



QUARTERLY STATEMENT

AS OF SEPTEMBER 30, 2009

OF THE CONDITION AND AFFAIRS OF THE

Safety National Casualty Corporation

NAIC Group Code 0074 (Current Period), 0074 (Prior Period), 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 63146-3540 (Street and Number, City or Town, State and Zip Code)

Main Administrative Office 1832 Schuetz Road, St. Louis, Missouri 63146-3540 (Street and Number, City or Town, State and Zip Code), 314-995-5300 (Area Code) (Telephone Number)

Mail Address 1832 Schuetz Road, St. Louis, Missouri 63146-3540 (Street and Number or P. O. Box, City or Town, State and Zip Code)

Primary Location of Books and Records 1832 Schuetz Road, St. Louis, Missouri 63146-3540 (Street and Number, City or Town, State and Zip Code), 314-995-5300 (Area Code) (Telephone Number)

Internet Website Address www.safetynational.com

Statutory Statement Contact Katharine Ferguson-Gross (Name), kate.gross@safetynational.com (E-Mail Address), 314-812-4117 (Area Code) (Telephone Number) (Extension), 314-995-6817 (Fax Number)

OFFICERS

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

OTHER OFFICERS

John Paul Csik (Senior VP Finance), Steven Francis Luebbert (Executive VP), Eugene Raymond Maier (Senior VP W/C Underwriting), Carleton Sherwood Reynolds, III (Senior VP WC Claims), Terrence Todd Schoeninger (Chairman & CEO), Gerald Roger Scott (Executive VP & COO)

DIRECTORS OR TRUSTEES

Harold Franz IIg, 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 (President), Jeffrey William Otto (Secretary), and Duane Allen Hercules (Treasurer)

Subscribed and sworn to before me this 10th day of Nov 2009, Amber B. Duke

AMBER B. DUKE, NOTARY PUBLIC - NOTARY SEAL, STATE OF MISSOURI, ST. CHARLES COUNTY, MY COMMISSION EXPIRES: JUNE 22, 2013. a. Is this an original filing? Yes (X) No () 1. State the amendment number 2. Date filed Number of pages attached # 09827297

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	1,609,201,325		1,609,201,325	1,451,573,038
2. Stocks:				
2.1 Preferred stocks	56,239,395		56,239,395	54,888,405
2.2 Common stocks	109,507,490	578,845	108,928,645	102,729,478
3. Mortgage loans on real estate:				
3.1 First liens	3,492,120	206,060	3,286,060	8,621,908
3.2 Other than first liens	1,674,448		1,674,448	1,638,879
4. Real estate:				
4.1 Properties occupied by the company (less \$ encumbrances)	26,021,950		26,021,950	22,737,576
4.2 Properties held for the production of income (less \$ encumbrances)				
4.3 Properties held for sale (less \$ encumbrances)	7,092,345		7,092,345	9,748,907
5. Cash (\$ 17,998,658), cash equivalents (\$) and short-term investments (\$ 90,410,701)	108,409,359		108,409,359	92,899,439
6. Contract loans (including \$ premium notes)				
7. Other invested assets	118,815,281		118,815,281	43,801,234
8. Receivables for securities	1,792,675		1,792,675	17,203,386
9. Aggregate write-ins for invested assets				
10. Subtotals, cash and invested assets (Line 1 to Line 9)	2,042,246,388	784,905	2,041,461,483	1,805,842,250
11. Title plants less \$ charged off (for Title insurers only)				
12. Investment income due and accrued	23,869,235	16,836	23,852,399	22,592,686
13. Premiums and considerations:				
13.1 Uncollected premiums and agents' balances in the course of collection	26,696,735	3,744,296	22,952,439	20,456,239
13.2 Deferred premiums, agents' balances and installments booked but deferred and not yet due (including \$ 3,447,617 earned but unbilled premiums)	50,750,782		50,750,782	30,700,766
13.3 Accrued retrospective premiums				
14. Reinsurance:				
14.1 Amounts recoverable from reinsurers	4,122,196		4,122,196	6,445,590
14.2 Funds held by or deposited with reinsured companies	203,876		203,876	479,056
14.3 Other amounts receivable under reinsurance contracts				
15. Amounts receivable relating to uninsured plans				
16.1 Current federal and foreign income tax recoverable and interest thereon	11,735,603		11,735,603	2,741,314
16.2 Net deferred tax asset	43,668,410	30,499,494	13,168,916	10,371,160
17. Guaranty funds receivable or on deposit	570,507		570,507	691,290
18. Electronic data processing equipment and software	3,538,906	2,613,926	924,980	542,324
19. Furniture and equipment, including health care delivery assets (\$)	2,728,779	2,728,779		
20. Net adjustment in assets and liabilities due to foreign exchange rates				53
21. Receivables from parent, subsidiaries and affiliates	1,074,088		1,074,088	555,497
22. Health care (\$) and other amounts receivable				
23. Aggregate write-ins for other than invested assets				2,383,025
24. Total assets excluding Separate Accounts, Segregated Accounts and Protected Cell Accounts (Line 10 to Line 23)	2,211,205,505	40,388,236	2,170,817,269	1,903,801,250
25. From Separate Accounts, Segregated Accounts and Protected Cell Accounts				
26. Totals (Line 24 and Line 25)	2,211,205,505	40,388,236	2,170,817,269	1,903,801,250
DETAILS OF WRITE-INS				
0901.				
0902.				
0903.				
0998. Summary of remaining write-ins for Line 9 from overflow page				
0999. Totals (Line 0901 through Line 0903 plus Line 0998) (Line 9 above)				
2301. Cash Surrender Value of Officer's Life Insurance				2,383,025
2302.				
2303.				
2398. Summary of remaining write-ins for Line 23 from overflow page				
2399. Totals (Line 2301 through Line 2303 plus Line 2398) (Line 23 above)				2,383,025

LIABILITIES, SURPLUS AND OTHER FUNDS

	1 Current Statement Date	2 December 31, Prior Year
1. Losses (current accident year \$ 141,699,836)	1,266,305,084	1,183,845,004
2. Reinsurance payable on paid losses and loss adjustment expenses		
3. Loss adjustment expenses	31,652,593	31,142,609
4. Commissions payable, contingent commissions and other similar charges		
5. Other expenses (excluding taxes, licenses and fees)	14,643,243	13,340,438
6. Taxes, licenses and fees (excluding federal and foreign income taxes)	4,996,387	4,648,149
7.1 Current federal and foreign income taxes (including \$ on realized capital gains (losses))		
7.2 Net deferred tax liability		
8. Borrowed money \$ and interest thereon \$		
9. Unearned premiums (after deducting unearned premiums for ceded reinsurance of \$ 11,911,903 and including warranty reserves of \$)	150,886,607	108,026,014
10. Advance premium		
11. Dividends declared and unpaid:		
11.1 Stockholders		
11.2 Policyholders		
12. Ceded reinsurance premiums payable (net of ceding commissions)	10,222,604	6,262,064
13. Funds held by company under reinsurance treaties	1,843,435	1,990,718
14. Amounts withheld or retained by company for account of others	21,391,566	13,765,257
15. Remittances and items not allocated	3,200,989	2,674,397
16. Provision for reinsurance	2,043,000	4,504,200
17. Net adjustments in assets and liabilities due to foreign exchange rates		
18. Drafts outstanding		
19. Payable to parent, subsidiaries and affiliates		
20. Payable for securities	18,044,549	2,695,814
21. Liability for amounts held under uninsured plans		
22. Capital notes \$ and interest thereon \$		
23. Aggregate write-ins for liabilities	26,947,670	
24. Total liabilities excluding protected cell liabilities (Line 1 through Line 23)	1,552,177,727	1,372,894,664
25. Protected cell liabilities		
26. Total liabilities (Line 24 and Line 25)	1,552,177,727	1,372,894,664
27. Aggregate write-ins for special surplus funds		
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		
31. Surplus notes	40,591,111	40,000,000
32. Gross paid in and contributed surplus	106,649,399	106,649,399
33. Unassigned funds (surplus)	441,399,032	354,257,187
34. Less treasury stock, at cost:		
34.1 shares common (value included in Line 28 \$)		
34.2 shares preferred (value included in Line 29 \$)		
35. Surplus as regards policyholders (Line 27 through Line 33, less Line 34)	618,639,542	530,906,586
36. Totals	2,170,817,269	1,903,801,250
DETAILS OF WRITE-INS		
2301. Retroactive Insurance Assumed Reserves	25,776,163	
2302. Retroactive Insurance Assumed Other Expenses	1,171,507	
2303. Summary of remaining write-ins for Line 23 from overflow page		
2398. Summary of remaining write-ins for Line 23 from overflow page		
2399. Totals (Line 2301 through Line 2303 plus Line 2398) (Line 23 above)	26,947,670	
2701. Summary of remaining write-ins for Line 27 from overflow page		
2702. Summary of remaining write-ins for Line 27 from overflow page		
2703. Summary of remaining write-ins for Line 27 from overflow page		
2798. Summary of remaining write-ins for Line 27 from overflow page		
2799. Totals (Line 2701 through Line 2703 plus Line 2798) (Line 27 above)		
3001. Summary of remaining write-ins for Line 30 from overflow page		
3002. Summary of remaining write-ins for Line 30 from overflow page		
3003. Summary of remaining write-ins for Line 30 from overflow page		
3098. Summary of remaining write-ins for Line 30 from overflow page		
3099. Totals (Line 3001 through Line 3003 plus Line 3098) (Line 30 above)		

STATEMENT OF INCOME

	1 Current Year to Date	2 Prior Year to Date	3 Prior Year Ended December 31
UNDERWRITING INCOME			
1. Premiums earned:			
1.1 Direct (written \$ 256,742,623)	221,368,297	211,658,179	284,550,617
1.2 Assumed (written \$ 45,872,029)	34,304,805	25,286,682	36,819,650
1.3 Ceded (written \$ 23,152,179)	18,988,959	18,461,145	25,012,260
1.4 Net (written \$ 279,462,473)	236,684,143	218,483,716	296,358,007
DEDUCTIONS:			
2. Losses incurred (current accident year \$ 142,137,937):			
2.1 Direct	152,032,416	149,101,503	209,084,754
2.2 Assumed	9,270,613	12,360,603	18,925,063
2.3 Ceded	11,196,677	6,994,689	11,554,853
2.4 Net	150,106,352	154,467,417	216,454,964
3. Loss adjustment expenses incurred	3,688,849	3,317,606	5,754,359
4. Other underwriting expenses incurred	76,993,533	64,091,836	82,125,031
5. Aggregate write-ins for underwriting deductions	(1,451,997)		
6. Total underwriting deductions (Line 2 through Line 5)	229,336,737	221,876,859	304,334,354
7. Net income of protected cells			
8. Net underwriting gain (loss) (Line 1 minus Line 6 plus Line 7)	7,347,406	(3,393,143)	(7,976,347)
INVESTMENT INCOME			
9. Net investment income earned	60,721,242	63,129,405	83,706,429
10. Net realized capital gains (losses) less capital gains tax of \$ (7,361,067)	(39,622,751)	(11,555,428)	(21,337,143)
11. Net investment gain (loss) (Line 9 plus Line 10)	21,098,491	51,573,977	62,369,286
OTHER INCOME			
12. Net gain or (loss) from agents' or premium balances charged off (amount recovered \$ 4,192 amount charged off \$ (165,850))	(161,658)	(5,328)	(108,308)
13. Finance and service charges not included in premiums			
14. Aggregate write-ins for miscellaneous income			
15. Total other income (Line 12 through Line 14)	(161,658)	(5,328)	(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)	28,284,239	48,175,506	54,284,631
17. Dividends to policyholders			
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)	28,284,239	48,175,506	54,284,631
19. Federal and foreign income taxes incurred	10,213,442	7,357,406	8,185,761
20. Net income (Line 18 minus Line 19) (to Line 22)	18,070,797	40,818,100	46,098,870
CAPITAL AND SURPLUS ACCOUNT			
21. Surplus as regards policyholders, December 31 prior year	530,906,586	462,951,494	462,951,494
22. Net income (from Line 20)	18,070,797	40,818,100	46,098,870
23. Net transfers (to) from Protected Cell accounts			
24. Change in net unrealized capital gains or (losses) less capital gains tax of \$ 17,702,282	46,858,793	(33,538,611)	(49,177,934)
25. Change in net unrealized foreign exchange capital gain (loss)	1,530,735	(943,809)	(2,745,864)
26. Change in net deferred income tax	5,176,779	7,747,269	19,300,260
27. Change in nonadmitted assets	13,993,258	(24,288,343)	(39,875,578)
28. Change in provision for reinsurance	2,461,200	977,200	1,556,000
29. Change in surplus notes	591,111		40,000,000
30. Surplus (contributed to) withdrawn from protected cells			
31. Cumulative effect of changes in accounting principles	1,641,394		
32. Capital changes:			
32.1 Paid in			
32.2 Transferred from surplus (Stock Dividend)			
32.3 Transferred to surplus			
33. Surplus adjustments:			
33.1 Paid in			54,799,338
33.2 Transferred to capital (Stock Dividend)			
33.3 Transferred from capital			
34. Net remittances from or (to) Home Office			
35. Dividends to stockholders	(2,000,000)	(2,000,000)	(2,000,000)
36. Change in treasury stock			
37. Aggregate write-ins for gains and losses in surplus	(591,111)		
38. Change in surplus as regards policyholders (Line 22 through Line 37)	87,732,956	(11,228,194)	67,955,092
39. Surplus as regards policyholders, as of statement date (Line 21 plus Line 38)	618,639,542	451,723,300	530,906,586
DETAILS OF WRITE-INS			
0501. Retroactive Insurance Income/Loss	(1,451,997)		
0502.			
0503.			
0598. Summary of remaining write-ins for Line 5 from overflow page			
0599. TOTALS (Line 0501 through Line 0503 plus Line 0598) (Line 5 above)	(1,451,997)		
1401.			
1402.			
1403.			
1498. Summary of remaining write-ins for Line 14 from overflow page			
1499. TOTALS (Line 1401 through Line 1403 plus Line 1498) (Line 14 above)			
3701. Unapproved Interest on Surplus Notes	(591,111)		
3702.			
3703.			
3798. Summary of remaining write-ins for Line 37 from overflow page			
3799. TOTALS (Line 3701 through Line 3703 plus Line 3798) (Line 37 above)	(591,111)		

CASH FLOW

	1	2
	Current Year To Date	Prior Year Ended December 31
Cash from Operations		
1. Premiums collected net of reinsurance	260,719,986	299,022,108
2. Net investment income	61,978,620	80,373,278
3. Miscellaneous income	113,522	39,002
4. Total (Line 1 through Line 3)	322,812,128	379,434,388
5. Benefit and loss related payments	68,260,880	73,386,903
6. Net transfers to Separate Accounts, Segregated Accounts and Protected Cell Accounts	74,453,090	87,902,661
7. Commissions, expenses paid and aggregate write-ins for deductions	1,546,664	17,547,130
8. Dividends paid to policyholders		
9. Federal and foreign income taxes paid (recovered) net of \$ tax on capital gains (losses)		
10. Total (Line 5 through Line 9)	144,260,634	178,836,694
11. Net cash from operations (Line 4 minus Line 10)	178,551,494	200,597,694
Cash from Investments		
12. Proceeds from investments sold, matured or repaid:		
12.1 Bonds	145,304,144	213,133,159
12.2 Stocks	40,351,604	7,179,632
12.3 Mortgage loans	2,260,935	22,272,508
12.4 Real estate		
12.5 Other invested assets	11,982,787	150,684,957
12.6 Net gains or (losses) on cash, cash equivalents and short-term investments		
12.7 Miscellaneous proceeds	1,916,875	3,902,569
12.8 Total investment proceeds (Line 12.1 through Line 12.7)	201,816,345	397,172,825
13. Cost of investments acquired (long-term only):		
13.1 Bonds	324,362,009	451,641,237
13.2 Stocks	4,618,134	126,721,734
13.3 Mortgage loans	31,233	1,618,085
13.4 Real estate	694,930	22,203,233
13.5 Other invested assets	76,660,578	12,898,810
13.6 Miscellaneous applications	(5,348,735)	72,867,018
13.7 Total investments acquired (Line 13.1 through Line 13.6)	401,018,149	687,950,117
14. Net increase or (decrease) in contract loans and premium notes		
15. Net cash from investments (Line 12.8 minus Line 13.7 minus Line 14)	(199,201,804)	(290,777,292)
Cash from Financing and Miscellaneous Sources		
16. Cash provided (applied):		
16.1 Surplus notes, capital notes	591,111	40,000,000
16.2 Capital and paid in surplus, less treasury stock		54,799,338
16.3 Borrowed funds		
16.4 Net deposits on deposit-type contracts and other insurance liabilities		
16.5 Dividends to stockholders	2,000,000	2,000,000
16.6 Other cash provided (applied)	37,569,119	(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)	36,160,230	85,376,709
RECONCILIATION OF CASH, CASH EQUIVALENTS AND SHORT-TERM INVESTMENTS		
18. Net change in cash, cash equivalents and short-term investments (Line 11 plus Line 15 plus Line 17)	15,509,920	(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)	108,409,359	92,899,439

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

20.0001		
20.0002		
20.0003		
20.0004		
20.0005		
20.0006		
20.0007		
20.0008		
20.0009		
20.0010		

NOTES TO FINANCIAL STATEMENTS

1. Summary of Significant Accounting Policies

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

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 are recorded on the balance sheet as a write-in liability, any gain or loss is recorded as a write-in item on the statement of income. The Company has recorded a write-in liability in the amount of \$26.9 million at September 30, 2009 and a gain of \$1.5 million 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.

3. Business Combinations and Goodwill

N/A.

4. Discontinued Operations

N/A.

5. Investments

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

A. Mortgage Loans

(7) The impairments on mortgage loans as of September 30, 2009 and December 31, 2008 were \$3,136,344 and \$1,278,015, respectively.

(8) The average investment in impaired mortgage loans as of September 30, 2009 was \$1,095,353.

D. Loan Backed Securities

(1) The total fair value of loan backed securities at September 30, 2009 was \$115,541,725.

(2) Amortized Cost
Basis Before

Other Than
Temporary
Impairment

Other Than Temporary Impairment
Recognized in Loss

Fair Value

\$11,494,299

\$3,470,205

\$8,010,338

(4) The company did not experience any other-than-temporary impairments based on the Company's intent to sell or inability or lack of intent to retain the investment in the security for a period of time sufficient to recover the amortized cost basis. Other-than-temporary impairments classified on the basis that the present value of cash flow expected to be collected is less than the amortized cost basis of the security are presented in the table below.

CUSIP	BOOK/ADJ		PRESENT VALUE OF EXPECTED CASHFLOWS	RECOGNIZED OTTI	AMORTIZED COST AFTER OTTI
	CARRYING VALUE AMORTIZED COST BEFORE CURRENT PERIOD OTTI	OTTI			
362290AS7	\$ 87,009		\$ 73,718	\$ 13,291	\$ 73,718
81743QAN4	90,354		76,480	13,874	76,480
94984DAH7	122,275		95,992	26,284	95,992
76111XA78	138,359		102,391	35,965	102,391
17307GPJ1	202,832		163,600	39,232	163,600
32052LAV5	204,296		192,708	11,588	192,708

NOTES TO FINANCIAL STATEMENTS

05946XRD7	286,238	200,512	85,726	200,512
07387QAM2	598,575	515,595	82,980	515,595
863576CY8	742,672	222,817	519,855	222,817
94982FAY7	793,154	527,841	265,313	527,841
05948KYF0	1,033,470	121,090	912,380	121,090
760985D40	1,241,767	1,144,567	97,200	1,144,567
36246LAT8	1,396,149	369,324	1,026,825	369,328
933634AT4	1,490,295	1,298,862	191,433	1,298,862
12668AZW8	3,066,854	2,918,597	148,259	2,918,593
	<u>\$11,494,299</u>	<u>\$8,024,094</u>	<u>\$3,470,205</u>	<u>\$8,024,094</u>

- (6) Loan Backed and Structured Securities with an Unrealized Loss Position that are not Other-Than-Temporary (\$'s in 000's)

<u>Less Than 12 Months</u>		<u>12 Months or More</u>		<u>Total</u>	
Fair Value	Unrealized Losses	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses
\$765	(\$5)	\$52,014	(\$5,119)	\$52,779	(\$5,124)

- (7) Declines in the fair value of investments that are considered in the judgment of management to be other than temporary are reported as realized losses. Management evaluates, among other things, the financial position and prospects of the issuer, conditions in the issuer's industry and geographic area, liquidity of the investment, changes in the amount or timing of expected future cash flows from the investment, and recent changes in credit ratings of the issuer by a rating agency to determine if and when a decline in the fair value of an investment below amortized cost is other than temporary. The length of time and extent to which the fair value of the investment is lower than its amortized cost, the Company's ability and intent to retain the investment to allow for any anticipated recovery in the investment's fair value and whether the Company has made a decision to sell the investment are other factors also considered.

F. Real Estate

- (1), (2) The Company classified two additional properties as held for sale during 2009. One property has been sold as of September 30, 2009, no gain/loss. The market value of the other property declined resulting in an other-than-temporary impairment of approximately \$39,000. The market value of the two properties held for sale since December 31, 2008 also declined resulting in other-than-temporary impairments totaling approximately \$700,000.

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

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

- B. The total amount excluded at September 30, 2009 and December 31, 2008 was \$16,836 and \$118,747, respectively.

8. Derivative Instruments

N/A.

NOTES TO FINANCIAL STATEMENTS

9. Income Taxes

A. The components of the net deferred tax asset at September 30 were as follows:

	2009	2008
Total of gross deferred tax assets	\$ 44,028,461	\$ 56,566,945
Total of deferred tax liabilities	<u>360,051</u>	<u>373,032</u>
Net deferred tax asset	\$ 43,668,410	\$ 56,193,913
Deferred tax asset nonadmitted	<u>\$ 30,499,494</u>	<u>\$ 45,822,753</u>
Net admitted deferred tax asset	\$ 13,168,916	\$ 10,371,160
Decrease (increase) in nonadmitted asset	\$ 15,323,259	\$ (39,524,933)

B. N/A

C. The provisions for incurred taxes on earnings for the years ended September 30 are:

	2009	2008
Current year expense	\$12,005,324	\$ 6,465,405
Realized capital gains tax	(7,361,067)	(2,099,303)
Prior year tax reserve over accrual	(1,791,882)	1,720,356
Current income tax (benefit) expense	\$ 2,852,375	\$ 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	\$ 3,685,536	\$21,387,818
Non-admitted assets	12,518,958	12,832,295
Unearned premiums	8,393,621	7,561,821
Bonds	6,300,479	4,975,064
Reserves	4,836,493	4,626,535
Capital Loss Carryforward	4,178,732	0
Other	0	1,381,205
Agents' balances	1,310,504	1,255,620
Partnerships/LLCs	1,465,738	1,252,810
Renewal rights	953,167	1,019,667
Real estate	<u>385,233</u>	<u>274,110</u>
Total DTAs	<u>44,028,461</u>	<u>56,566,945</u>
Nonadmitted DTAs	<u>30,499,494</u>	<u>45,822,753</u>
Admitted DTAs	<u>13,528,967</u>	<u>10,744,192</u>

DTL's		
Net unrealized capital gains	0	0
Other	0	0
Preferred stock	360,051	373,032
Real estate	<u>0</u>	<u>0</u>
Total DTL	<u>360,051</u>	<u>373,032</u>
Net admitted DTA	<u>\$13,168,916</u>	<u>\$10,371,160</u>

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

	Sep 30, 2009	Dec 31, 2008	Change
Total DTAs	\$44,028,461	\$56,566,945	\$(12,538,484)
Total DTLs	<u>360,051</u>	<u>373,032</u>	<u>(12,981)</u>
Net DTA	<u>\$43,668,410</u>	<u>\$56,193,913</u>	<u>\$ (12,525,503)</u>

Tax effect of unrealized gains	\$ 17,702,282
Change in net deferred income tax	\$ 5,176,779

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	\$ 7,323,110	35.0%
Tax-exempt interest	(14,699,208)	(70.3)
Non-admitted assets	3,793,996	18.1
Other	<u>1,257,698</u>	<u>6.1</u>
Total	\$ (2,324,404)	(11.1)%

NOTES TO FINANCIAL STATEMENTS

Federal income taxes incurred	\$10,213,442	48.8%
Realized capital gains tax	(7,361,067)	(35.2)
Change in net deferred income taxes	<u>(5,176,779)</u>	<u>(24.7)</u>
Total statutory income taxes	\$ (3,568,534)	(11.1)%

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	\$	1,550,206

(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
July	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 paid interest of \$1,571,111 as of July 30, 2009, and has accrued interest of \$591,111 at September 30, 2009, no impact to surplus. See footnote 13, item (11).

The Company acquired an interest in three affiliated entities during 2003. At September 30, 2009 and December 31, 2008 the total investment amounts to \$40,026,504 and \$23,539,990, respectively.

In June 2009, Reliance Standard Life Insurance issued the Company a surplus note in the amount of \$10,000,000. At September 30, 2009, \$211,086 interest was due.

D. At September 30, 2009 and December 31, 2008 the Company reported \$1,023,746 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 September 30, 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 \$37,339,500. At September 30, 2009, the carrying value of this investment was \$53,180,500.

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.

NOTES TO FINANCIAL STATEMENTS13. Capital and Surplus, Dividend Restrictions and Quasi-Reorganizations

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

(10) Unrealized gains of \$7,647,708.

(11) The Company is required to make semi-annual interest payments commencing in July 2009. The Company paid \$1,571,111 in interest on the note in July 2009. The Company has accrued an additional \$591,111 in interest as of September 30, 2009, no impact to surplus.

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 September 30, 2009 and December 31, 2008 the Company had admitted assets of \$73,703,221 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.

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 September 30, 2009, the Company owned subprime residential mortgage backed securities with a cost, book adjusted carrying value and fair value of \$7,736,977, \$6,445,532 and \$4,600,381, respectively. During 2009, the Company has recognized other-than-temporary impairments of \$1,094,352 on its subprime investments. As of September 30, 2009, the Company owned other assets with subprime exposure with a cost, book adjusted carrying value and fair value of \$878,069, \$890,377, and \$1,104,393, respectively, with no other-than-temporary impairments recorded during 2009.

21. Events Subsequent

N/A.

22. Reinsurance

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

NOTES TO FINANCIAL STATEMENTS

C. Reinsurance Assumed and Ceded

(1)	Assumed		Ceded		Net	
	Premium Reserve	Commission Equity	Premium Reserve	Commission Equity	Premium Reserve	Commission Equity
Related	\$ 888,326	\$ 0	\$ 0	\$ 0	\$ 888,326	\$ 0
Other	23,072,381	1,539,433	11,911,903	808,638	11,160,478	730,795
Total	\$23,960,707	\$1,539,433	\$11,911,903	\$ 808,638	\$12,048,804	\$730,795

Direct unearned premium reserve \$138,837,803.

F. Retroactive Reinsurance

	Reported Company	
	(1)	(2)
As:	Assumed	Ceded
A. Reserves Transferred		
1. Initial Reserves	\$26,040,431	\$ 0
2. Adjustments - Prior Year(s)	0	0
3. Adjustments - Current Year	(264,268)	0
4. Current Total	\$25,776,163	\$ 0
B. Consideration Paid or Received		
1. Initial Consideration	\$30,901,743	\$ 0
2. Adjustments - Prior Year(s)	0	0
3. Adjustments - Current Year	0	0
4. Current Total	\$30,901,743	\$ 0
C. Paid Losses Reimbursed or Recovered:		
1. Prior Year(s)	\$ 0	\$ 0
2. Current Year	0	0
3. Current Total	\$ 0	\$ 0
D. Special Surplus from Retroactive Reinsurance:		
1. Initial Surplus Gain or Loss	\$ 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
\$10,358,088	Munich Re	\$0
\$ 5,575,117	SCOR Re	\$0
\$ 2,598,741	California State University	\$0
\$ 2,496,086	Southern California Schools Risk Management Association	\$0
\$ 2,386,560	Barton Healthcare	\$0
\$ 1,273,902	Watts Healthcare	\$0
\$ 1,087,669	Missouri Grocers Association Insurance Trust	\$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 September 30, 2009 \$69 million has been paid for incurred losses and loss adjustment expenses attributable to insured events of prior years. Reserves remaining for prior years are now \$1,156 million. Therefore, there has been an \$11 million unfavorable prior-year development since December 31, 2008. During 2009, \$19 million of discount was accreted for prior accident years.

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	1,984,145	1,926,925	555,107	915,097	20,583,301	18,273,094
2. Alaska	AK	L	267,621	457	195,056	117,368	2,356,383	1,949,270
3. Arizona	AZ	L	3,146,596	2,431,727	279,509	(162,314)	13,779,764	11,738,785
4. Arkansas	AR	L	2,163,441	2,360,612	189,559	174,437	6,769,927	7,063,877
5. California	CA	L	35,267,922	27,048,736	5,282,221	4,481,129	79,524,895	75,335,336
6. Colorado	CO	L	2,903,300	2,505,247	992,809	905,912	11,575,223	9,653,205
7. Connecticut	CT	L	5,516,384	5,324,349	1,256,193	540,032	32,652,568	28,426,475
8. Delaware	DE	L	598,199	656,536	415,202	295,725	3,061,097	2,584,291
9. District of Columbia	DC	L	357,575	617,110	7,683		1,244,279	1,400,793
10. Florida	FL	L	3,953,431	4,347,135	7,734,817	6,786,924	73,607,799	68,728,162
11. Georgia	GA	L	8,362,732	7,817,725	2,818,007	2,894,730	34,995,813	37,101,375
12. Hawaii	HI	L	651,257	583,960	3	(139)	1,108,123	1,131,923
13. Idaho	ID	L	426,449	621,680			865,255	976,664
14. Illinois	IL	L	17,662,942	17,000,055	8,360,392	8,455,005	156,797,041	145,472,393
15. Indiana	IN	L	3,635,341	4,116,750	165,730	147,609	12,272,329	12,853,312
16. Iowa	IA	L	2,639,491	2,697,749	860,121	422,370	8,950,117	8,156,919
17. Kansas	KS	L	4,892,154	4,428,454	842,864	1,114,422	13,670,591	13,232,670
18. Kentucky	KY	L	2,352,440	1,957,412	1,605,126	1,078,801	22,700,682	18,296,928
19. Louisiana	LA	L	8,712,159	8,751,355	1,800,748	2,415,529	56,993,249	44,635,312
20. Maine	ME	L	1,817,499	2,168,777	738,570	1,000,275	19,503,083	16,271,433
21. Maryland	MD	L	5,332,174	4,606,290	1,388,671	1,544,070	23,754,548	17,447,801
22. Massachusetts	MA	L	4,633,434	3,574,751	2,093,917	1,275,289	37,279,261	27,543,232
23. Michigan	MI	L	4,644,014	4,574,924	1,197,292	1,417,513	30,780,157	29,993,431
24. Minnesota	MN	L	730,038	1,125,073	80,666	97,043	2,637,743	2,814,191
25. Mississippi	MS	L	4,187,703	4,258,693	1,905,212	1,672,373	27,287,949	25,524,288
26. Missouri	MO	L	9,342,605	9,403,763	2,053,410	1,731,547	52,751,202	50,625,494
27. Montana	MT	L	1,310,267	1,329,342	287,474	62,507	2,910,588	2,881,461
28. Nebraska	NE	L	1,037,136	650,862	182,192	24,480	4,479,730	4,058,255
29. Nevada	NV	L	4,231,282	5,659,805	529,618	555,228	18,504,601	17,982,990
30. New Hampshire	NH	L	1,057,330	1,145,111		46,890	1,778,237	1,996,847
31. New Jersey	NJ	L	4,500,169	4,416,386	1,436,829	1,426,935	32,090,684	30,636,354
32. New Mexico	NM	L	1,907,974	2,936,112	175,681	168,559	6,312,107	6,168,161
33. New York	NY	L	21,767,827	21,670,809	1,305,468	822,680	101,051,231	98,000,591
34. North Carolina	NC	L	5,359,117	5,829,706	2,328,405	1,100,039	23,897,773	21,559,358
35. North Dakota	ND	L	1,989	3,677			2,310	1,879
36. Ohio	OH	L	10,163,252	9,594,581	6,557,762	4,095,604	85,449,213	80,832,744
37. Oklahoma	OK	L	2,798,835	2,412,306	566,223	1,088,185	25,822,840	15,567,792
38. Oregon	OR	L	3,067,441	1,847,793	154,955	74,442	4,796,039	4,442,058
39. Pennsylvania	PA	L	14,617,197	14,140,028	5,076,072	3,563,613	69,215,407	63,580,518
40. Rhode Island	RI	L	518,376	533,428			773,686	855,873
41. South Carolina	SC	L	3,939,774	2,880,947	398,763	149,871	9,386,558	7,785,249
42. South Dakota	SD	L	671,451	792,605	732,404	292,271	4,460,496	3,940,470
43. Tennessee	TN	L	5,115,400	5,449,845	703,463	387,287	16,207,136	16,883,174
44. Texas	TX	L	11,316,536	9,345,720	1,120,900	963,997	40,905,540	41,260,342
45. Utah	UT	L	1,520,363	940,989	85,820	20,554	5,921,400	4,493,054
46. Vermont	VT	L	658,991	703,479	39,558	36,004	1,284,179	1,388,662
47. Virginia	VA	L	9,696,929	8,925,439	626,760	643,882	22,465,752	17,252,704
48. Washington	WA	L	9,482,285	8,032,790	2,352,572	1,451,898	46,342,957	43,433,877
49. West Virginia	WV	L	237,069	212,130	101,667	28,175	3,018,887	3,436,957
50. Wisconsin	WI	L	1,809,153	1,422,218	770,726	621,147	19,121,631	9,970,640
51. Wyoming	WY	L	2,218	1,899			2,488	2,016
52. American Samoa	AS	N						
53. Guam	GU	N						
54. Puerto Rico	PR	N						
55. U. S. Virgin Islands	VI	N						
56. Northern Mariana Islands	MP	N						
57. Canada	CN	L	3,773,216	3,860,273			6,744,790	4,017,605
58. Aggregate Other Alien	OT	X X X					27,859	29,806
59. Totals	(a)	51	256,742,623	239,644,525	68,352,197	56,944,995	1,300,476,408	1,179,690,091
DETAILS OF WRITE-INS								
5801. Bermuda		X X X					27,859	29,806
5802.		X X X						
5803.		X X X						
5898. Summary of remaining write-ins for Line 58 from overflow page		X X X						
5899. TOTALS (Line 5801 through Line 5803 plus Line 5898) (Line 58 above)		X X X					27,859	29,806

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