Per Examination</u>	<u>Increase (Decrease)</u>
Total Admitted Assets	<u>\$10,692,208</u>	<u>\$10,692,208</u>	<u>\$0</u>
Total Liabilities	4,897,776	4,897,776	0
Common capital stock	\$3,500,000	\$3,500,000	0
Gross paid in and contributed capital	2,056,938	2,056,938	0
Unassigned Surplus	<u>237,494</u>	<u>237,494</u>	<u>0</u>
Total Capital and Surplus	<u>\$5,794,432</u>	<u>\$5,794,432</u>	<u>\$0</u>
Total Liabilities, Capital and Surplus	<u>\$10,692,208</u>	<u>\$10,692,208</u>	<u>\$0</u>

**NOTES TO FINANCIAL STATEMENTS**Assets(1) Bonds:\$7,855,743

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 \$2,914,341 on loan. With total assets of \$10,692,208 at that time, this represents a total of 27.26 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:

<b><u>Description</u></b>	<b><u>December 31, 2002</u></b>	<b><u>December 31, 2006</u></b>	<b><u>Increase/(Decrease)</u></b>
Assets	\$23,588,604	\$10,692,208	\$(12,896,396)
Liabilities	9,510,929	4,897,776	(4,613,153)
Capital and Surplus	14,077,675	5,794,432	(8,283,243)

Respectfully submitted,



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

## **SUBSEQUENT EVENTS**

### **Capital Contribution**

The Company received a capital contribution of \$800,000 on 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.