



QUARTERLY STATEMENT

AS OF MARCH 31, 2009

OF THE CONDITION AND AFFAIRS OF THE

Safety National Casualty Corporation

NAIC Group Code 0074, 0074 NAIC Company Code 15105 Employer's ID Number 43-0727872

Organized under the Laws of Missouri, State of Domicile or Port of Entry Missouri

Country of Domicile US

Incorporated/Organized November 28, 1942 Commenced Business December 28, 1942

Statutory Home Office 1832 Schuetz Road, St. Louis, Missouri 63146-4235

Main Administrative Office 1832 Schuetz Road, St. Louis, Missouri 63146-4235 314-995-5300

Mail Address 1832 Schuetz Road, St. Louis, Missouri 63146-4235

Primary Location of Books and Records 1832 Schuetz Road, St. Louis, Missouri 63146-4235 314-995-5300

Internet Website Address www.safetynational.com

Statutory Statement Contact Katharine Ferguson-Gross 314-812-4117 kate.gross@safetynational.com 314-995-6817

OFFICERS

Mark Andrew Wilhelm (President) Jeffrey William Otto (Secretary) Duane Allen Hercules (Treasurer)

OTHER OFFICERS

John Paul Csik Eugene Raymond Maier Carleton Sherwood Reynolds, III Terrence Todd Schoeninger Gerald Roger Scott Steven Francis Luebbert#

DIRECTORS OR TRUSTEES

Harold Franz Ilg Charles Donald Ainsworth Duane Allen Hercules Jeffrey William Otto Robert Rosenkranz Terrence Todd Schoeninger Gerald Roger Scott Donald Alan Sherman Robert Michael Smith, Jr. Mark Andrew Wilhelm

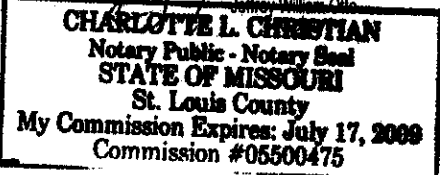
State of Missouri County of St. Louis } SS

The officers of this reporting entity being duly sworn, each depose and say that they are the described officers of said reporting entity, and that on the reporting period stated above, all of the herein described assets were the absolute property of the said reporting entity, free and clear from any liens or claims thereon, except as herein stated, and that this statement, together with related exhibits, schedules and explanations therein contained, annexed or referred to, is a full and true statement of all the assets and liabilities and of the condition and affairs of the said reporting entity as of the reporting period stated above, and of its income and deductions therefrom for the period ended, and have been completed in accordance with the NAIC Annual Statement Instructions and Accounting Practices and Procedures manual except to the extent that: (1) state law may differ; or, (2) that state rules or regulations require differences in reporting not related to accounting practices and procedures, according to the best of their information, knowledge and belief, respectively. Furthermore, the scope of this attestation by the described officers also includes the related corresponding electronic filing with the NAIC, when required, that is an exact copy (except for formatting differences due to electronic filing) of the enclosed statement. The electronic filing may be requested by various regulators in lieu of or in addition to the enclosed statement.

Signatures of Mark Andrew Wilhelm, Jeffrey William Otto, and Duane Allen Hercules with titles President, Secretary, and Treasurer.

Subscribed and sworn to before me this 11 day of May 2009

Signature of Charlotte L. Christian



- a. Is this an original filing? Yes (X) No ( )
b. If no: 1. State the amendment number 2. Date filed 3. Number of pages attached

## ASSETS

	Current Statement Date			4
	1 Assets	2 Nonadmitted Assets	3 Net Admitted Assets (Col. 1 minus Col. 2)	December 31 Prior Year Net Admitted Assets
1. Bonds	1,403,434,651	0	1,403,434,651	1,451,573,038
2. Stocks:				
2.1 Preferred stocks	50,974,805	0	50,974,805	54,888,405
2.2 Common stocks	95,366,088	0	95,366,088	102,729,478
3. Mortgage loans on real estate:				
3.1 First liens	8,886,390	264,482	8,621,908	8,621,908
3.2 Other than first liens	1,653,484	0	1,653,484	1,638,879
4. Real estate:				
4.1 Properties occupied by the company (less \$ 0 encumbrances)	22,772,035	0	22,772,035	22,737,576
4.2 Properties held for the production of income (less \$ 0 encumbrances)	0	0	0	0
4.3 Properties held for sale (less \$ 0 encumbrances)	10,027,606	278,699	9,748,907	9,748,907
5. Cash (\$ 13,560,282 ), cash equivalents (\$ 0 ) and short-term investments (\$ 130,050,312 )	143,610,594	0	143,610,594	92,899,439
6. Contract loans (including \$ 0 premium notes)	0	0	0	0
7. Other invested assets	103,391,567	0	103,391,567	43,801,234
8. Receivables for securities	5,448,784	0	5,448,784	17,203,386
9. Aggregate write-ins for invested assets	0	0	0	0
10. Subtotals, cash and invested assets (Line 1 to Line 9)	1,845,566,004	543,181	1,845,022,823	1,805,842,250
11. Title plants less \$ 0 charged off (for Title insurers only)	0	0	0	0
12. Investment income due and accrued	22,333,722	0	22,333,722	22,592,686
13. Premiums and considerations:				
13.1 Uncollected premiums and agents' balances in the course of collection	20,045,750	3,211,956	16,833,794	20,456,239
13.2 Deferred premiums, agents' balances and installments booked but deferred and not yet due (including \$ 3,269,214 earned but unbilled premiums)	49,743,276	0	49,743,276	30,700,766
13.3 Accrued retrospective premiums	0	0	0	0
14. Reinsurance:				
14.1 Amounts recoverable from reinsurers	7,469,355	0	7,469,355	6,445,590
14.2 Funds held by or deposited with reinsured companies	273,966	0	273,966	479,056
14.3 Other amounts receivable under reinsurance contracts	0	0	0	0
15. Amounts receivable relating to uninsured plans	0	0	0	0
16.1 Current federal and foreign income tax recoverable and interest thereon	11,453,480	0	11,453,480	2,741,314
16.2 Net deferred tax asset	55,511,394	44,504,724	11,006,670	10,371,160
17. Guaranty funds receivable or on deposit	596,507	0	596,507	691,290
18. Electronic data processing equipment and software	2,676,839	1,929,488	747,351	542,324
19. Furniture and equipment, including health care delivery assets (\$ 0 )	2,881,975	2,881,975	0	0
20. Net adjustment in assets and liabilities due to foreign exchange rates	0	0	0	53
21. Receivables from parent, subsidiaries and affiliates	1,101,222	0	1,101,222	555,497
22. Health care (\$ 0 ) and other amounts receivable	0	0	0	0
23. Aggregate write-ins for other than invested assets	2,383,025	0	2,383,025	2,383,025
24. Total assets excluding Separate Accounts, Segregated Accounts and Protected Cell Accounts (Line 10 to Line 23)	2,022,036,515	53,071,324	1,968,965,191	1,903,801,250
25. From Separate Accounts, Segregated Accounts and Protected Cell Accounts	0	0	0	0
26. Totals (Line 24 and Line 25)	2,022,036,515	53,071,324	1,968,965,191	1,903,801,250
<b>DETAILS OF WRITE-INS</b>				
0901.	0	0	0	0
0902.	0	0	0	0
0903.	0	0	0	0
0998. Summary of remaining write-ins for Line 9 from overflow page	0	0	0	0
0999. Totals (Line 0901 through Line 0903 plus Line 0998) (Line 9 above)	0	0	0	0
2301. Cash Surrender Value of Officer's Life Insurance	2,383,025	0	2,383,025	2,383,025
2302.	0	0	0	0
2303.	0	0	0	0
2398. Summary of remaining write-ins for Line 23 from overflow page	0	0	0	0
2399. Totals (Line 2301 through Line 2303 plus Line 2398) (Line 23 above)	2,383,025	0	2,383,025	2,383,025

**LIABILITIES, SURPLUS AND OTHER FUNDS**

	1 Current Statement Date	2 December 31, Prior Year
1. Losses (current accident year \$ 45,880,047 )	1,206,695,110	1,183,845,004
2. Reinsurance payable on paid losses and loss adjustment expenses	0	0
3. Loss adjustment expenses	31,509,869	31,142,609
4. Commissions payable, contingent commissions and other similar charges	0	0
5. Other expenses (excluding taxes, licenses and fees)	11,065,262	13,340,438
6. Taxes, licenses and fees (excluding federal and foreign income taxes)	5,495,694	4,648,149
7.1 Current federal and foreign income taxes (including \$ 0 on realized capital gains (losses))	0	0
7.2 Net deferred tax liability	0	0
8. Borrowed money \$ 0 and interest thereon \$ 0	0	0
9. Unearned premiums (after deducting unearned premiums for ceded reinsurance of \$ 11,104,107 and including warranty reserves of \$ 0 )	141,598,705	108,026,014
10. Advance premium	0	0
11. Dividends declared and unpaid:		
11.1 Stockholders	0	0
11.2 Policyholders	0	0
12. Ceded reinsurance premiums payable (net of ceding commissions)	10,052,715	6,262,064
13. Funds held by company under reinsurance treaties	2,250,342	1,990,718
14. Amounts withheld or retained by company for account of others	17,731,778	13,765,257
15. Remittances and items not allocated	3,244,441	2,674,397
16. Provision for reinsurance	4,986,000	4,504,200
17. Net adjustments in assets and liabilities due to foreign exchange rates	0	0
18. Drafts outstanding	0	0
19. Payable to parent, subsidiaries and affiliates	0	0
20. Payable for securities	1,005,242	2,695,814
21. Liability for amounts held under uninsured plans	0	0
22. Capital notes \$ 0 and interest thereon \$ 0	0	0
23. Aggregate write-ins for liabilities	3,566,316	0
24. Total liabilities excluding protected cell liabilities (Line 1 through Line 23)	1,439,201,474	1,372,894,664
25. Protected cell liabilities	0	0
26. Total liabilities (Line 24 and Line 25)	1,439,201,474	1,372,894,664
27. Aggregate write-ins for special surplus funds	0	0
28. Common capital stock	5,000,000	5,000,000
29. Preferred capital stock	25,000,000	25,000,000
30. Aggregate write-ins for other than special surplus funds	0	0
31. Surplus notes	40,754,444	40,000,000
32. Gross paid in and contributed surplus	106,649,399	106,649,399
33. Unassigned funds (surplus)	352,359,874	354,257,187
34. Less treasury stock, at cost:		
34.1 0 shares common (value included in Line 28 \$ 0 )	0	0
34.2 0 shares preferred (value included in Line 29 \$ 0 )	0	0
35. Surplus as regards policyholders (Line 27 through Line 33, less Line 34)	529,763,717	530,906,586
36. Totals	1,968,965,191	1,903,801,250
<b>DETAILS OF WRITE-INS</b>		
2301. Retroactive Reinsurance Reserve Assumed	3,092,563	0
2302. Retroactive Reinsurance Expenses Assumed	473,753	0
2303.	0	0
2398. Summary of remaining write-ins for Line 23 from overflow page	0	0
2399. Totals (Line 2301 through Line 2303 plus Line 2398) (Line 23 above)	3,566,316	0
2701.	0	0
2702.	0	0
2703.	0	0
2798. Summary of remaining write-ins for Line 27 from overflow page	0	0
2799. Totals (Line 2701 through Line 2703 plus Line 2798) (Line 27 above)	0	0
3001.	0	0
3002.	0	0
3003.	0	0
3098. Summary of remaining write-ins for Line 30 from overflow page	0	0
3099. Totals (Line 3001 through Line 3003 plus Line 3098) (Line 30 above)	0	0

## STATEMENT OF INCOME

	1 Current Year to Date	2 Prior Year to Date	3 Prior Year Ended December 31
<b>UNDERWRITING INCOME</b>			
1. Premiums earned:			
1.1 Direct (written \$ 99,372,085 )	73,028,854	71,520,346	284,550,617
1.2 Assumed (written \$ 19,968,413 )	9,345,075	9,136,689	36,819,650
1.3 Ceded (written \$ 9,632,102 )	6,271,160	5,948,647	25,012,260
1.4 Net (written \$ 109,708,396 )	76,102,769	74,708,388	296,358,007
DEDUCTIONS:			
2. Losses incurred (current accident year \$ 45,880,047 ):			
2.1 Direct	49,156,119	49,531,590	209,084,754
2.2 Assumed	4,053,872	5,307,884	18,925,063
2.3 Ceded	6,910,109	2,641,124	11,554,853
2.4 Net	46,299,882	52,198,350	216,454,964
3. Loss adjustment expenses incurred	1,248,668	1,007,625	5,754,359
4. Other underwriting expenses incurred	27,877,570	23,265,241	82,125,031
5. Aggregate write-ins for underwriting deductions	0	0	0
6. Total underwriting deductions (Line 2 through Line 5)	75,426,120	76,471,216	304,334,354
7. Net income of protected cells	0	0	0
8. Net underwriting gain (loss) (Line 1 minus Line 6 plus Line 7)	676,649	(1,762,828)	(7,976,347)
<b>INVESTMENT INCOME</b>			
9. Net investment income earned	19,208,707	25,246,637	83,706,429
10. Net realized capital gains (losses) less capital gains tax of \$ (9,793,216)	(20,376,283)	(1,155,111)	(21,337,143)
11. Net investment gain (loss) (Line 9 plus Line 10)	(1,167,576)	24,091,526	62,369,286
<b>OTHER INCOME</b>			
12. Net gain or (loss) from agents' or premium balances charged off (amount recovered \$ 2,479 amount charged off \$ (23,905))	(21,426)	147	(108,308)
13. Finance and service charges not included in premiums	0	0	0
14. Aggregate write-ins for miscellaneous income	(754,444)	0	0
15. Total other income (Line 12 through Line 14)	(775,870)	147	(108,308)
16. Net income before dividends to policyholders, after capital gains tax and before all other federal and foreign income taxes (Line 8 plus Line 11 plus Line 15)	(1,266,797)	22,328,845	54,284,631
17. Dividends to policyholders	0	0	0
18. Net income, after dividends to policyholders, after capital gains tax and before all other federal and foreign income taxes (Line 16 minus Line 17)	(1,266,797)	22,328,845	54,284,631
19. Federal and foreign income taxes incurred	658,203	1,368,188	8,185,761
20. Net income (Line 18 minus Line 19) (to Line 22)	(1,925,000)	20,960,657	46,098,870
<b>CAPITAL AND SURPLUS ACCOUNT</b>			
21. Surplus as regards policyholders, December 31 prior year	530,906,586	462,951,494	462,951,494
22. Net income (from Line 20)	(1,925,000)	20,960,657	46,098,870
23. Net transfers (to) from Protected Cell accounts	0	0	0
24. Change in net unrealized capital gains or (losses) less capital gains tax of \$ 793,548	359,832	(14,699,129)	(49,177,934)
25. Change in net unrealized foreign exchange capital gain (loss)	(304,471)	(590,712)	(2,745,864)
26. Change in net deferred income tax	111,029	(585,196)	19,300,260
27. Change in nonadmitted assets	1,343,097	(2,711,101)	(39,875,578)
28. Change in provision for reinsurance	(481,800)	238,200	1,556,000
29. Change in surplus notes	754,444	0	40,000,000
30. Surplus (contributed to) withdrawn from protected cells	0	0	0
31. Cumulative effect of changes in accounting principles	0	0	0
32. Capital changes:			
32.1 Paid in	0	0	0
32.2 Transferred from surplus (Stock Dividend)	0	0	0
32.3 Transferred to surplus	0	0	0
33. Surplus adjustments:			
33.1 Paid in	0	0	54,799,338
33.2 Transferred to capital (Stock Dividend)	0	0	0
33.3 Transferred from capital	0	0	0
34. Net remittances from or (to) Home Office	0	0	0
35. Dividends to stockholders	(1,000,000)	(1,000,000)	(2,000,000)
36. Change in treasury stock	0	0	0
37. Aggregate write-ins for gains and losses in surplus	0	0	0
38. Change in surplus as regards policyholders (Line 22 through Line 37)	(1,142,869)	1,612,719	67,955,092
39. Surplus as regards policyholders, as of statement date (Line 21 plus Line 38)	529,763,717	464,564,213	530,906,586
<b>DETAILS OF WRITE-INS</b>			
0501	0	0	0
0502	0	0	0
0503	0	0	0
0598. Summary of remaining write-ins for Line 5 from overflow page	0	0	0
0599. TOTALS (Line 0501 through Line 0503 plus Line 0598) (Line 5 above)	0	0	0
1401. Interest on Surplus Notes	(754,444)	0	0
1402	0	0	0
1403	0	0	0
1498. Summary of remaining write-ins for Line 14 from overflow page	0	0	0
1499. TOTALS (Line 1401 through Line 1403 plus Line 1498) (Line 14 above)	(754,444)	0	0
3701	0	0	0
3702	0	0	0
3703	0	0	0
3798. Summary of remaining write-ins for Line 37 from overflow page	0	0	0
3799. TOTALS (Line 3701 through Line 3703 plus Line 3798) (Line 37 above)	0	0	0

**CASH FLOW**

	1	2
	Current Year To Date	Prior Year Ended December 31
<b>Cash from Operations</b>		
1. Premiums collected net of reinsurance	98,454,511	299,022,108
2. Net investment income	20,076,245	80,373,278
3. Miscellaneous income	183,664	39,002
4. Total (Line 1 through Line 3)	118,714,420	379,434,388
5. Benefit and loss related payments	24,057,940	73,386,903
6. Net transfers to Separate Accounts, Segregated Accounts and Protected Cell Accounts	0	0
7. Commissions, expenses paid and aggregate write-ins for deductions	30,195,215	87,902,661
8. Dividends paid to policyholders	0	0
9. Federal and foreign income taxes paid (recovered) net of \$ 0 tax on capital gains (losses)	(422,847)	17,547,130
10. Total (Line 5 through Line 9)	53,830,308	178,836,694
11. Net cash from operations (Line 4 minus Line 10)	64,884,112	200,597,694
<b>Cash from Investments</b>		
12. Proceeds from investments sold, matured or repaid:		
12.1 Bonds	69,866,664	213,133,159
12.2 Stocks	4,555,794	7,179,632
12.3 Mortgage loans	3,009	22,272,508
12.4 Real estate	0	0
12.5 Other invested assets	1,632,317	150,684,957
12.6 Net gains or (losses) on cash, cash equivalents and short-term investments	0	0
12.7 Miscellaneous proceeds	(1,531,821)	3,902,569
12.8 Total investment proceeds (Line 12.1 through Line 12.7)	74,525,963	397,172,825
13. Cost of investments acquired (long-term only):		
13.1 Bonds	42,161,141	451,641,237
13.2 Stocks	(25,769,920)	126,721,734
13.3 Mortgage loans	13,103	1,618,085
13.4 Real estate	149,821	22,203,233
13.5 Other invested assets	76,100,126	12,898,810
13.6 Miscellaneous applications	1,690,572	72,867,018
13.7 Total investments acquired (Line 13.1 through Line 13.6)	94,344,843	687,950,117
14. Net increase or (decrease) in contract loans and premium notes	0	0
15. Net cash from investments (Line 12.8 minus Line 13.7 minus Line 14)	(19,818,880)	(290,777,292)
<b>Cash from Financing and Miscellaneous Sources</b>		
16. Cash provided (applied):		
16.1 Surplus notes, capital notes	(754,444)	40,000,000
16.2 Capital and paid in surplus, less treasury stock	0	54,799,338
16.3 Borrowed funds	0	0
16.4 Net deposits on deposit-type contracts and other insurance liabilities	0	0
16.5 Dividends to stockholders	1,000,000	2,000,000
16.6 Other cash provided (applied)	7,400,367	(7,422,629)
17. Net cash from financing and miscellaneous sources (Line 16.1 through Line 16.4 minus Line 16.5 plus Line 16.6)	5,645,923	85,376,709
<b>RECONCILIATION OF CASH, CASH EQUIVALENTS AND SHORT-TERM INVESTMENTS</b>		
18. Net change in cash, cash equivalents and short-term investments (Line 11 plus Line 15 plus Line 17)	50,711,155	(4,802,889)
19. Cash, cash equivalents and short-term investments:		
19.1 Beginning of year	92,899,439	97,702,328
19.2 End of period (Line 18 plus Line 19.1)	143,610,594	92,899,439

Note: Supplemental disclosures of cash flow information for non-cash transactions:

20.0001	0	0
20.0002	0	0
20.0003	0	0
20.0004	0	0
20.0005	0	0
20.0006	0	0
20.0007	0	0
20.0008	0	0
20.0009	0	0
20.0010	0	0

**NOTES TO FINANCIAL STATEMENTS****1. Summary of Significant Accounting Policies**

The following represents the only significant changes since the 12/31/08 Annual Statement:

- A. The accompanying financial statements of the Company have been prepared in conformity with accounting practices prescribed or permitted by the Missouri Insurance Department.

The Missouri Insurance Department recognizes only statutory accounting practices prescribed or permitted by the State of Missouri for determining and reporting the financial condition and results of operations of an insurance company, for determining its solvency under the Missouri Insurance Law. The NAIC Accounting Practices and Procedures manual has been adopted as a component of prescribed or permitted practices by the State of Missouri. The state has adopted certain prescribed accounting practices that differ from those found in NAIC SAP. Specifically, for surplus notes interest will be accrued and expensed in the statement of operations as incurred. In NAIC SAP, interest is not recorded as a liability nor an expense until approval for payment has been granted by the Missouri commissioner. All interest shall be expensed in the statement of operations when approved for payment.

A reconciliation of the Company's net income and capital and surplus between NAIC SAP and practices prescribed and permitted by the State of Missouri is shown below:

	State of Domicile	2009
(1) Net Income/(Loss) Missouri state basis	MO	\$ (1,924,997)
(2) State Prescribed Practices (Income): Accrual of surplus note interest prior to approval of payment, as incurred	MO	\$ 490,389*
(3) State Permitted Practices (Income): Accrual of surplus note interest upon approval of payment	MO	\$ 0
(4) Net Income/(Loss) NAIC SAP	MO	\$ (1,434,608)
(5) Statutory Surplus Missouri basis	MO	\$ 529,763,717
(6) State Prescribed Practices (Surplus): Accrual of surplus note interest prior to approval of payment, as incurred, included at page 4 line 22	MO	\$ (490,389)*
(7) State Prescribed Practices (Surplus): Accrual of surplus note interest prior to approval of payment, as incurred, included at page 4 line 22	MO	\$ 490,389*
(8) State Permitted Practices (Surplus): Accrual of surplus note interest upon approval of payment, as incurred, included at page 4 line 29	MO	\$ 0
(9) Statutory Surplus, NAIC SAP	MO	\$ 529,763,717

\* Net of tax.

**2. Accounting Changes and Corrections of Errors**

The Company has written loss portfolio transfers with workers' compensation self-insureds since 1997. These transactions have historically been accounted for as premium, losses and expenses. Prevalent industry practice dictates that such transactions be accounted for as retroactive reinsurance. Effective 1/1/2009 new loss portfolio transfers will be recorded on the balance sheet as a write-in liability, any gain or loss will be recorded as a write-in item on the statement of income. The Company has recorded a write-in liability in the amount of \$3.6 million at March 31, 2009 and a gain/(loss) of \$0 on the statement of income. The change in accounting treatment resulted in no change to the December 31, 2008 balance sheet or statement of income.

## NOTES TO FINANCIAL STATEMENTS

3. Business Combinations and Goodwill

N/A.

4. Discontinued Operations

N/A.

5. Investments

No significant change since the 12/31/08 Annual Statement.

6. Joint Ventures, Partnerships and Limited Liability Companies

A. The Company has no investments in Joint Ventures, Partnerships, or Limited Liability Companies that exceed 10% of its admitted assets.

B. The Company did not recognize any impairment write down for its investment in Joint Ventures, Partnerships, or Limited Liability Companies during the statement periods.

7. Investment Income

N/A.

8. Derivative Instruments

N/A.

9. Income Taxes

A. The components of the net deferred tax asset at March 31 were as follows:

	2009	2008
Total of gross deferred tax assets	\$ 55,884,426	\$ 56,566,945
Total of deferred tax liabilities	<u>373,032</u>	<u>373,032</u>
Net deferred tax asset	\$ 55,511,394	\$ 56,193,913
Deferred tax asset nonadmitted	<u>\$ 44,504,724</u>	<u>\$ 45,822,753</u>
Net admitted deferred tax asset	<u>\$ 11,006,670</u>	<u>\$ 10,371,160</u>
Increase in nonadmitted asset	\$ 1,318,029	\$(39,524,933)

B. N/A

C. The provisions for incurred taxes on earnings for the years ended March 31 are:

	2009	2008
Current year expense	\$ 658,203	\$ 6,465,405
Realized capital gains tax	(9,793,216)	(2,099,303)
Prior year tax reserve over accrual	0	1,720,356
Current income tax expense (benefit)	\$(9,135,013)	\$ 6,086,458

The tax effects of temporary differences that give rise to significant portions of the deferred tax assets and deferred tax liabilities are as follows:

	2009	2008
DTA's		
Net unrealized capital losses	\$20,594,270	\$21,387,818
Non-admitted assets	12,789,680	12,832,295
Unearned premiums	8,393,620	7,561,821
Bonds	5,677,559	4,975,064
Reserves	4,626,535	4,626,535
Other	0	1,381,205
Agents' balances	1,124,185	1,255,620
Partnerships/LLCs	1,252,810	1,252,810
Renewal rights	997,500	1,019,667
Real estate	<u>428,267</u>	<u>274,110</u>
Total DTAs	<u>55,884,426</u>	<u>56,566,945</u>
Nonadmitted DTAs	<u>44,504,724</u>	<u>45,822,753</u>
Admitted DTAs	<u>11,379,702</u>	<u>10,744,192</u>

## NOTES TO FINANCIAL STATEMENTS

DTL's		
Net unrealized capital gains	0	0
Other	0	0
Preferred stock	373,032	373,032
Real estate	0	0
Total DTL	<u>373,032</u>	<u>373,032</u>
Net admitted DTA	\$11,006,670	\$10,371,160

The change in net deferred income taxes is comprised of the following:

	Mar 31, 2009	Dec 31, 2008	Change
Total DTAs	\$55,884,426	\$56,566,945	\$ (682,519)
Total DTLs	<u>373,032</u>	<u>373,032</u>	<u>0</u>
Net DTA	\$55,511,394	\$56,193,913	\$ (682,519)

Tax effect of unrealized gains	\$ 793,548
Change in net deferred income tax	\$ 111,029

- D. The provision for federal income taxes incurred is different from that which would be obtained by applying the statutory federal income tax rate to income before income taxes. The significant items causing this difference are as follows:

	Income Tax Expense	Effective Rate
Expense computed at statutory rate	\$(3,871,004)	35.0%
Tax-exempt interest	(4,593,356)	41.5
Non-admitted assets	8,773	(0.1)
Other	<u>(790,455)</u>	<u>7.2</u>
Total	\$(9,246,042)	83.6%
Federal income taxes incurred	\$ 658,203	(6.0)%
Realized capital gains tax	(9,793,216)	88.5
Change in net deferred income taxes	<u>(111,029)</u>	<u>1.1</u>
Total statutory income taxes	\$(9,246,042)	83.6%

- E. (1) N/A.

(2) Income taxes incurred in the current and prior years that will be available for recoupment in the event of future net losses are as follows:

a.	2009	\$	0
b.	2008	\$	3,342,088

- (3) N/A.

- F. The Company consolidates its federal income tax return with the return of its parent, Delphi Financial Group, Inc. ("DFG"). DFG and all of its direct and indirect subsidiaries are members of the consolidated tax group. See Schedule Y, Part 1 for a list of the principal members of the consolidated tax group.

The method of allocation between the companies is subject to a written tax allocation agreement approved by the Board of Directors. The agreement requires the Company to accrue federal income taxes on a separate return basis, with the current credit for losses used in the consolidated return. Any loss not used in the consolidated return is retained by the respective company for possible future use. Intercompany tax balances are settled within 15 days after filing a tax return or receipt of a refund.

### 10. Information Concerning Parent, Subsidiaries and Affiliates

The following represents the only significant changes since the 12/31/08 Annual Statement:

- A., B., C. The Company paid preferred stock dividends to DFG as follows:

January 2009 \$1,000,000

The Company issued a surplus note in the amount of \$40,000,000 to DFG in December 2008. The Company has accrued interest of \$754,444 at March 31, 2009. See footnote 13, item (11).

## NOTES TO FINANCIAL STATEMENTS

The Company acquired an interest in three affiliated entities during 2003. At March 31, 2009 and December 31, 2008 the total investment amounts to \$38,841,769 and \$23,539,990, respectively.

D. At March 31, 2009 and December 31, 2008 the Company reported \$1,101,212 and \$555,497, respectively, as amounts due from SFIC. The terms of the agreements require that these amounts be settled within 30 days.

E. The Company has provided guarantees to various states that the minimum surplus of SFIC will not fall below minimum statutory thresholds.

H. As of March 31, 2009, the Company owned 4,000,000 shares of the common stock of DFG. The amount deducted from the market value of this common stock in accordance with the SVO manual was \$22,359,752. At March 31, 2009, the carrying value of this investment was \$31,480,248.

11. Debt

A. N/A.

12. Retirement Plans, Deferred Compensation, Postemployment Benefits and Compensated Absences and Other Postretirement Benefit Plans

No significant change since the 12/31/08 Annual Statement.

13. Capital and Surplus, Dividend Restrictions and Quasi-Reorganizations

The following represents the only significant changes since the 12/31/08 Annual Statement:

(10) Unrealized losses of \$59,183,422.

(11) The Company is required to make semi-annual interest payments commencing in July 2009. The Company has accrued \$754,444 of interest on the note at March 31, 2009. No interest or principal payments have been made to date.

14. Contingencies

N/A.

15. Leases

N/A.

16. Information About Financial Instruments With Off-Balance Sheet Risk and Financial Instruments With Concentrations of Credit Risk

No significant change since the 12/31/08 Annual Statement.

17. Sale, Transfer and Servicing of Financial Assets and Extinguishments of Liabilities

N/A.

18. Gain or Loss to the Reporting Entity from Uninsured Plans and the Uninsured Portion of Partially Insured Plans

N/A.

19. Direct Premium Written/Produced by Managing General Agents/Third Party Administrators

N/A.

20. Other Items

The following represents the only significant changes since the 12/31/08 Annual Statement:

D. At March 31, 2009 and December 31, 2008 the Company had admitted assets of \$66,577,070 and \$51,157,005, respectively, in accounts receivable for amounts due from agents. The Company routinely assesses the collectibility of these receivables. Based upon Company experience, less than 1% of the balance may become uncollectible and the potential for loss is not material to the Company's financial condition.

## NOTES TO FINANCIAL STATEMENTS

H. The Company generally characterizes its subprime mortgage investments as those having underlying mortgage loans consisting of borrowers with weighted-average Fair Issac & Co., Inc. (FICO) credit scores below 650. Additionally, the weighted-average loan-to-value ratios (LTVs) of these loans are generally above 80.0%. As of March 31, 2009, the Company owned subprime residential mortgage backed securities with a cost, book adjusted carrying value and fair value of \$9,048,631, \$7,201,914 and \$5,135,320, respectively. During 2009, the Company has recognized other-than-temporary impairments of \$1,094,352 on its subprime investments.

21. Events Subsequent

N/A.

22. Reinsurance

The following represents the only significant changes since the 12/31/08 Annual Statement:

C. Reinsurance Assumed and Ceded

(1)	Assumed		Ceded		Net	
	Premium Reserve	Commission Equity	Premium Reserve	Commission Equity	Premium Reserve	Commission Equity
Related	\$1,142,531	\$ 0	\$ 0	\$ 0	\$ 1,142,531	\$ 0
Other	21,867,636	1,669,048	11,104,106	1,007,873	10,763,530	661,175
Total	\$23,010,167	\$1,669,048	\$11,104,106	\$1,007,873	\$11,906,061	\$661,175

Direct unearned premium reserve \$129,692,645.

F. Retroactive Reinsurance

	As:	Reported Company	
		(1)	(2)
		Assumed	Ceded
A. Reserves Transferred			
1. Initial Reserves		\$3,566,316	\$ 0
2. Adjustments - Prior Year(s)		0	0
3. Adjustments - Current Year		0	0
4. Current Total		\$3,566,316	\$ 0
B. Consideration Paid or Received			
1. Initial		\$3,566,316	\$ 0
2. Adjustments - Prior Year(s)		0	0
3. Adjustments - Current Year		0	0
4. Current Total		\$3,566,316	\$ 0
C. Amounts Recovered/Paid (cumulative):			
1. Prior Year(s)		\$ 0	\$ 0
2. Current Year		0	0
3. Current Total		\$ 0	\$ 0
D. Special Surplus for Retroactive Reinsurance:			
1. Initial		\$ 0	\$ 0
2. Adjustments - Prior Year(s)		0	0
3. Adjustments - Current Year		0	0
4. Current Year Restricted Surplus		0	0
5. Cumulative Total Transferred to Unassigned Funds		\$ 0	\$ 0
E. Amount Assumed Company			Amount Ceded
\$3,566,316		Southern California Schools Risk Management Association	\$0

F. N/A

23. Retrospectively Rated Contracts and Contracts Subject to Redetermination

No significant change since the 12/31/08 Annual Statement.

24. Change in Incurred Losses and Loss Adjustment Expenses

Reserves as of December 31, 2008 were \$1,215 million. As of March 31, 2009 \$23 million has been paid for incurred losses and loss adjustment

## NOTES TO FINANCIAL STATEMENTS

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expenses attributable to insured events of prior years. Reserves remaining for prior years are now \$1,189 million. Therefore, there has been a \$3 million favorable prior-year development since December 31, 2008. During 2009, \$6 million of discount was accreted for prior accident years.

25. Intercompany Pooling Arrangements

N/A.

26. Structured Settlements

No significant change since the 12/31/08 Annual Statement.

27. Health Care Receivables

N/A.

28. Participating Policies

N/A.

29. Premium Deficiency Reserves

As of March 31, 2009 and December 31, 2008 the amount of liabilities recorded related to premium deficiency reserves was \$0. Anticipated investment income was considered as a factor in the premium deficiency calculation.

30. High Deductibles

No significant change since the 12/31/08 Annual Statement.

31. Discounting of Liabilities for Unpaid Losses or Unpaid Loss Adjustment Expenses

No significant change since the 12/31/08 Annual Statement.

32. Asbestos/Environmental Reserves

No significant change since the 12/31/08 Annual Statement.

33. Subscriber Savings Accounts

N/A.

34. Multiple Peril Crop Insurance

N/A.

**SCHEDULE T - EXHIBIT OF PREMIUMS WRITTEN**

Current Year to Date - Allocated by States and Territories

States, etc.	1		Direct Premiums Written		Direct Losses Paid (Deducting Salvage)		Direct Losses Unpaid	
	Active Status		2 Current Year To Date	3 Prior Year To Date	4 Current Year To Date	5 Prior Year To Date	6 Current Year To Date	7 Prior Year To Date
1. Alabama	AL	L	1,632,256	1,454,926	118,918	266,817	18,918,750	18,101,479
2. Alaska	AK	L	32,039	74	17,809	0	1,778,057	2,009,724
3. Arizona	AZ	L	268,926	257,487	72,872	9,678	12,472,724	11,472,738
4. Arkansas	AR	L	1,819,895	1,713,243	126,537	82,356	7,097,552	7,372,775
5. California	CA	L	11,503,549	8,474,688	2,036,888	1,378,789	71,470,555	70,184,694
6. Colorado	CO	L	1,401,982	839,836	344,389	178,038	10,736,470	9,646,595
7. Connecticut	CT	L	270,696	380,566	458,780	227,164	27,596,760	17,891,988
8. Delaware	DE	L	143,410	157,578	300,308	166,126	2,683,916	2,849,351
9. District of Columbia	DC	L	68,283	111,742	7,498	0	1,158,393	1,368,642
10. Florida	FL	L	1,128,923	1,390,549	3,780,734	1,561,141	80,906,038	63,737,334
11. Georgia	GA	L	4,387,233	3,845,944	550,987	1,214,547	36,121,895	35,870,778
12. Hawaii	HI	L	137,244	72,670	3	(139)	985,156	936,052
13. Idaho	ID	L	52,251	24,721	0	0	763,801	717,493
14. Illinois	IL	L	6,883,547	6,223,024	2,670,562	3,117,164	151,527,621	140,018,385
15. Indiana	IN	L	1,160,852	1,045,171	12,811	84,460	11,934,224	13,343,906
16. Iowa	IA	L	75,099	31,872	5,911	138,981	6,639,080	5,678,271
17. Kansas	KS	L	3,212,810	3,285,192	330,896	474,291	13,788,375	12,412,608
18. Kentucky	KY	L	416,402	421,641	603,321	293,642	19,345,936	16,915,032
19. Louisiana	LA	L	3,270,351	3,340,713	796,838	1,056,939	53,053,946	43,175,445
20. Maine	ME	L	1,228,829	1,281,103	345,060	269,974	16,369,587	17,053,893
21. Maryland	MD	L	1,726,101	1,909,865	891,873	454,003	21,046,922	14,670,351
22. Massachusetts	MA	L	1,468,382	975,553	284,641	505,623	36,298,467	27,155,685
23. Michigan	MI	L	889,516	780,944	466,920	428,328	29,405,652	29,952,541
24. Minnesota	MN	L	569,158	755,534	9,037	75,267	2,752,422	2,718,055
25. Mississippi	MS	L	2,348,272	2,421,609	587,612	475,094	27,953,829	29,197,414
26. Missouri	MO	L	4,166,416	4,811,052	408,357	1,059,146	52,087,956	48,801,958
27. Montana	MT	L	584,129	494,951	216,189	6,059	2,482,056	2,114,835
28. Nebraska	NE	L	319,223	19,854	6,640	0	4,408,295	3,983,385
29. Nevada	NV	L	2,521,618	3,508,723	264,843	67,932	17,973,495	16,029,090
30. New Hampshire	NH	L	856,459	921,727	0	0	1,830,933	2,132,010
31. New Jersey	NJ	L	1,617,311	1,438,523	327,713	481,281	30,198,868	30,170,963
32. New Mexico	NM	L	498,074	592,092	122,014	42,243	5,459,536	4,822,519
33. New York	NY	L	9,036,839	9,215,572	784,592	(11,296)	97,442,787	77,749,224
34. North Carolina	NC	L	1,466,997	2,250,594	1,116,497	135,081	21,990,637	19,807,479
35. North Dakota	ND	L	533	1,308	0	0	2,052	1,460
36. Ohio	OH	L	3,709,796	3,955,133	1,488,778	1,815,668	86,137,424	77,865,208
37. Oklahoma	OK	L	688,024	629,747	219,591	341,695	26,252,710	14,962,346
38. Oregon	OR	L	1,368,539	293,882	22,677	58,083	4,137,981	3,466,635
39. Pennsylvania	PA	L	6,304,873	6,134,415	1,885,751	1,149,868	64,973,036	71,126,029
40. Rhode Island	RI	L	125,732	105,812	0	0	627,985	680,968
41. South Carolina	SC	L	2,781,295	1,866,543	321,774	17,659	9,412,167	7,592,098
42. South Dakota	SD	L	40,793	88,483	652,135	28,436	3,422,273	3,322,019
43. Tennessee	TN	L	1,312,599	861,956	106,840	55,436	15,396,515	15,622,028
44. Texas	TX	L	2,260,947	1,567,159	212,198	294,797	39,807,803	42,387,907
45. Utah	UT	L	396,255	360,563	67,083	0	5,187,801	3,959,579
46. Vermont	VT	L	655,130	622,389	39,558	15,852	1,367,676	1,419,724
47. Virginia	VA	L	2,989,332	2,455,970	324,695	287,738	19,351,007	15,391,716
48. Washington	WA	L	5,253,959	4,555,536	90,800	565,598	43,488,964	44,200,548
49. West Virginia	WV	L	15,462	12,029	38,466	0	3,085,525	3,556,223
50. Wisconsin	WI	L	1,147,411	1,010,081	264,972	201,813	19,097,330	10,859,184
51. Wyoming	WY	L	1,028	591	0	0	2,278	1,791
52. American Samoa	AS	N	0	0	0	0	0	0
53. Guam	GU	N	0	0	0	0	0	0
54. Puerto Rico	PR	N	0	0	0	0	0	0
55. U. S. Virgin Islands	VI	N	0	0	0	0	0	0
56. Northern Mariana Islands	MP	N	0	0	0	0	0	0
57. Canada	CN	L	3,157,305	3,710,883	0	0	3,678,186	1,482,030
58. Aggregate Other Alien	OT	X X X	0	0	0	0	39,497	33,619
59. Totals	(a)	51	99,372,085	92,681,813	23,803,368	19,071,372	1,242,148,940	1,117,993,804
<b>DETAILS OF WRITE-INS</b>								
5801. Bermuda		X X X	0	0	0	0	39,497	33,619
5802.		X X X	0	0	0	0	0	0
5803.		X X X	0	0	0	0	0	0
5898. Summary of remaining write-ins for Line 58 from overflow page		X X X	0	0	0	0	0	0
5899. TOTALS (Line 5801 through Line 5803 plus Line 5898) (Line 58 above)		X X X	0	0	0	0	39,497	33,619

(a) Insert the number of "L" responses except for Canada and Other Alien.