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Linda A. Watters, Commissioner

REPORT OF EXAMINATION

OF

APSPECIALTY INSURANCE CORPORATION

East Lansing, Michigan

As of

December 31, 2003

Examined by the
Office of Financial and Insurance Services
Lansing, Michigan

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In accordance with Section 222 of the Michigan Insurance Code, the Office of Financial and Insurance Services produced 39 copies of this report at a total cost of $40.17 or $1.03 each. This cost is funded by assessment fees charged to the insurance companies.

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Commissioners:

In accordance with instructions and pursuant to statutory requirements, we have examined the financial condition, management and operations of:

APSpecialty Insurance Corporation
1301 N. Hagadorn Road
East Lansing, Michigan

a stock property and casualty insurer, hereinafter referred to as the "Company." Our examination report follows.

SCOPE OF EXAMINATION

The Office of Financial and Insurance Services (OFIS) conducted an examination of the Company for the period from January 1, 2000 to December 31, 2003. We conducted the examination in accordance with guidelines and procedures recommended by the Financial Condition (E) Committee of the National Association of Insurance Commissioners (NAIC) and the laws, rules and regulations prescribed by OFIS. We conducted concurrent examinations of American Physicians Assurance Corporation and Insurance Corporation of America, the Company's affiliates.

We reviewed and incorporated certain workpapers of the Company's independent auditors, PricewaterhouseCoopers LLP, into our examination workpapers where appropriate.

To determine the adequacy of the Company's reserves and related actuarial items, we hired the actuarial consulting services of Mercer Oliver Wyman Actuarial Consulting, Inc. The analysis, performed by Alan M. Crowe, FCAS, MAAA, consisted of the tests necessary to certify the adequacy of the reserves and related actuarial items. The actuarial certification is shown in the report of examination as Exhibit 1 and the detailed report is on file at our offices. We have tested the underlying data provided to the actuary for completeness and accuracy.

We verified and determined the Company's assets and liabilities as of December 31, 2003. We performed a limited review of the period between the prior examination and this December 31, 2003 examination. This review consisted mainly of an analytical review of the changes in the balance sheet, a review of the minutes of the board of directors and annual meetings of the stockholders, and a review of any items we deemed necessary. We also performed a limited market conduct review.

Our examination included a review of the following matters that have an impact on the Company's financial condition or conformity with related laws:

Conflict of Interest
Fidelity Bond and Other Insurance
Underwriting
Accounts and Records
Treatment of Policyholders
Advertising

In addition, we reviewed transactions occurring subsequent to December 31, 2003 as deemed appropriate. Comment on the findings of our examination is limited to matters involving a departure from laws, rules or regulations; a significant change in the amount of an item; or a necessary explanation. Any other adjustments or comments were discussed with Company personnel and may appear in a letter to management that was prepared in conjunction with this report of examination.

HISTORY AND PURPOSE

Effective January 1, 2001, the Company redomesticated to Michigan from Illinois and changed its name to APSpecialty Insurance Corporation. The Company, formerly known as RML Insurance Company, was incorporated under the provisions of Act 218 of the Public Acts of 1956, as amended.

The Company's certificate of authority authorizes the Company to transact the business of insurance as provided under Chapter 6, excluding Section 602 of the Michigan Insurance Code.

The term of existence of the Company is in perpetuity.

CAPITAL STOCK

The Company has 5,000,000 shares of $10 par value common stock authorized and 250,000 shares issued and outstanding. Gross paid in and contributed surplus totaled $15,492,635 as of December 31, 2003.

MANAGEMENT AND CONTROL

Holding Company Structure

The Company is owned by its parent company, American Physicians Capital, Inc. (APCapital). APCapital also owns Insurance Corporation of America (ICA) and American Physicians Assurance Corporation (APAC), which are affiliate companies.

An organizational chart is shown in the report of examination as Exhibit 2.

Shareholders

Each shareholder shall be entitled to notice of and to vote at each annual or special meeting of the shareholders. For each matter submitted to a vote, the shareholders shall be entitled to one vote for each share of stock held. If a quorum is present the affirmative vote of the majority of the outstanding and issued shares represented at the meeting, in person or by proxy, entitled to vote on the subject matter shall constitute the action of the shareholders.

At any shareholder meeting, the presence in person or by proxy of the holders of a majority of the outstanding and issued shares entitled to vote at the meeting shall constitute a quorum.

Board of Directors

The affairs and property of the Company shall be controlled by a board consisting of not fewer than three nor more than 15 directors, at least one of whom shall be a resident of the state of Michigan. The number of directors shall be determined by resolution of the board of directors. Individuals to fill new seats shall be duly nominated in accordance with the articles of incorporation and thereafter elected by the shareholders at a special meeting called for that purpose or at the next annual meeting. Directors shall be elected for terms of three years, except as otherwise provided by the Company's bylaws.

Directors serving as of December 31, 2003 are as follows:

Name	Affiliation
William B. Cheeseman	President and CEO, Chairman
Richard Kevin Clinton	Vice President, Vice Chairman
Annette E. Flood	Secretary
Frank H. Freund	Treasurer

Officers

The board of directors shall elect one chairman, a president and a vice chairman. It shall also elect a secretary and treasurer, or those offices may be combined. One or more additional vice chairmen, assistant secretaries and assistant treasurers may be elected by the board. Additional nongoverning operating officers may be elected by the board in accordance with the Company's bylaws.

Officers serving as of December 31, 2003 are as follows:

Name	Title
William B. Cheeseman	President, Chairman
Richard Kevin Clinton	Vice President, Vice Chairman
Annette E. Flood	Secretary
Frank H. Freund	Treasurer

Committees

The board of directors may appoint an executive committee from its number by resolution. The executive committee will act on behalf of the board between regular board meetings, and may exercise those powers prescribed by the board of directors.

The board of directors shall have the power to provide for standing committees, including any committee charged to nominate directors, provided that any committees so established are deemed necessary to the prudent operation of the Company. As of December 31, 2003, no committees to the board of directors were appointed.

TERRITORY AND PLAN OF OPERATION

The Company is engaged in the business of providing specialty medical professional liability insurance to physicians in Kentucky, Ohio and West Virginia and workers' compensation insurance in Illinois and Minnesota.

All workers' compensation business was transferred to ICA, through a novation. The novation was consummated effective August 1, 2003. The Company has therefore exited the workers' compensation market and not longer writes business in Illinois and Minnesota.

REINSURANCE

Professional Liability

The Company's program of reinsurance for medical professional liability business consists of a Primary Excess of Loss agreement and an Excess Cessions agreement.

The Primary Excess of Loss Reinsurance Contract covers medical practitioners' liability (including dentists' liability), hospital liability, and allied health providers' liability. The contract reinsures all ancillary coverages (including hired and non-owned automobile liability policies and employers' liability coverage), related commercial general liability business and umbrella/excess liability business. Subject policies are limited to $1,000,000.

Coverage A of the Primary Excess of Loss Reinsurance Contract covers losses up to $500,000 in excess of $500,000 for each insured for each claim. Coverage B covers losses up to $4,000,000 in excess of $1,000,000 respecting any one loss event. The following reinsurers participate in the contract: American Re-Insurance Company (45 percent), Hannover Ruckversicherungs-Aktiengesellschaft (40 percent) and Transatlantic Reinsurance Company (15 percent). All participating reinsurers are authorized in Michigan.

The Company is named in the Excess Cessions Reinsurance arrangement that includes American Physicians Assurance Corporation and Insurance Corporation of America. Policies subject to this arrangement are written in excess of $1,000,000. The Company's underwriting practices preclude writing risks in this range.

Workers' Compensation

The Company has four layers of excess of loss coverage for business classified as workers' compensation insurance and employers' liability insurance. Losses up to $4,000,000 in excess of $1,000,000 per occurrence are ceded under the first excess cover. Losses up to $5,000,000 in excess of $5,000,000 per occurrence are ceded under the second excess cover. Losses of $10,000,000 in excess of $10,000,000 per occurrence are ceded under the third excess cover. Losses of $10,000,000 in excess of $20,000,000 per occurrence are ceded under the fourth or catastrophe excess of loss layer. This arrangement also includes coverage for claims arising from terrorism. Losses of $19,000,000 in excess of $1,000,000 per occurrence and in aggregate are covered. Business under this arrangement is ceded to General Reinsurance Corporation, a company authorized in Michigan.

Excess coverage in Minnesota must be purchased from the Minnesota Workers Compensation Reinsurance Association (WCRA). The Company selected retention of $720,000 per claim. The WCRA provides statutory coverage in excess of this retention.

GROWTH OF THE COMPANY

The data below depicts the growth of the Company from December 31, 1999 to December 31, 2003.

Year	Admitted Assets	Liabilities	Capital and Surplus
1999	$22,428,134	$13,974,835	$ 8,453,301
2000	$22,032,748	$13,751,185	$ 8,281,562
2001	$31,711,199	$15,538,084	$16,173,115
2002	$31,067,260	$14,070,191	$16,997,069
2003	$26,519,385	$ 6,493,371	$20,026,014

Year	Net Premiums Written	Net Premiums Earned	Premiums Written to Surplus
1999*	$8,787,799	$8,595,441	1.04:1
2000	$3,579,695	$5,352,705	.43:1
2001	$4,564,187	$4,377,390	.28:1
2002	$2,512,213	$3,281,086	.15:1
2003*	$ (764,742)	$ (741,889)	(.04:1)

Year	Losses Incurred	Loss Ratio	Loss Adjustment Expense Incurred	Loss Adjustment Expense Ratio
1999	$ 4,071,364	47.4%	$ 2,171,986	25.3%
2000	$ 4,570,454	104.4%	$ 768,774	14.4%
2001	$ 2,871,933	65.6%	$ 1,930,923	44.1%
2002	$ 553,236	16.9%	$ 2,641,352	80.5%
2003	$(2,407,406)	324.5%	$(1,447,033)	195.0%

Year	Underwriting Expenses Incurred	Underwriting Expense Ratio	Combined Loss and Expense Ratio
1999	$2,457,006	28.0%	100.7%
2000	$1,105,303	30.9%	149.9%
2001	$1,155,890	25.3%	135.0%
2002	$ 757,060	30.1%	127.5%
2003	$ 477,267	(62.4%)	457.1%

*Per report of examination

APSPECIALTY INSURANCE CORPORATION
BALANCE SHEET
As of December 31, 2003

ASSETS	
Bonds	$21,295,773
Common Stocks	18,910
Cash and Short-term Investments	4,520,816
Investment Income Due and Accrued	329,194
Agents' Balances in Course of Collection	51,388
Amounts Recoverable from Reinsurers	34,351
Net Deferred Tax Asset	128,489
Electronic Data Processing Equipment and Software	247
Aggregate Write-ins for Other than Invested Assets	140,217
Total Assets	$26,519,385
LIABILITIES, CAPITAL AND SURPLUS	
Losses	$ 3,435,306
Loss Adjustment Expenses	566,133
Other Expenses	109,026
Current Federal and Foreign Income Taxes	653,708
Unearned Premiums	812,741
Ceded Reinsurance Premiums Payable	315,405
Payable to Parent, Subsidiaries and Affiliates	601,052
Total Liabilities	$ 6,493,371
Common Capital Stock	$ 2,500,000
Gross Paid in and Contributed Surplus	15,492,635
Unassigned Funds	2,033,379
Total Surplus	$20,026,014
Total Liabilities, Capital and Surplus	$26,519,385

APSPECIALTY INSURANCE CORPORATION
STATEMENT OF INCOME
For the Year Ending December 31, 2003

INCOME	
Premiums Earned	$ (741,889)
DEDUCTIONS	
Losses Incurred	$(2,407,406)
Loss Expenses Incurred	(1,447,033)
Other Underwriting Expenses Incurred	477,267
Net Underwriting Gain	$ 2,635,283
INVESTMENT INCOME	
Net Investment Income Earned	$ 1,388,846
Net Realized Capital Gains	10,140
Net Investment Gain	$ 1,398,986
OTHER INCOME	
Net Loss from Agents' or Premium Balances Charged Off	$ (137,429)
Finance and Service Charges not Included in Premium	10
Federal and Foreign Income Taxes Incurred	(656,193)
Net Income	$3,240,657

APSPECIALTY INSURANCE CORPATION
STATEMENT OF CAPITAL AND SURPLUS
For the Year Ending December 31, 2003

Capital and Surplus, December 31, 2002	$16,997,069
Net Income	3,240,657
Change in Net Unrealized Capital Gains (Losses)	(1,586)
Change in Net Deferred Income Tax	(598,279)
Change in Nonadmitted Assets	$ 388,153
Change in Capital and Surplus	$ 3,028,945
Capital and Surplus, December 31, 2003	$20,026,014

APSPECIALTY INSURANCE CORPORATION
STATEMENT OF CASH FLOWS
For the Year Ending December 31, 2003

OPERATIONS	
Premiums Collected Net of Reinsurance	$ 718,568
Net Investment Income	1,445,401
Miscellaneous Income	(137,419)
Benefits and Loss Related Payments	1,110,520
Commissions, Expenses Paid, and Aggregate Write-ins for Deductions	1,528,572
Federal and Foreign Taxes Paid	$ 335,096
Net Cash from Operations	$ (947,638)
INVESTMENTS	
Proceeds from Investments Sold, Matured, or Repaid	$3,801,566
Cost of Investments Acquired:	
Bonds	$3,467,589
Stocks	23,790
Total Investments Acquired	$3,491,379
Net Cash from Investments	$ 310,187
FINANCING AND MISCELLANEOUS SOURCES	
Other Cash Provided	$ 535,263
Net Cash from Financing and Miscellaneous Sources	$ 535,263
Net Increase (Decrease) in Cash and Short-Term Investments	$ (102,188)
Cash and Short-Term Investments at December 31, 2002	4 ,623,004
Cash and Short-Term Investments at December 31, 2003	$ 4,520,816

NOTES TO FINANCIAL STATEMENTS

1. SIGNIFICANT ACCOUNTING POLICIES

The Company prepares its statutory financial statements in accordance with accounting practices prescribed or permitted by the State of Michigan Office of Financial and Insurance Services (OFIS). Prescribed statutory accounting practices include a variety of publications of the NAIC, as well as state laws, rules, regulations, and general administrative rules. Permitted statutory accounting practices encompass all accounting practices not so prescribed.

The principal differences between statutory accounting practices and accounting principles generally accepted in the United States of America (GAAP) are: (a) deferred income taxes are calculated in accordance with Statement of Statutory Accounting Principles (SSAP) No. 10 as opposed to in conformity with Statement of Financial Accounting Standards (SFAS) No. 109; (b) certain assets designated as "nonadmitted assets" are excluded from the balance sheet by direct charges to unassigned surplus; (c) acquisition costs relating to acquiring insurance business are charged to income as incurred rather than being deferred and amortized; (d) liabilities for losses and loss adjustment expenses and unearned premiums are presented net of the impact of reinsurance rather than reporting the gross amounts and recording the assets for the amounts related to reinsurance ceded as required by SFAS No. 113; (e) bonds are reported principally at amortized costs rather than reporting certain bonds at fair value as required by SFAS No. 115; (f) the statement of cash flows is presented in accordance with NAIC guidelines as opposed to SFAS No. 95; (g) comprehensive income is not required and, therefore, is not presented in the accompanying financial statements, in accordance with SFAS No. 130; (h) goodwill is evaluated for other than temporary impairment in accordance with SSAP No. 68 rather than the fair value approach required by SFAS No. 142; and (i) equity in earnings of unconsolidated subsidiaries is credited to surplus rather than the accounts being included in consolidated financial statements.

Significant statutory accounting policies include:

Codification Adoption

Effective January 1, 2001, OFIS required that insurance companies domiciled in the State of Michigan prepare their statutory basis financial statements in accordance with the NAIC *"Accounting Practices and Procedures Manual"—Effective January 1, 2001* subject to any deviations prescribed or permitted by OFIS. The cumulative effect of the change in accounting principles is reported as an adjustment to unassigned surplus in the period of the change in accounting principle. The cumulative effect is the difference between the amount of capital and surplus at the beginning of the year and the amount of capital and surplus that would have been reported at that date if the new accounting principles had been applied retroactively for all prior periods. As a result of these changes, the Company reported a change of accounting principle as an adjustment that increased unassigned funds (surplus) by $702,005 as of January 1, 2001. Included in this total adjustment is an increase in unassigned funds of $500,000 related to deferred tax assets.

Investment in Bonds, Stocks and Short-term Investments

Bonds and stocks are recorded in accordance with rules promulgated by the NAIC. Investment grade bonds (NAIC designation 1 or 2) not backed by other loans are stated primarily at amortized cost using the scientific interest method. Below investment grade bonds (NAIC designation 3 or higher) not backed by other loans are stated at the lesser of fair value or amortized cost with any write-down in the carrying value of the bond being treated as an unrealized loss and charged directly to surplus, net of deferred income tax. Common stocks of non-affiliates are stated at NAIC market value, which approximates fair value. Unrealized gains and losses resulting from differences between the cost and fair value of stocks are credited or charged directly to surplus, net of deferred income tax. Short-term investments are stated at cost, which approximates fair value, and include all investments whose maturities, at the time of acquisition, are one year or less. Due and accrued income that is 90 days past due is non-admitted and excluded from surplus. Realized gains or losses on sales on investments are determined on the basis of specific costs of the investments and are credited or charged to income.

Acquisition Costs

Costs and expenses of acquiring business are charged to expense when incurred, while the related premium income is earned over the periods covered by the policies.

Loss and Loss Adjustment Expenses

Unpaid loss and loss adjustment expenses are estimated actuarially using the Company's past claims experience. These estimates are subject to the effects of trends in loss severity and frequency. Although considerable variability is inherent in such estimates, management believes that the reserves for loss and loss adjustment expenses are adequate. The methods for making such estimates and for establishing the resulting liabilities are continually reviewed, and any adjustments are reflected in current earnings. Unpaid losses and loss adjustment expenses are not discounted and are presented net of reinsurance. Losses and loss adjustment expenses are charged to income as incurred.

Premiums

Premiums are earned in accordance with the terms of the related policies and reinsurance agreements. Unearned premiums represent the portion of premiums written that are applicable to the unexpired terms of policies in force, which are calculated by the application of daily pro rata fractions.

Premium Deficiency Reserves

Premium deficiency reserves are required for the amount of the anticipated losses, loss adjustment expenses, commissions, and other acquisition costs and maintenance costs that have not previously been expensed in excess of the recorded unearned premium reserve and anticipated investment income on existing policies. The results of this calculation did not indicate a deficiency at December 31, 2003.

Reinsurance

Reinsurance premiums and reserves related to reinsured business are accounted for on bases consistent with those used in accounting for the original policies issued and the terms of the reinsurance contracts. Premiums ceded to other companies have been reported as a reduction of premium income. Amounts applicable to reinsurance ceded for unearned premiums and loss and loss adjustment expenses have been reported as reductions of these items.

Depreciation

Provisions are made for depreciation of fixed assets using the straight-line method over the following estimated useful lives of the assets: computer software—five years; computer hardware—five years; furniture and fixtures—ten years.

Income Taxes

The Company files a consolidated federal income tax return with APCapital and its direct subsidiaries, which is subject to a written tax sharing agreement. Income taxes are allocated based upon separate return calculations giving current credit for net losses. Intercompany tax balances are settled annually in the first quarter.

Non-admitted Assets

Certain assets designated as non-admitted assets have been excluded from the balance sheet and are charged directly to surplus.

Use of Estimates

The preparation of financial statements in conformity with statutory accounting practices requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities, disclosure of contingent assets and liabilities at the date of the financial statements, and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

2. INVESTMENTS IN STOCKS AND BONDS

The estimated fair value of bonds is based on published market quotations and other sources and is not materially different from the NAIC market values. The fair value of bonds at December 31, 2003 was $22,907,331. The fair value of stocks as of December 31, 2003 was $18,910. Bonds with fair values of $2,740,611 were on deposit with the states of Michigan and Illinois as of December 31, 2003.

Net gains of $10,140 were realized in 2003 on disposal of investments in bonds. Proceeds on disposal of investments in bonds totaled $3,791,426.

3. NON-ADMITTED ASSETS

Non-admitted assets consist of the following at December 31, 2003:

Past due premium balances	$ 15,384
Net Deferred Tax Assets	199,319
EDP Equipment and Software	338
Furniture and Equipment	16,039
Other Assets Non-admitted	15,384
Total	$ 236,200

4. LOSS AND LOSS ADJUSTMENT EXPENSES

Management believes the estimate for the ultimate liability for loss and loss adjustment expenses at December 31, 2003 is reasonable and reflective of anticipated ultimate experience. However, it is possible that the Company's actual incurred loss and loss adjustment expenses will not conform to the assumptions inherent in the determination of the liability. Accordingly, it is reasonably possible that the ultimate settlement of losses and the related loss adjustment expenses may vary significantly from the estimated amounts included in the accompanying financial statements.

The Company writes primarily excess and surplus lines of business, which were new lines of business for the Company starting in 2002. As a result, the experience on which to base IBNR estimates was limited and actuarial assumptions used were somewhat conservative. In 2003, the reported experience developed more favorably than estimated at December 31, 2002 and IBNR related to the 2002 accident year was reduced based on this more favorable reported experience.

5. REINSURANCE

Ceded reinsurance arises from the Company seeking to reduce its loss exposure on its higher limit policies. The Company has entered into excess of loss contracts mainly for medical professional liability and workers' compensation business.

The Company's policy is to enter into reinsurance contracts only with highly rated insurers. Reinsurance contracts do not relieve the Company from its obligations to policyholders. If the reinsuring company is unable to meet its obligations under existing reinsurance agreements, the Company would be liable for such defaulted amounts. Amounts ceded to reinsurers have been deducted from the liability for loss and loss adjustment expenses.

As of December 31, 2003, the Company had no reinsurance recoverables in dispute or deemed to be uncollectible and had not written off any balances during 2003.

While the Company did not commute any reinsurance contracts during 2003, a novation of certain balances was consummated effective August 1, 2003. This novation resulted in select medical malpractice reserves and unearned premiums being novated to the Company's affiliate APAC and certain workers' compensation reserves and unearned premiums being novated to its affiliate ICA. Prior to the novation, the Company participated in an 80/20 quota share reinsurance treaty with its affiliate, APAC. Balances previously ceded by the Company and assumed by APAC were also novated.

6. INCOME TAXES

The Company reported a net admitted deferred tax asset of $128,489 at December 31, 2003. The Company non-admitted $199,319 of deferred assets in accordance with SSAP No. 10. The Company has no unrecognized deferred income tax liabilities.

The Company records the tax effects of temporary differences that give rise to significant portions of its deferred tax assets and liabilities. The change in net deferred income taxes is comprised of changes in gross deferred tax assets less gross deferred tax liabilities, including the tax effect of changes in unrealized losses. The Company's change in net deferred income taxes as of December 31, 2003 was ($598,279).

The provision for federal income taxes incurred is different from that which would be obtained by applying the statutory federal income tax rate to loss before income taxes. The significant items causing this difference were the change in nonadmitted assets, the reduction in deferred taxes related to novated balances and the 2002 return to provision adjustment.

At December 31, 2003, the Company had no net operating loss carryforwards. The Company has income taxes incurred in the current year of $1,029,219 that will be available for recoupment in the event of future net losses.

7. RELATED PARTY TRANSACTIONS

At December 31, 2003, the Company reported $79,774 and $521,277 due to its affiliates APAC and ICA, respectively. The Company incurred expenses of $501,254 related to management services provided by APAC during 2003

8. CONTINGENT LIABILITIES

Various lawsuits against the Company have arisen in the course of the Company's business. Management does not consider contingent liabilities arising from litigation and other matters to be material in relation to the financial position or operations of the Company.

The Company participates in the guaranty associations of the various states in which premiums are written. Guaranty fund assessments are accrued at the time of the insolvency. Other assessments are accrued either at the time of the assessments, or in the case of premium based assessments, at the time the premiums were written, or in the case of loss based assessments, at the time the losses are incurred.

EXAMINATION FINDINGS AND RECOMMENDATIONS

1. Supporting Documentation for Claims

The Company did not have proper documentation supporting individual workers' compensation loss and loss expense payments. Claim forms supporting individual loss and loss expense payments were not retained in the claim files. Additionally, the Company did not have documentation in the workers' compensation claim files supporting individual reserves at year-end.

We recommend the Company retain proper documentation supporting loss and loss expense payments. We also recommend the Company keep documentation in the claim files supporting year-end reserves for each claim.

2. Business Contingency and Disaster Recovery Plans

The Company has not developed a business contingency plan or a disaster recovery plan. It is a good business practice to develop such plans to mitigate the impact of disruptions resulting from disasters. The Company is currently working on a plan which it intends to implement in 2004.

We recommend the Company fully develop, test, and implement a business contingency plan and a disaster recovery plan.

CONCLUSION

As of our December 31, 2003 examination, we determined the Company to have admitted assets of $26,519,385, liabilities of $6,493,371, and capital and surplus of $20,026,014.

We appreciate the cooperation and assistance extended by the officers and employees of the Company.

In addition to the undersigned, Jay L. Mertz, Laura L. Strank, and Elisha M. Pierce, examiners of OFIS; and Mercer Oliver Wyman Actuarial Consulting, Inc., consulting actuaries, participated in the examination.

Respectfully submitted,

John C. Sands, CFE
Examiner-in-Charge
Office of Financial and Insurance Services