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ACCEPTANCE INSURANCE COMPANY

300 West Broadway, Suite 1600

Council Bluffs, Iowa 51503

Report of Association

Financial Condition Examination

as of

December 31, 2010

States Participating

Nebraska

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Omaha, Nebraska
August 17, 2011

Honorable Joseph Torti, III
Chair, Financial Condition (E) Committee, NAIC
Superintendent of Insurance & Banking
Rhode Island Division of Insurance
1511 Pontiac Avenue, Bldg. #69-2
Cranston, RI 02920

Honorable Merle D. Scheiber
Chair, Midwestern Zone
Director of Insurance
South Dakota Division of Insurance
445 East Capitol Avenue
Pierre, SD 57501-3185

Honorable Bruce R. Ramge
Director of Insurance
Nebraska Department of Insurance
Lincoln, NE 68508

Sirs:

Pursuant to your instructions and authorizations, and in accordance with statutory provisions, an Association Examination has been conducted of the financial condition and business affairs of the

ACCEPTANCE INSURANCE COMPANY
300 West Broadway, Suite 1600
Council Bluffs, Iowa 51503

(hereinafter also referred to as the "Company") and the report of such examination is respectfully presented herein.

INTRODUCTION

The Company was last examined as of December 31, 2005, under the Association Plan, with examiners from the State of Nebraska, representing the Midwestern Zone, NAIC. The current financial condition examination covered the intervening period to the close of business on December 31, 2010, and includes such 2011 transactions as were considered pertinent. Examiners from the State of Nebraska participated in this examination and assisted in the preparation of this report.

SCOPE OF EXAMINATION

We conducted our examination pursuant to and in accordance with both the NAIC Financial Condition Examiners Handbook and Section 44-5904(1) of the Nebraska Insurance Statutes. The Handbook requires that examiners plan and perform the examination to evaluate the financial condition and identify prospective risks of the Company by obtaining information about the Company including corporate governance, identifying and assessing inherent risks within the Company and evaluating system controls and procedures used to mitigate those risks. An examination also includes assessing the principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation, management's compliance with Statutory Accounting Principles and annual statement instructions when applicable to domestic state regulations.

All accounts and activities of the Company were considered in accordance with the risk-focused examination process. This included a review of work papers prepared by BKD, LLC, the Company's auditors, in their examination of the Company's accounts for the year ended December 31, 2010. Portions of the auditor's work papers have been incorporated into the work papers of the examiners and utilized in determining the scope and areas of emphasis in conducting the examination. The aforementioned utilization of the auditor's work papers was performed pursuant to Title 210 (Rules of Nebraska Department of Insurance), Chapter 56, Section 013.

DESCRIPTION OF COMPANY

HISTORY

The Company was incorporated under the laws of the State of Nebraska on October 25, 1979, under the name of Insurance Acceptance Company, with its Home Office located at Omaha, Nebraska and licensed to commence the business of insurance as a capital stock casualty company on January 10, 1980.

The Company was originally funded with the issuance of 250,000 shares of stock to Gary O. Gross, the sole shareholder. Through a series of exchange agreements, conversions and name changes, all with regulatory approval, control of the Company transferred to Acceptance Insurance Holdings, Inc. on April 3, 1986.

On April 12, 1990, the Company was purchased by Stoneridge Resources, Inc. (Stoneridge). The acquisition was made pursuant to an Agreement and Plan of Merger dated August 8, 1989 between Stoneridge Acquisition Corporation, a wholly owned subsidiary of Stoneridge, capitalized to accomplish the transaction, and Acceptance Insurance Holdings, Inc. (Holdings), the Company's parent. As set forth in the Agreement, Stoneridge Acquisition Corporation was merged into Holdings, with Holdings being the surviving corporation and wholly owned by Stoneridge. This transaction was set forth and accomplished in accordance with a "Form A - Statement Regarding the Acquisition of Control of or Merger With a Domestic Insurer" filed by Summit Resources, Inc. (Summit) on November 7, 1989, with supplements thereto dated December 22, 1989 and January 9, 1990. Summit is a privately held Michigan holding company, owning 33% of the stock of

Stoneridge. Regulatory authority was granted by the Nebraska Department of Insurance through an "Order Approving Acquisition Cause No. C643" on January 18, 1990. This authorization was conditioned upon the contribution of not less than $3,500,000 in authorized assets to the Company upon closing.

In December 1992, Stoneridge elected to discontinue its non-insurance operations, move its home office from Detroit, Michigan to Omaha, Nebraska, elevate Holdings management to head operations and change the Stoneridge name to Acceptance Insurance Companies Inc.

During 2000, the Company's parent, Acceptance Insurance Holdings, Inc., was merged into it's parent, Acceptance Insurance Companies Inc.

Effective July 1, 2001, the Company's wholly owned subsidiary, Acceptance Indemnity Insurance Company, was sold to the McM Corporation.

On December 20, 2002, the Company was placed under supervision by the Nebraska Department of Insurance. The Director of Insurance had reasonable cause to believe that the Company was in hazardous financial condition as defined in Nebraska Insurance Regulations.

On April 10, 2008 the Company was determined to be in such condition that the further transaction of business would be hazardous financially to its insureds, creditors or the public. Accordingly, an Order of Rehabilitation was entered by the District Court of Lancaster County with the Company's consent. The Director of Insurance for the State of Nebraska, and her successors in office, was appointed Rehabilitator and was granted all the powers of the Directors, Officers and managers of the insurer.

The Amended Articles of Incorporation provide that the Company's duration is perpetual.

MANAGEMENT AND CONTROL

Holding Company

The Company is a member of an insurance holding company system as defined by Nebraska Statute. The Company is a wholly owned subsidiary of Acceptance Insurance Companies Inc., as reported in the 2010 Annual Statement.

Shareholders

Article V of the Company's Amended Articles of Incorporation provides that, "the aggregate number of shares which the Corporation has authority to issue is One Million (1,000,000) shares at a par value of Ten Dollars ($10.00) per share." At the date of this examination, 561,952 shares were issued and outstanding, and all said shares were owned by Acceptance Insurance Companies Inc.

Common capital stock, gross paid in and contributed surplus, and surplus notes remained unchanged during the period covered by this examination.

Dividends to stockholders from inception of the Company consisted of cash distributions of $900,000 and $2,573,696 declared in 1989 and 1991 respectively. No dividends to stockholders were paid during the examination period.

Article II, Section I of the Restated By-Laws states, "the annual meeting of the shareholders shall be held on the date and time, and at the place, as determined by resolution of the Board of Directors for the purpose of electing Directors and for the transaction of such other business as may come before the meeting." No meetings have been held since April 10, 2008 at which time the company was placed under an Order of Rehabilitation.

Board of Directors and Officers

On April 10, 2008, the Company was determined to be in such condition that the further transaction of business would be hazardous financially to its insureds, creditors or the public. Accordingly, an Order of Rehabilitation was entered by the District Court of Lancaster County with the Company's consent. The Director of Insurance for the State of Nebraska, and her successors in office, was appointed Rehabilitator and was granted all the powers of the Directors, Officers and managers of the insurer.

On the same day, the Director of Insurance for the State of Nebraska appointed Michael J. FitzGibbons of FitzGibbons & Company as Special Deputy Rehabilitator. The Special Deputy Rehabilitator then appointed John L. Gaines as the Senior Vice President of Operations and Secretary and William R. Baxter as the Senior Vice President of Finance and Treasurer.

TERRITORY AND PLAN OF OPERATION

In the first quarter of 2000, the Company transferred the renewal rights to all business previously produced and serviced by the Company's Scottsdale, Arizona office and its Long Haul Trucking business to other insurance companies. During 2001, the Company discontinued or sold all remaining business. Additionally, in 2001, as part of its strategy to discontinue its property and casualty insurance business, the Company sold its wholly owned insurance subsidiary, Acceptance Indemnity Insurance Company (AIIC).

The Director of the Nebraska Department of Insurance entered an administrative Order of Supervision with respect to the Company on December 20, 2002, which the Company operated under until placed under Rehabilitation on April 10, 2008. Under the Order of Supervision, the Company was required to pay all costs incurred by the Supervisor, the Company could not accept or renew any insurance business and could not perform any activities beyond those that were routine in the day-to-day conduct of its run-off business without prior approval of the Director or Supervisor.

Under the aforementioned Order of Rehabilitation, the Company continues to manage its run-off of discontinued and sold businesses.

REINSURANCE

As the Company discontinued all of its business during 2001, the following information relates to historical reinsurance agreements.

The Company's accounting system is established by profit center. A profit center is a book of business that exists within a specific sector or niche of an overall line of business or may further represent the book of a designated producer. Reinsurance is placed by profit center primarily through quota share agreements. Excess and catastrophe layers generally provide cover for all profit centers classified as either property or casualty.

The Company assumed and ceded its insurance business. An overview of its reinsurance program is summarized below.

Assumed

Business is assumed from former affiliates as follows:

Acceptance Indemnity Insurance Company - effective January 1, 1995, covered 100% of net liability from Workers Compensation and Employers Liability in the State of Minnesota.

Acceptance Indemnity Insurance Company and Acceptance Casualty Insurance Company – As of July 1, 2001, the Company sold its wholly owned insurance company, Acceptance Indemnity Insurance Company (AIIC), to McM Corporation

(McM), a Raleigh, North Carolina based insurance holding company. Additionally, Acceptance Insurance Companies Inc. sold its wholly owned insurance company, Acceptance Casualty Insurance Company (ACIC) to McM. The Company reinsured 100% of the business for policies issued prior to May 1, 2001. Any subsequent business written on AIIC or ACIC paper, for which the Company produced and managed, was assumed by the Company with a 100% quota share agreement.

As of December 31, 2010, approximately \$4.1 million of bonds and \$0.1 million of short-term investments are in trust and pledged to McM and its affiliates to secure the Company's obligations under the reinsurance agreements. The total amount of pledged assets has been non-admitted as the funds are not readily available to meet policyholder obligations. Under these reinsurance agreements, the Company assumed business from AIIC and ACIC after cessions to 3rd party reinsurers (AIIC Reinsurers). The Company is contingently liable for any uncollectible amounts due from AIIC Reinsurers related to this business. At December 31, 2010, AIIC and ACIC ceded loss and loss adjustment expense reserves to these AIIC Reinsurers, which are not included on the balance sheet of the Company, totaled approximately \$6.9 million.

Redland Insurance Company – Acceptance Insurance Companies Inc. sold its wholly owned insurance subsidiary, Redland Insurance Company (Redland), to Clarendon National Insurance Company (Clarendon) effective as of July 1, 2000. Note that Redland was merged with Praetorian Insurance Company in 2010. The transaction included the appointment of the Company as producer and administrator for the business the Company wrote through Clarendon and Redland. The Company reinsured 100% of the business for policies issued prior to the sale of Redland to Clarendon through the pooling agreement. Any subsequent business written on Redland or Clarendon paper, for which the Company produced and managed, was assumed by the Company with a 100% quota share agreement.

At December 31, 2010, approximately $10.7 million of bonds and $0.5 million of short-term investments are in trust and pledged to Clarendon and Redland to secure the Company's obligations under reinsurance agreements. The total amount of pledged assets has been non-admitted as the funds are not readily available to meet policyholder obligations. Under these reinsurance agreements, the Company assumed business from Clarendon and Redland after cessions to 3rd party reinsurers (Clarendon Reinsurers). The Company is contingently liable for any uncollectible amounts due from Clarendon Reinsurers related to this business. At December 31, 2010, Clarendon and Redland ceded loss and loss adjustment expense reserves from Clarendon Reinsurers, which are not included on the balance sheet of the Company, totaled approximately $35.6 million. In March 2003, the Company and Clarendon agreed to a Master Collateral Agreement (MCA) which supersedes previous agreements with respect to the minimum pledged assets to be included in the trust and the methodology for releasing these pledged assets from the trust. In general, the minimum amount to be included in the trust account is based upon the greater of 1) certain percentages of loss and loss adjustment expense reserves assumed by the Company from Clarendon and Redland and reinsurance recoverables from Clarendon Reinsurers for which the Company is contingently liable or 2) 70% of the Bond Requirement.

The balance sheet reinsurance exposure of $6.9 million and $35.6 million from AIIC Reinsurers and Clarendon Reinsurers, respectively, is primarily comprised of reinsurance exposure under the ISA program. The ISA Program is a workers' compensation program written primarily in California between 3/1/1999 and 10/31/2001. The reinsurance structure provides for a $1 million quota share for each treaty period and the Company retains 6% on the final treaty period. In addition to the quota share treaty, there are excess reinsurance treaties from $1 million to statutory limits with Midwest Employers Casualty Company.

Acceleration National – During the fourth quarter of 2010, the Company reached a commutation agreement with Acceleration National Insurance Company (ANIC) in liquidation with the Ohio Department of Insurance. The commutation agreement is inclusive of two reinsurance agreements. The first agreement is where ANIC cedes 50% to Redland. The second agreement is where Redland cedes 50% to ANIC. Under both agreements, the Company assumes the net obligations of Redland. Both agreements were effective 5/26/1997 to 6/01/1999. The commutation was a mutual release of each other's obligations and was approved by the Court of Common Pleas of Franklin County, Ohio.

The obligations on the Company's books as of September 30, 2010 were $297,413 and were commuted for $261,513 resulting in a savings of $35,900. A significant portion of these obligations were retro-ceded to Excalibur (formerly PMA) under the Discontinued Lines Quota Share Treaty.

Aviation –The Company participated with four other insurers in an Aviation Quota Share Treaty effective July 1, 1997. The Company's limit is 15% of $12,000,000 any one risk on hulls underwritten by Aviation & Marine Insurance Group. Excess coverage reduces the Company's exposure to $75,000 any one risk.

Effective July 1, 1995 through June 30, 1997 the Company retro-assumed 30% of the business ceded as Aviation Hull and Liability written through Signal Aviation Underwriters, of which 20% was retroceded to a subsidiary of the agent. This business was originally assumed by Employers Reinsurance Corporation from several companies including affiliates of the Company.

Ceded Casualty

Business written under the following programs or lines of business was ceded under a Discontinued Lines Quota Share treaty: GA Auto, Public Auto, Dunlap Workers' Compensation, Aviation, Auto Daily Rental, Limousine, Family Restaurant, Rural America Farm Auto, Commercial Standard Lines, U.S. Risk–Public Entity, Acceptance Risk Managers and Entertainment Brokers International. The contract commenced December 31, 1998 and ran through December 31, 1999, with an eighteen-month runoff period. Business classified as Employers Liability, Commercial Multiple Peril, Commercial Package, Commercial and Personal Automobile Liability, General Liability, Umbrella Liability, the liability sections of Homeowners, Mobile Homeowners, Farmowners and Ranchowners, Workers' Compensation, and other lines classified by the Company as liability business, Property lines including: Dwelling Fire, Commercial Fire, Allied Lines, Inland Marine, and Cargo, in force, new and renewal are covered under this treaty. It was agreed that the Company would purchase other reinsurance as itemized by program in the contract. The reinsurer will accept the Company's net liability not to exceed 110% of the total ceded premium subject to a per occurrence maximum of $500,000.

A reinsurance intermediary provided an agreement covering business classified as Public Officials Liability, Law Enforcement Liability, School Board Legal Liability, Educators Professional Liability and Firefighters Liability produced by US Risk Underwriters effective October 1, 1994. Cessions are limited to 80% of $500,000 each occurrence net of excess treaty or facultative reinsurance.

Medical malpractice policies covering physicians, surgeons and related medical professionals are insured on a claims made basis and are classified as Medical Professional Liability. The Company shall retain this business net and unreinsured elsewhere and be liable for 5% of its net liability. The reinsurer will accept a 95% quota share of the Company's net liability subject to policy limits not greater than $1,000,000 each claim and $3,000,000 in the aggregate.

A Casualty Facultative Agreement with Clearwater Insurance Company effective October 1, 1996 provided for cessions of the Company's Commercial Umbrella Business, Excess Commercial Umbrella, Excess General Liability and Excess Automobile Liability. Under this agreement the Company retains 30% of the first $1,000,000 each occurrence and $1,000,000 annual aggregate plus 5% of the excess of $1,000,000 not to exceed $4,000,000 each occurrence annual aggregate. The reinsurer will accept 70% and 95% of the corresponding layers. This agreement applies to business underwritten by Commercial Services and Protection.

Business classified as Commercial Multiple Peril (Liability), Commercial Package Liability Perils, Commercial and Personal Automobile Liability, General Liability, Umbrella Liability, the liability sections of Homeowners, Mobile Homeowners and Farmowners and other lines classified as liability business are reinsured under the following per occurrence casualty excess layers:

First Excess	$ 500,000 xs	$ 500,000
Second Excess	5,000,000 xs	1,000,000
Third Excess Clash	4,000,000 xs	6,000,000
Fourth Excess Clash	10,000,000 xs	10,000,000

Policy limits under this treaty were as follows:

Liability:	$6,000,000 each insured, per occurrence, any one coverage.
Auto PD:	350,000 per tractor/ trailer 1,000,000 per terminal
Cargo :	350,000 any one unit
Commercial Excess/Umbrella:	3,000,000 each insured, per occurrence, any one coverage

The Company maintained a $500,000 retention for all lines except Commercial Auto. An Underlying Commercial Auto Excess Reinsurance Program is in place providing $250,000 excess of $250,000 per occurrence including commercial auto and garage liability.

<u>Ceded Property</u>

Business classified as, including but not limited to, Homeowners, Farmowners, Ranchowners, Fire and Allied Lines, Inland Marine, Agricultural Equipment, Farm Livestock, Farm Management, Farm Administration, Grain on Farm, Commercial Multiple Peril, Commercial Package, General Liability, Commercial Automobile Garage Liability, Liquor Liability and Other Liability written in the standard lines division of the Company were reinsured under an 80% Quota Share treaty on the first $500,000 of net retained liability. Reinsurance limits on losses and loss adjustment expense per occurrence shall not exceed $24,000,000 or 144% of the subject written premium.

A First Property Excess Per Risk Treaty provides coverage for business classified as, Dwelling Fire, Commercial Fire, Allied Lines, Inland Marine, Cargo and the Property section of Commercial Package, Homeowners and Mobile Homeowners. The reinsurance limit and Company retention hereunder are $1,500,000 excess of $500,000 ultimate net loss per risk each loss with a $4,500,000 limit any one loss occurrence.

In 2006, the Company and CX Reinsurance Company Ltd (CX Re), formerly known as CNA Reinsurance Company Ltd, reached a commutation agreement for all treaties between the parties. The Nebraska Department of Insurance (NDOI) Supervisor approved the commutation. The support sent the NDOI Supervisor included the following:

CX Re has significant financial problems and was a poor performing reinsurer for the Company. Based upon the discounted case reserves and estimate of LAE reserves, the Company will take a $272,192 discount. The discount would have been $194,174 if the Company utilized CX Re's IBNR. There were several reasons why the commutation was accepted:

- The Company is no longer receiving newly reported claims on the programs involved;
- CX Re's poor financial condition;
- Potential for savings on a couple of claims in the US Risk Public Entity and Market Finders programs;
- Actual savings on CX Re exposure of $25,340 on a claim closed for zero in December 2005;
- Potential savings on CX Re exposure of $23,220 on a claim where the Company won the lawsuit but the reserve is still up as the plaintiff has appealed the Company's favorable verdict;
- Potential for savings of estimated LAE reserves as several claims are near completion and the Company utilized a LAE to Loss ratio for inception to date of the programs;
- Risk that CX Re may stop paying if the Company does not commute; potentially resulting in significant legal expenses, delays in recovery and risk of not recovering amounts.

Ceded Workers' Compensation

Workers' Compensation agreements provide per occurrence excess limits as follows:

(A) Workers' Compensation	$400,000 xs $100,000 (eff. 4/99-5/01) $40,000,000 xs $1,000,000 (eff. 5/01-1/02) Statutory xs 500,000
(B) Employers Liability	500,000 xs 500,000
(C) Combination WC & EL	500,000 xs 500,000

Coverages under A and B shall inure to the benefit of C.

Ceded Surety

The Company ceded 70% of its surety business produced by Connecticut Insurance Agency to Connecticut Insurance Company, which has been liquidated, and accordingly no reinsurance is currently available. Beginning July 1, 2000, 90% to 100% was ceded to other solvent reinsurers.

Cessions to ICH

Effective March 1, 2001, Acceptance Insurance Companies Inc. sold a significant portion of its property and casualty business to Insurance Corporation of Hannover (ICH). Effective March 1, 2001, the Company transferred 100% of its unearned premium on this business, primarily comprised of Bobcat, Condo, Diversified, Florida Homeowners, First Class, Florida Intercoastal, Hole in One, Hospitality, LICA, Livestock Mortality, Low Rise Condo, North Island, Postal, Surety Bonds, Fine Arts and Temporary Help business, to ICH. Additionally, the Company allowed ICH to utilize its paper for a transitional period during which the Company ceded business to ICH under a 100% quota share agreement.

Cessions to American Reliable Insurance Company

Effective May 1, 2001, Acceptance Insurance Companies Inc. sold its Farm and Ranch and Flood insurance programs to American Reliable Insurance Company (ARIC). The Company ceded 100% of the unearned premium to ARIC as of May 1, 2001 and 100% of any business written on the Company's paper thereafter.

Cessions to AIIC and ACIC

Effective May 1, 2001, Acceptance Insurance Companies Inc. sold its Commercial Automobile, Garage, Liquor Liability, Umbrella and Excess Liability, Nebraska Farmers Mutual Reinsurance Association, Preferred General Agency, Statewide Insurance Corporation General

Agency Business, Coin Operated Laundry Program and Federal Program business to Acceptance Indemnity Insurance Company (AIIC) and Acceptance Casualty Insurance Company (ACIC). As part of the agreement, the Company ceded its unearned premium under a 100% quota share agreement whereby AIIC assumed 50% and ACIC assumed 50%. Additionally, the Company allowed AIIC and ACIC to utilize its paper for a transitional period during which the Company ceded 50% to AIIC and 50% to ACIC under a 100% quota share agreement.

Pooling

In prior years, the Company had entered into pooling agreements with its affiliates, AIIC, Redland Insurance Company (Redland) and ACIC.

As of December 31, 2010 the only remaining participant in the pooling agreement was Redland. Redland participates on a run-off basis for business issued prior to July 1, 2000. The Company's participation for the pooling agreement at December 31, 2010 is 100%.

General

The Company's reinsurance portfolio consisted of additional agreements for ceding or assuming specific lines of business on an automatic or facultative basis and includes others on a run-off basis. All of the foregoing cover notes and agreements indicated or contained appropriate insolvency clauses and termination provisions providing for adequate notice of cancellation, as well as intermediary clauses, as necessary. Also, most of the agreements indicated they were issued to the Company and one or more of its former affiliates, jointly, as the reinsured.

BODY OF REPORT

GROWTH

The following comparative data reflects the growth of the Company during the period covered by this review:

	2006	2007	2008	2009	2010
Admitted assets	$ 49,534,859	$ 39,797,970	$ 35,337,067	$ 33,619,079	$ 30,926,605
Loss reserves	28,202,404	21,606,635	15,382,835	12,564,732	8,035,009
Loss adjustment expenses	26,323,832	20,757,128	14,915,882	11,271,429	9,869,456
Unearned premiums	0	0	0	0	0
Total liabilities	58,402,243	45,828,987	51,263,659	45,541,345	37,625,294
Capital and surplus	(8,867,384)	(6,031,017)	(15,926,592)	(11,922,266)	(6,698,689)
Premiums earned	0	0	0	0	0
Losses incurred	(3,118,741)	(393,295)	(2,476,535)	(1,491,384)	(3,382,496)
Loss expenses incurred	3,118,729	495,807	(2,533,157)	(1,703,615)	200,492
Underwriting gain/(loss)	(3,533,809)	(1,918,333)	(14,057,107)	(723,946)	3,597,633
Net investment gain/(loss)	4,058,345	2,723,428	1,848,253	990,100	590,793
Net income/(loss)	527,904	806,272	(12,056,148)	922,175	4,152,293

FINANCIAL STATEMENTS

The following statement of admitted assets and liabilities, together with the accompanying statement of income and supporting exhibits, reflect the financial condition of the Company as of December 31, 2010, and its transactions for the year 2010 as determined through this examination. A reconciliation of the capital and surplus account for the five-year period under review is also included. Any failure of items to add to the totals shown in schedules and exhibits appearing throughout this report is due to rounding.

FINANCIAL STATEMENT
December 31, 2010

Assets	Ledger	Not Admitted	Net Admitted
Bonds	$ 37,277,561	$14,843,372	$22,434,189
Cash, cash equivalents and short-term investments	6,882,232	580,441	6,301,791
Investment income due & accrued	260,728		260,728
Uncollected premiums in course of collection	(12,591)		(12,591)
Amounts recoverable from Reinsurers	1,942,488		1,942,488
Receivable - Clarendon National	417,022	417,022	
Receivable – Acceptance Indemnity/ Acceptance Casualty	77,772	77,772	
Other receivable and prepaids	104,627	104,627	
Totals	$46,949,839	$16,023,234	$30,926,605

Liabilities, Surplus and Other Funds

Losses	$ 8,035,009
Reinsurance payable on paid loss and loss adjustment expenses	2,522
Loss adjustment expenses	9,869,456
Contingent commissions	(830,415)
Other expenses	690,386
Taxes, licenses and fees	232,518
Current federal and foreign income taxes	36,335
Funds held by the company under reinsurance treaties	1,453
Provision for reinsurance	2,821,442
Payable – Praetorian Insurance Company	276,738
Granite Re Judgment	16,489,850
Total liabilities	$ 37,625,294
Common capital stock	$ 5,619,520
Surplus notes	20,000,000
Gross paid in and contributed surplus	67,467,931
Unassigned funds (surplus)	(99,786,140)
Total capital and surplus	$ (6,698,689)
Total liabilities, surplus and other funds	$ 30,926,605

STATEMENT OF INCOME - 2010

Underwriting Income

Premiums earned	$ 0
Deductions:	
Losses incurred	$(3,382,496)
Loss expenses incurred	200,492
Other underwriting expenses incurred	1,814,521
Aggregate write-ins for underwriting deductions	(2,230,150)
Total underwriting deductions	$(3,597,633)
Net underwriting gain (loss)	$ 3,597,633

Investment Income

Net investment income earned	$ 574,761
Net realized capital gains or (losses)	16,032
Net investment gain or (loss)	$ 590,793

Other Income

Net gain or (loss) from agents' or premium balances charged off	$ (25)
Miscellaneous income	227
Total other income	$ 202
Net income, before federal income tax	$ 4,188,628
Federal income tax incurred	36,335
Net income	$ 4,152,293

CAPITAL AND SURPLUS ACCOUNT

	2006	2007	2008	2009	2010
Capital and surplus, beginning	$ (20,261,970)	$(8,867,384)	$ (6,031,017)	$(15,926,592)	$(11,922,266)
Net income	$ 527,904	$ 806,272	$(12,056,148)	$ 922,175	$ 4,152,293
Change in net deferred income tax	(3,473,478)	(942,506)	3,480,359	(1,484,884)	(54,320,565)
Change in non-admitted assets	13,148,887	2,898,929	(1,367,549)	4,576,953	55,378,319
Change in provision for reinsurance	1,191,273	73,671	47,763	(9,918)	13,530
Net change for the year	$ 11,394,586	$ 2,836,367	$ (9,895,574)	$ 4,004,325	$ 5,223,577
Capital and surplus, ending	$ (8,867,384)	$(6,031,017)	$(15,926,592)	$(11,922,266)	$ (6,698,689)

EXAMINATION CHANGES IN FINANCIAL STATEMENTS

Unassigned funds (surplus) in the amount of $(99,786,140), as reflected by the Company in its 2010 Annual Statement, has been accepted for purposes of this examination.

COMPLIANCE WITH PREVIOUS EXAMINATION RECOMMENDATIONS

The following recommendation made as a result of the last previous financial condition examination is set out here together with the action taken by the Company to comply therewith:

Accounts and Records – Information Systems - It is recommended that the Company take the necessary steps to update and test its formal disaster recovery/business contingency plan.

Action – The Company has complied.

COMMENTARY ON CURRENT EXAMINATION FINDINGS

No comments or recommendations have been made as a result of this examination.

SUMMARY OF RECOMMENDATIONS

No comments or recommendations have been made as a result of this examination.

ACKNOWLEDGEMENT

The courteous cooperation extended by the officers and employees of the Company during this examination is hereby acknowledged.

In addition to the undersigned, Linda K. Scholl, CFE, Josh Johnson, CFE and Andrea Szwanek, AFE, Financial Examiners, and Gary Evans, CFE, Information Systems Specialist, all with the Nebraska Department of Insurance, participated in this examination and assisted in the preparation of this report.

Respectfully submitted,

Robert R. Gardner, CFE
Supervisory Examiner
Nebraska Department of Insurance