STATE OF MISSOURI

DEPARTMENT OF INSURANCE, FINANCIAL INSTITUTIONS AND PROFESSIONAL REGISTRATION

P.O. Box 690, Jefferson City, Mo. 65102-0690

RE: Examination Report of Safety National Casualty Corporation for the period ended December 31, 2011

ORDER

After full consideration and review of the report of the financial examination of Safety National Casualty Corporation for the period ended December 31, 2011, together with any written submissions or rebuttals and any relevant portions of the examiner's workpapers, I, John M. Huff, Director, Missouri Department of Insurance, Financial Institutions and Professional Registration pursuant to section 374.205.3(3)(a), RSMo., adopt such examination report. After my consideration and review of such report, workpapers, and written submissions or rebuttals, I hereby incorporate by reference and deem the following parts of such report to be my findings and conclusions to accompany this order pursuant to section 374.205.3(4), RSMo: summary of significant findings, subsequent events, company history, corporate records, management and control, fidelity bond and other insurance, pension, stock ownership and insurance plans, territory and plan of operations, growth of the company and loss experience, reinsurance, accounts and records, statutory deposits, financial statements, financial statement changes resulting from examination, and comments on financial statement items.

Based on such findings and conclusions, I hereby ORDER, that the report of the Financial Examination of Safety National Casualty Corporation as of December 31, 2011, be and is hereby ADOPTED as filed and for Safety National Casualty Corporation to take the following action or actions, which I consider necessary to cure any violation of law, regulation or prior order of the Director revealed by such report: (1) implement, and verify compliance with each item, if any, mentioned in the Comments on Financial Statement Items and/or Summary of Recommendations section of such report; (2) account for its financial condition and affairs in a manner consistent with the Director's findings and conclusions.

So ordered, signed and official seal affixed this 13th day of February, 2013.

John M. Huff, Director
Department of Insurance, Financial Institutions
and Professional Registration

REPORT OF

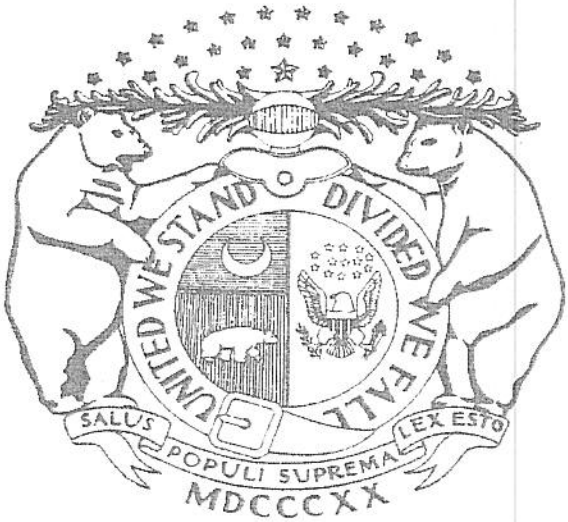
FINANCIAL EXAMINATION

SAFETY NATIONAL CASUALTY CORPORATION

As of:

DECEMBER 31, 2011

FILED
FEB 23 2013
DIRECTOR OF INSURANCE, FINANCIAL INSTITUTIONS & PROFESSIONAL REGISTRATION



STATE OF MISSOURI

DEPARTMENT OF INSURANCE, FINANCIAL INSTITUTIONS
AND PROFESSIONAL REGISTRATION

JEFFERSON CITY, MISSOURI

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December 20, 2012
Saint Louis, MO

Honorable John M. Huff, Director
Missouri Department of Insurance, Financial
Institutions and Professional Registration
301 West High Street, Room 530
Jefferson City, MO 65101

Director Huff:

In accordance with your financial examination warrant, a comprehensive financial examination has been made of the records, affairs and financial condition of

SAFETY NATIONAL CASUALTY CORPORATION

hereinafter referred to as "Safety National", "SNCC", or the "Company". The Company's office is located at 1832 Schuetz Road, St. Louis, Missouri 63146-3540; telephone number (314) 995-5300. Examination fieldwork began on March 5, 2012, and concluded on the above date.

SCOPE OF EXAMINATION

Period Covered

We have performed a multi-state examination of Safety National Casualty Corporation. The last examination was completed as of December 31, 2008. This examination covers the period of January 1, 2009, through December 31, 2011. This examination also included material transactions or events occurring subsequent to December 31, 2011.

Procedures

This examination was conducted using guidelines set forth in the Financial Condition Examiners Handbook (Handbook) of the NAIC, except where practices, procedures and applicable regulations of the Department of Insurance, Financial Institutions and Professional Registration ("Department" or "DIFP") or statutes of the state of Missouri prevailed. The Handbook requires that we plan and perform the examination to evaluate the financial condition and to identify prospective risks of the Company. This process involves obtaining information about the Company, including corporate governance, identifying and assessing inherent risks within the Company, and evaluating the systems controls and procedures used by the Company to mitigate those risks. The examination also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation, 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. The following key activities were identified: Investments,

Treasury, Premiums and Underwriting, Claims and Reserving, Reinsurance, Affiliated Parties, and Capital and Surplus.

Reliance on Others

This examination relied heavily upon information provided by Company management and internal auditor, PriceWaterhouseCoopers, LLP, ("PWC"). When deemed appropriate the examiners tested or verified this information with external sources. The examiners also relied upon information provided by the Company's independent auditor, Ernest and Young, LLP ("E&Y"), which provided information and workpapers from its 2010 and 2011 audits. Information relied upon included fraud risk analysis, process narratives, walk-throughs, and descriptions and tests of internal controls.

SUMMARY OF SIGNIFICANT FINDINGS

The Company has experienced adverse loss development in recent years. A table included in the Loss Experience section shows the adverse reserve development during the examination period. This table shows that, based on runoff development reported by the Company in the 2011 Annual Statement, the two-year adverse development percentage for 2009 was higher than the one-year adverse development percentage for 2010. The amount and percentage of the adverse development is smaller in recent years than it was earlier in the past decade. The Company's surplus has increased significantly in the past decade despite the continued adverse development.

The consulting actuary employed by MO DIFP as part of this examination estimated that the Company's total net discounted reserves at December 31, 2011, were $1.90 billion. The Company's reported reserves of $1,768 million are $132 million below the consulting actuary's estimate and fall near the lower end of the consulting actuary's reasonable range. However, because the reserves are within the range considered reasonable, no change will be made to the Company's financial statements as a result of this examination.

The prior examination report included a comment that, due to the Company's recent adverse loss development history, its reserves will continue to be a concern until the trend of material one-year and two-year deficiencies is broken. This trend was not broken during this examination period. During the fourth quarter of 2012 the Company took steps to address the adverse loss development noted above by strengthening net discounted Excess Workers' Compensation reserves by approximately $110 million. This strengthening is consistent with the recommendation made by the consulting actuary used by the DIFP to evaluate year-end 2011 reserves and it reduces the likelihood of future adverse development. The strengthening of reserves was funded by a capital contribution from the Company's parent to return surplus to the pre-strengthening level.

Comments Previous Examination

Comment:

The prior examination report noted that due to the Company's adverse loss development history its reserves would continue to be a concern until the trend of material one-year

and two-year deficiencies was broken. The report also noted that this should be expected to occur in the near future if the reserves reported as of the prior examination period ending date were sufficient and further reserve strengthening was no longer necessary.

Company Response:
The Company stated that it had strengthened its loss reserves and that total carried reserves as of the prior examination period ending date were redundant by approximately $31 million compared to the estimate made by its independent actuary.

Current Findings:
The prior examination report included a comment that, due to the Company's recent adverse loss development history, its reserves will continue to be a concern until the trend of material one-year and two-year deficiencies is broken. This trend was not broken during this examination period.

SUBSEQUENT EVENTS

Effective May 15, 2012, Tokio Marine Holdings, Inc. ("TMH") acquired 100% of the stock of Delphi Financial Group. This transaction was approved by DIFP on February 28, 2012. As a result of this transaction TMH is now the ultimate controlling entity of the Company. TMH is an insurance holding company that was established on April 2, 2002, by Tokio Marine and Nichido Fire ("TMNF"). TMH is incorporated in Japan and is listed on both the Tokyo and Osaka stock exchanges. TMH has more than 220 subsidiaries and 30 associated companies with a presence in approximately 40 countries/areas. The main operating subsidiary, TMNF, was founded in 1879 and is the oldest and largest property and casualty insurer in Japan. TMNF conducts business in the United States mainly through its US branch, Liberty American Insurance Group, the recently acquired subsidiary, Philadelphia Consolidated Holding Corporation, and Tokio Marine Pacific Insurance Limited. TMH had approximately $23.2 billion in capital and surplus at March 31, 2012, and maintains an A++ AM Best Rating.

During the fourth quarter of 2012 the Company took steps to address the adverse loss development noted in the "Summary of Significant Findings" section above by strengthening net discounted Excess Workers' Compensation reserves by approximately $110 million. This strengthening is consistent with the recommendation made by the consulting actuary used by the DIFP to evaluate year-end 2011 reserves and it reduces the likelihood of future adverse development. The strengthening of reserves was funded by a capital contribution from the Company's parent to return surplus to the pre-strengthening level. The Company has also adopted certain reserve methodology recommendations made by the consulting actuary on a prospective basis and is working with DIFP to develop more comprehensive guidelines regarding its discounting methodologies.

Also during the fourth quarter of 2012, the Company entered into a Capital Maintenance Agreement ("CMA") with its parent, Delphi Financial Group. The terms of the CMA require that Delphi Financial Group will assure that the Company's Risked Based Capital

("RBC") ratio will not drop below 300% at any time through at least year-end 2014 and that if RBC drops below 300% that Delphi Financial Group will take action to immediately raise the Company's RBC above 300% before the next quarterly financial statement filing.

COMPANY HISTORY

General

Safety Mutual Casualty Corporation was incorporated in the state of Missouri on November 28, 1942, and commenced business on December 28, 1942, as a mutual property and casualty insurer operating under Chapter 379 RSMo (Insurance Other than Life).

Safety Mutual Casualty Corporation was originally organized to provide excess workers' compensation coverage to self-insured employers. Insurers Service Corporation managed the operations of Safety Mutual Casualty Corporation until 1982 when the two shareholders of Insurers Service Corporation sold their interests to Frank B. Hall & Company. The management agreement between Safety Mutual Casualty Corporation and Insurers Service Corporation was terminated in 1988 under a settlement that required the Company to pay Insurers Service Corporation 6% of direct and assumed premiums until December 31, 1989, and 7% from January 1, 1990, to December 31, 2002.

Safety Mutual Casualty Corporation was converted to a stock company on September 30, 1991, and the name was changed to Safety National Casualty Corporation. SIG Holdings, Inc., a Missouri corporation, became the sole shareholder of the Company at that time.

On March 5, 1996, SIG Holdings Inc., a Delaware corporation and subsidiary of Delphi Financial Group, Inc., purchased SIG Holdings Inc. of Missouri and merged it into SIG Holdings Inc. of Delaware.

Capital Stock and Paid-In Surplus

The Company is authorized to issue 5,000 shares of common stock with a par value of $1,000 per share. The Company is also authorized to issue 1,000,000 shares of preferred stock with a par value of $100 per share. At December 31, 2011, the Company had 5,000 shares of common stock and 250,000 shares of preferred stock issued and outstanding, resulting in total capital stock of $30 million.

In December 2008 the Company received capital contributions from Delphi Financial Group of $54,799,338, resulting in total paid-in and contributed surplus of $106,649,399. The 2008 capital contribution was non-disapproved by the DIFP on April 8, 2009. No changes to the capital stock and paid-in surplus accounts of the Company occurred during the current examination period.

Dividends

Dividends paid from inception through 2008 totaled $81,000,000. Dividends paid during the current examination period were $2,000,000 in 2009, $12,000,000 in 2010 and $2,000,000 in 2011. All dividends during the current examination period were deemed ordinary pursuant to 382.210 RSMo.

Acquisitions, Mergers and Major Corporate Events

No acquisitions, mergers or major corporate events occurred during the current examination period. However see Subsequent Events above for a description of the acquisition of the Company and its parent, Delphi Financial Group, Inc. ("DFG"), by Tokio Marine Holdings, Inc. that occurred in 2012.

Surplus Debentures

The Company issued a $40,000,000 surplus note to Delphi Financial Group in exchange for cash on December 24, 2008. The effective interest rate for the note is 7.0% per annum paid semiannually. The initial maturity date was set at January 15, 2029. The surplus note was approved by the DIFP on December 19, 2008. An amendment of the surplus note was filed and approved by the MO DIFP on December 30, 2009, extending the maturity date of the note to January 15, 2035. All scheduled interest payments during the current examination period were properly requested and approved by the MO DIFP. Payments of interest during the current examination period were $2,971,111 in 2009, $2,800,000 in 2010 and $2,800,000 in 2011. No principal payments have been made on the surplus note by the Company since inception.

CORPORATE RECORDS

A review was performed of the Company's articles of incorporation and by-laws and changes that occurred during the current examination period. The by-laws were amended in April of 2009 as a result of a finding in the prior examination that the by-laws in effect at the time contained numerous spelling, grammatical and organizational reference errors. The by-laws were again amended in January of 2010, to clarify and separate the positions of Chairman, Chief Executive Officer and President, as well as to remove the position of Chairman Emeritus from the more formal chain of command related to conduct of shareholder and board meetings. The articles of incorporation were amended in April 2009 to reflect the Company's new registered office address, and were amended again in June 2010 to facilitate the Company's pursuit of a license to conduct insurance business in the U.S. territory of Puerto Rico.

The minutes of the shareholder, board of directors and committee meetings were reviewed and appear to properly support and approve the corporate transactions and events for the period under examination. The minutes from the meeting held on April 15, 2010, indicated that the Board had reviewed and approved the prior examination report in November of 2009.

MANAGEMENT AND CONTROL

Board of Directors

The management of the Company is vested in a board of nine (9) directors. The directors serving at December 31, 2011, were as follows:

Name	Principal Occupation and Business Affiliation
John P. Csik St. Louis, Missouri	Treasurer Safety National Casualty Corporation
Duane A. Hercules St. Louis, Missouri	Chief Operating Officer Safety National Casualty Corporation
Steven F. Luebbert St. Louis, Missouri	Executive Vice President Safety National Casualty Corporation
Jeffrey W. Otto St. Louis, Missouri	Secretary Safety National Casualty Corporation
Robert Rosenkranz New York, New York	Chairman and Chief Executive Officer Delphi Financial Group
Terrence T. Schoeninger St. Louis, Missouri	Chairman Emeritus Safety National Casualty Corporation
Gerald R. Scott St. Louis, Missouri	President Safety National Casualty Corporation
Donald A. Sherman New York, New York	President and Chief Operating Officer Delphi Financial Group
Mark A. Wilhelm St. Louis, Missouri	Chief Executive Officer Safety National Casualty Corporation

Officers

The officers of the Company at December 31, 2011, were as follows:

Name	Position
Gerald R. Scott	President
Jeffrey W. Otto	Secretary
John P. Csik	Treasurer
Duane A. Hercules	Chief Operating Officer
Steven F. Luebbert	Executive Vice President
Eugene R. Maier	Senior VP Workers Compensation Underwriting
Carleton S. Reynolds III	Senior VP Workers Compensation Claims
Mark A. Wilhelm	Chief Executive Officer

Committees

The Company has two formal committees in place: an Executive and Investment Committee and a Derivative Use Plan Compliance Committee. The individuals serving on each committee as of December 31, 2011, were as follows:

Executive and Investment Committee
Duane A. Hercules
Robert Rozenkranz
Gerald R. Scott
Donald A. Sherman
Mark A. Wilhelm

Derivative Use Plan Compliance Committee
Duane A. Hercules
Gerald R. Scott
Mark A. Wilhelm

Safety National does not have an audit committee. To comply with Sections 375.1025-1062 RSMo, the Company relies on the Audit Committee of Delphi Financial Group, comprised of four (4) individuals: Kevin R. Brine, Steven A. Hirsh, James M. Litvack and James M. Meehan.

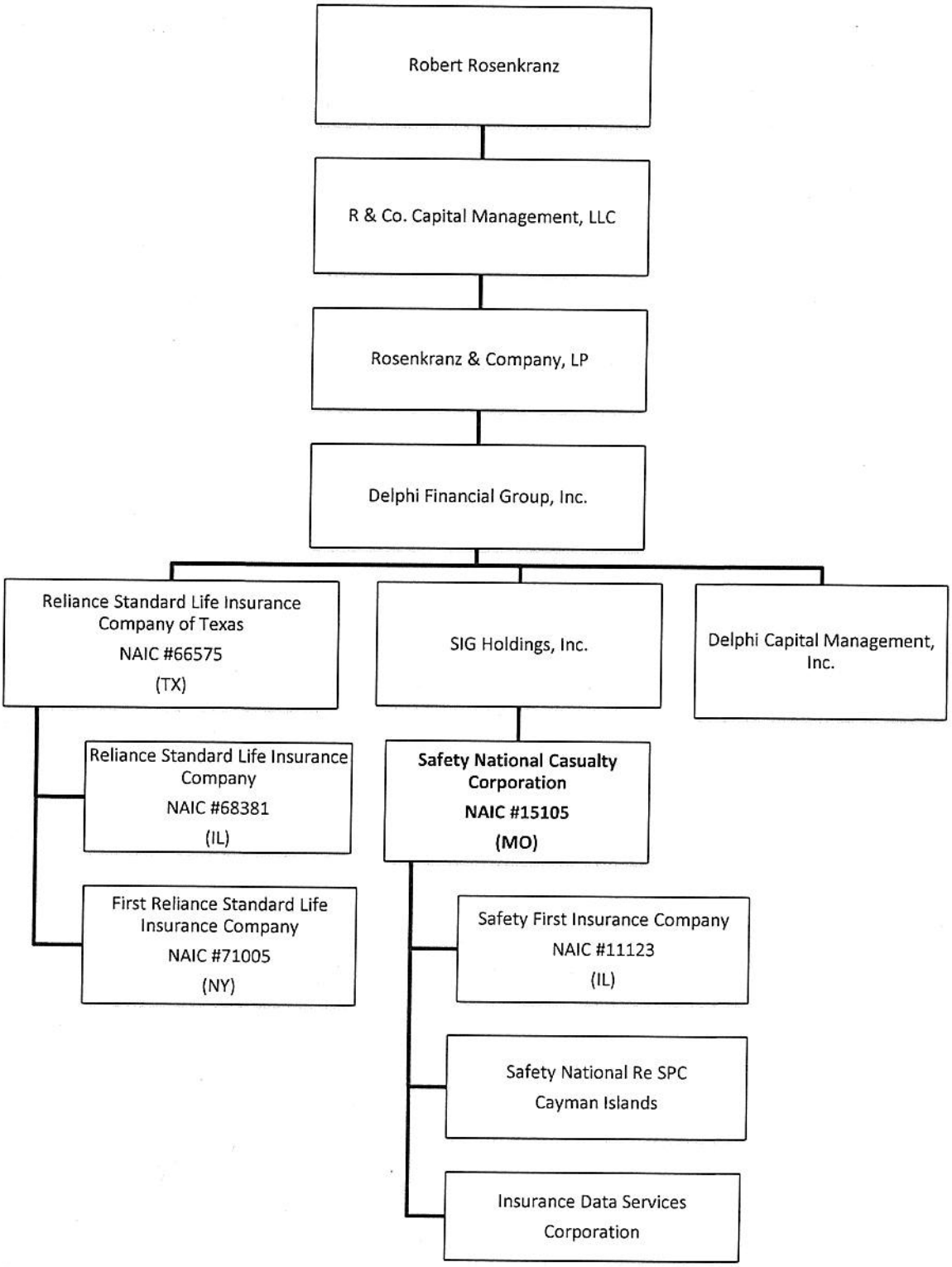
Holding Company, Subsidiaries and Affiliates

Safety National is a member of an Insurance Holding Company System as defined by Section 382.010 RSMo (Definitions).

Robert Rosenkranz, as beneficial owner of the sole general partner of Rosenkranz & Company, a New York limited partnership, was the ultimate controlling person within the holding company system as of December 31, 2011. Delphi Financial Group, Inc. was a wholly owned subsidiary of Rosenkranz and Company as of December 31, 2011. All outstanding shares of Safety National Casualty Corporation are owned by SIG Holdings, Inc. ("SIG"), an insurance holding company domiciled in the state of Delaware. SIG is a wholly owned subsidiary of Delphi Financial Group, Inc.

Organization Chart

The following is an abridged organizational chart which depicts the holding company system at December 31, 2011. All subsidiaries are wholly owned unless otherwise noted. Only entities that are directly related to Safety National, or with which Safety National has contractual relationships, are listed.


Robert Rosenkranz
R & Co. Capital Management, LLC
Rosenkranz & Company, LP
Delphi Financial Group, Inc.
Reliance Standard Life Insurance Company of Texas
NAIC #66575
(TX)
SIG Holdings, Inc.
Delphi Capital Management, Inc.
Reliance Standard Life Insurance Company
NAIC #68381
(IL)
Safety National Casualty Corporation
NAIC #15105
(MO)
First Reliance Standard Life Insurance Company
NAIC #71005
(NY)
Safety First Insurance Company
NAIC #11123
(IL)
Safety National Re SPC
Cayman Islands
Insurance Data Services Corporation

Affiliated Transactions

The Company enters into various agreements with affiliates. Active agreements are discussed below:

Tax Allocation Agreement

Parties:	Delphi Financial Group, Inc. ("DFG") and subsidiaries, including SNCC.
Effective:	January 1, 2001
Terms:	Delphi Financial Group, Inc. files a consolidated federal income tax return annually on behalf of all participating members of the agreement. Each participant will pay its share of the consolidated tax liability on the same basis as if it had filed its tax return on a separate and individual basis.
Rate(s):	The Company paid $6,619,858 to DFG in 2011 under this agreement.

Cost Sharing Agreement

Parties:	SNCC and Delphi Capital Management, Inc. ("DCM")
Effective:	January 1, 1997
Terms:	DCM agrees to provide SNCC with all investment advisory and administrative services necessary for the conduct of its business.
Rate(s):	SNCC pays DCM its proportionate share of the costs of such services on an at-cost basis. The Company paid $6,616,673 to DCM in 2011 under this agreement.

Cost Sharing Agreement

Parties:	SNCC and First Reliance Standard Life Insurance Company ("FRSL")
Effective:	December 16, 1997
Terms:	FRSL provides office space and personnel support to SNCC within its offices in the State of New York.
Rate(s):	SNCC pays FRSL its proportionate share of the costs of such services on an at-cost basis. The Company paid $189,223 to FRSL in 2011 under this agreement.

Inter-Company Service Agreement

Parties:	SNCC and Safety First Insurance Company ("SFIC")
Effective:	October 4, 2007
Terms:	SNCC provides services, staff and data processing functions to SFIC as necessary for the conduct of SFIC's insurance operations.
Rate(s):	SFIC will reimburse SNCC for its allocable share of the costs of providing such services, based on generally accepted allocation methodologies. The Company received $200,369 from SFIC in 2011 under this agreement.

Intercompany Service Agreement

Parties:	SNCC and Insurance Data Services Corporation ("IDS")
Effective:	October 31, 2011
Terms:	SNCC provides services in the fields of accounting, finance, management and law as requested by IDS.
Rate(s):	IDS will share in the pro-rata cost of SNCC employee salaries to the extent that those employees provide services for IDS while employed by SNCC. No fees were received in 2011 under this agreement.

Revolving Loan Agreement (DFG Lender)

Parties:	SNCC and Delphi Financial Group, Inc. ("DFG")
Effective:	February 23, 2011. Amended agreement effective July 19, 2011.
Terms:	DFG will advance to SNCC amounts not to exceed, in aggregate, $72.5 million, for short-term cash needs as deemed necessary for the conduct of SNCC's insurance operations. Interest on the aggregate outstanding balance of advances is to be computed using an "actual/360" basis of computation. Interest accrued for a given calendar month is to be paid in arrears on the first business day of the immediately following calendar month, and in immediately available lawful funds of the United States. Interest on amounts due that are not paid on the agreed-upon due date shall accrue at a rate equal to two (2) percentage points above the rate otherwise applicable to the outstanding balance of advances. SNCC may pre-pay the outstanding advances (and interest accrued on same) at

any time and without penalty during the term of the agreement. All advances and accrued interest outstanding are due and payable by SNCC to DFG on the Termination Date of the agreement, defined in the agreement as December 31, 2016.

Rate(s): The rate of interest on the funds to be borrowed by SNCC is referred to in the Agreement as the "Money Market Rate", the definition of which was changed concurrent with the restatement of the Revolving Loan Agreement. The Money Market Rate on advances outstanding prior to May 31, 2011, is the rate per annum publicly indicated by Northern Trust Company as the seven-day current yield with respect to the Northern Institutional Government Portfolio Fund (ticker BNGXX). The Money Market Rate on advances outstanding on and after June 1, 2011, is the rate per annum publicly indicated by the Bank of New York Mellon as the seven-day current yield with respect to the Dreyfus Government Cash Management Fund (ticker DAGXX). The Money Market Rate is adjusted on a monthly basis, on the first business day of each calendar month during which the Agreement is in effect. No loans were outstanding as of December 31, 2011, under this agreement.

Revolving Loan Agreement (SNCC Lender)

Parties: SNCC and Delphi Financial Group, Inc. ("DFG")

Effective: August 25, 2011. Amended agreement effective September 14, 2011.

Terms: SNCC will advance to DFG amounts not to exceed, in aggregate, $72.5 million, for short-term cash needs as deemed necessary for the conduct of DFG's operations. Interest accrued for a given calendar month is to be paid in arrears on the first business day of the immediately following calendar month, and in immediately available United States funds. Interest on amounts due that are not paid on the agreed-upon due date shall accrue at a rate equal to two (2) percentage points above the rate otherwise applicable to the outstanding balance of advances. DFG may pre-pay the outstanding advances (and interest accrued on same) at any time and without penalty during the term of the agreement. All advances and accrued interest outstanding are due and payable by DFG to SNCC on the Termination Date of the agreement, defined in the agreement as August 25, 2018.

Rate(s): The rate of interest on the funds to be borrowed by DFG is defined in the Agreement as the summation of the "LIBOR Rate" plus 150

basis points (1.5%) per annum. The LIBOR Rate is defined as the three (3) month LIBOR rate offered by Bank of America (or its successor), as indicated on the Bloomberg System by reference to the symbol "US6703M". The base LIBOR rate, which is to be initially set equal to .29% (prior to the 150 point addition), is re-set on a quarterly basis on each September 30, December 31, March 31, and June 30 thereafter of each year. If said re-set date is not a business day, then the re-set date will be the first business day prior to such date. Interest on the aggregate outstanding balance of advances is to be computed using an "actual/360" basis of computation. DFG owed the Company $20 million as of December 31, 2011 under this agreement.

FIDELITY BOND AND OTHER INSURANCE

The Company is a named insured on a financial institution bond with its parent that provides coverage with a single loss limit of $15,000,000 and a $100,000 deductible. This coverage exceeds the minimum amount of fidelity insurance recommended by the NAIC.

The Company is also insured on policies that provide the following coverages: commercial property and liability, commercial excess liability, directors and officers, errors and omissions, employer practices liability, workers' compensation, umbrella liability and extortion. The Company's insurance coverage appears to be adequate.

PENSIONS, STOCK OWNERSHIP AND INSURANCE PLANS

The Company sponsors a qualified, defined contribution pension plan (the "Plan") for eligible employees. The Plan is referred to as a safe harbor 401(k) plan and is subject to the Employee Retirement Income Security Act of 1974 (ERISA). Employees can contribute up to the lesser of $49,000 or 100% of compensation and the Company will make matching contributions up to 4% of their salary. The Plan also includes a discretionary profit sharing component in which contribution amounts are determined by the Company. Participants are 100% vested in their salary deferrals, rollover contributions and the Company matching contributions. Vesting in profit sharing contributions accrues based on years of service; participants are fully vested after six years of employment. The Company's matching contributions to the Plan for 2010 and 2011 totaled $1,693,391 and $1,719,659 respectively. The profit sharing contributions for 2010 and 2011 totaled $520,445 and $542,190. The fair values of Plan assets at December 31, 2010 and 2011 were $37,738,169 and $41,161,266 respectively. The Plan is adminstered by Securian Retirement Services, a business unit of Minnesota Life Insurance Company.

The Company also has a profit-sharing bonus plan under which eligible employees may receive semi-annual bonuses. There are no minimum payment guarantees and the

Company may exercise its discretion at any time to continue, modify, or end the bonus program. Profit-sharing bonus expense was approximately $6,934,000 and $6,921,000 for the years 2010 and 2011 respectively.

Company employees are also eligible to participate in the Employee Stock Purchase Plan offered by upstream affiliate, Delphi Financial Group, Inc. Employees may contribute up to 10% of their salary on an after-tax basis. Shares are purchased semi-annually at a discounted price of 85% of fair market value.

The Company provides its employees with benefits typical of the industry: medical, dental and vision coverage; life and disability insurance; paid sick, personal, vacation and holiday leave; dependent care assistance; and, educational assistance.

Expenses and liabilities associated with employee benefits and with the Company's obligation for its pension, profit-sharing and employee stock purchase plans appear to have been properly reported in the 2011 Annual Statement.

TERRITORY AND PLAN OF OPERATION

The Company is licensed in Missouri under Chapter 379 RSMo (Insurance Laws Other than Life) to write property, liability, fidelity and surety, accident and health and miscellaneous insurance. The Company is also licensed in the remaining 49 states, the District of Columbia and Canada. It is no longer writing new business in Canada.

The Company specializes in writing aggregate and specific excess workers' compensation insurance for self-insured employers, targeting medium-sized companies and associations. Policies issued may be either specific only, aggregate only, or specific and aggregate. Coverage applies to losses in excess of applicable self-insured retentions. The Company is the largest writer of excess workers' compensation insurance in the United States. Its share of the excess market is approximately 30%, which is greater than that of its three largest competitors combined.

The Company also underwrites risks that are similar in nature by means of underwriting large deductible workers' compensation, Texas non-subscriber occupations injury programs and assumed workers' compensation reinsurance. Although the means by which these coverages are provided differ from that of SNCC's excess workers' compensation insurance product, the core of the risks is the same. That is, SNCC assumes workers compensation risks after substantial retentions by the employers, or from ceding companies. These related coverages comprise 95% of the Company's business. The Company also underwrites primary workers' compensation, workers' compensation loss portfolio transfers, excess unemployment compensation, excess workers' compensation self-insurance bonds and bail bonds. The Company began writing a small amount of commercial auto liability and commercial general liability insurance in 2009.

Business is developed through a network of 388 independent agents and brokers. The top ten brokers provided just over 50% of premium revenue in 2011, an increase from just

over 40% in 2008. While the large brokers are important, many of the brokers only represent one employer insured by SNCC. The Company also uses licensed third party administrators, which provide loss control and claims settlement functions.

The Department has a separate staff that performs a review of market conduct issues and generates a market conduct report. Additional market conduct reviews are performed by other states. The most recent market conduct examination was performed on the Company covering the period January 2008 through December 2009 by the Connecticut Department of Insurance. The market conduct examination report was issued February 23, 2012. The report contained an adverse producer licensing finding that resulted in a fine of $7,500.

GROWTH OF COMPANY

As shown in the following table, the Company reported net income in each of the last 5 years. Net income decreased somewhat in 2008 and 2009 due to poor economic conditions before improving in 2010 and 2011. Except for a small decrease in 2008, premium income also increased during this period. Capital and surplus increased significantly in each of the last 5 years.

	2007	2008	2009	2010	2011
Premium Income	$304,169,266	$296,358,007	$319,355,769	$349,659,774	$417,854,456
Net Income	53,928,114	46,098,870	19,441,732	93,973,617	89,888,159
Stockholders Dividends	2,000,000	2,000,000	2,000,000	12,000,000	2,000,000
Capital and Surplus	462,951,494	530,906,586	626,132,011	728,917,159	844,471,876
Change From Prior Year	46,925,242	67,955,092	95,225,425	102,785,148	115,554,717
Premiums: Surplus Ratio	65.70%	55.82%	51.00%	47.97%	49.48%

LOSS EXPERIENCE

The following exhibit reflects the annual underwriting results of the Company over the last five years:

	2007	2008	2009	2010	2011
Premium Income	$ 304,169,266	$ 296,358,007	$ 319,355,769	$ 349,659,774	$ 417,854,456
Total Benefits & Expenses	305,919,701	304,334,354	321,537,660	345,242,666	433,873,064
Investment Income	78,850,784	62,369,286	31,458,376	100,490,668	117,257,165
Net Income	53,928,114	46,098,870	19,441,732	93,973,617	89,888,159

Premium income increased substantially during the last five years. Total benefits and expenses increased commensurately. While investment income decreased somewhat during the economic downturn of 2008 and 2009, strong increases were experienced again in 2010 and 2011. The Company reported a positive net income in each of the past five years.

The Company has experienced adverse loss development in recent years. The following tables summarize the development during the exam period:

Calendar Year-End	(Undiscounted) Original Year-End Reserves	Payments Since Original Year-End	(Undiscounted) Reserves as of 2011	Adverse Development Through 2011	Development Percentage of Original Reserves
2009	1,717,712,000	197,459,000	1,696,023,000	175,770,000	10.23%
2010	1,917,417,000	106,925,000	1,884,780,000	74,288,000	3.87%
2011	2,172,338,000	-	2,172,338,000	-	0.00%

The above table shows that reserves were understated for both 2009 and 2010 based on runoff development reported by the Company in the 2011 Annual Statement. In addition, the two-year adverse development percentage for 2009 was higher than the one-year adverse development percentage for 2010.

The amount and percentage of the adverse development is smaller in recent years compared with the early-mid 2000s. The Company's surplus has increased significantly in the past decade despite the continued adverse development.

With respect to the Company's historical adverse development, the excess workers' compensation line of business produced 84% of the carried reserves at December 31, 2011. The Company stated that the excess workers compensation line, by the nature of the fixed lifetime indemnity pension payout coverage that it provides, has the longest payout tail of all property and casualty lines of business. It is noted that adverse development on long-tail lines of business has been experienced industry-wide in recent years.

DIFP hired a consulting actuary, Jon W. Michelson, FCAS, MAAA, of Expert Actuarial Services, LLC, to review the adequacy of the Company's reserves and reserving methodologies. Mr. Michelson's analysis resulted in an estimate of total discounted reserves of $1,900 million as of December 31, 2011. Due to the long-tailed nature of the Company's business, the range of reserves considered reasonable by Mr. Michelson was substantial, ranging from a low of $1,710 million (10% below the point estimate) to a high of $2,280 million (20% above the point estimate).

The Company's reported reserves of $1,768 million are $132 million below the point estimate arrived at by Mr. Michelson and fall near the lower end of his reasonable range. However, because the reserves are within the range considered reasonable, no change will be made to the financial statements in this area as a result of this examination.

Mr. Michelson's review included inquiries to the Company regarding environmental or operational changes that might add confidence regarding the reasonableness of carried reserves at year-end 2011. The Company cited a number of changes, including higher levels of IBNR as a percentage of total reserves than in the past. In evaluating the factors that the Company cited, Mr. Michelson stated that the changes do seem to describe characteristics that would lead to more adequate reserves now than in the past. And, while his review points to some continuing deficiency in the Company's carried reserves at year-end 2011, he noted that it appears the relative magnitude of the deficiency is much lower than five to ten years ago.

The Company took steps to help strengthen reserves in the fourth quarter of 2012 and such strengthening reduces the likelihood of future adverse development. This strengthening is described further in the Subsequent Events section above.

REINSURANCE

General

Premiums written by the Company during the examination period were as follows:

	2008	2009	2010	2011
Direct Written	$287,987,344	$305,695,072	$326,164,722	$390,978,371
Assumed from Affiliates	2,524,133	2,374,123	2,298,681	2,188,786
Assumed from Non-Affiliates	36,341,713	48,391,057	71,071,501	91,373,123
Ceded to Affiliates	0	0	0	2,908,956
Ceded to Non-Affiliates	24,818,999	25,680,350	30,106,177	32,475,071
Net Written Premiums	$302,034,191	$330,779,902	$369,428,727	$449,156,253

Assumed

The Company assumes workers' compensation risks through facultative certificates for self-insured groups. SNCC's facultative workers' compensation excess of loss reinsurance assumed is underwritten and priced in a similar manner to the excess workers' compensation product. Retrocession coverage is obtained on assumed risks under the same reinsurance agreements, and on the same terms, as the reinsurance coverage obtained on the excess workers' compensation product, described in the Ceded section below.

The Company also assumes workers' compensation and casualty risk through excess of loss reinsurance treaties. In these arrangements, SNCC provides coverage for losses in excess of a specified amount, subject to specified maximums or layers. Participation by layer varies by treaty. Coverage for losses arising out of Nuclear, Biological, Chemical and Radiological Weapons Terrorism are excluded from these treaties. The assumed treaties are underwritten in a similar manner to the Company's excess workers compensation product and all accounts are priced by the Company's actuaries.

The Company's workers' compensation excess of loss treaty reinsurance attachment points range from $250,000 to $300 million, with a median attachment point of $5 million. The Company generally limits its exposure per occurrence for any one cedant to $10 million across all layers, with a few exceptions. As of December 31, 2011, the highest net exposure on a workers' compensation treaty is $12.5 million across all layers. The average limit is $4.5 million per layer.

The Company's casualty excess of loss treaty reinsurance attachment points range from $1 million to $80 million with a median attachment point of $13.5 million. The Company generally limits its exposure per occurrence for any one cedant to $10 million

across all layers. As of December 31, 2011, the average net exposure on a casualty treaty is $3.045 million per layer.

In addition, SNCC provides a surety aggregate excess of loss treaty for one client and assumes large deductible workers' compensation business from its affiliate, Safety First Insurance Company.

Ceded

Safety National cedes business to its reinsurers primarily to reduce net liability on individual risks and to protect against catastrophic losses. All of the reinsurance agreements are for one year terms and are renegotiated annually.

The Company currently maintains treaty reinsurance coverage in the amount of $240 million in excess of $10 million per occurrence with various levels of participation on its Specific Excess Workers' Compensation, Facultative Excess Workers' Compensation, Specific Large Deductible Workers' Compensation and Primary Workers' Compensation business.

The Company maintains treaty reinsurance in the amount of 50% Quota Share of the first $1 million on Primary Workers' Compensation business. The Company's excess reinsurance structure, described above, assumes the exposure above SNCC's retention.

The Company maintains treaty reinsurance coverage in the amount of $8 million excess of $2 million per occurrence on its Texas Non-Subscriber business.

The Company maintains Casualty Clash treaty reinsurance coverage in the amount of $7 million excess of $3 million per occurrence on its Large Casualty business.

The Company maintains treaty reinsurance in the amount of 50% Quota Share of the first $1 million on Automobile Liability business.

The Company maintains treaty reinsurance coverage in the form of two Industry Loss Warranties. Industry Loss Warranty coverage attachment points are based on industry-wide losses, not losses specific to Safety National only. SNCC's first Industry Loss Warranty treaty covers direct or assumed Workers' Compensation or Excess Workers' Compensation losses up to $10 million when the Original Market Insured Property Damage Loss as evaluated by the Insurance Services Office's Property Claims Services unit exceeds $10 billion for Earthquake, Fire and Tsunamis.

The Company's second Industry Loss Warranty covers direct or assumed Workers' Compensation or Excess Workers' Compensation losses pro rata from $0 up to $10 million when the Original Market Insured Property Damage Loss is between $10 billion and $15 billion for Earthquake, Fire and Tsunamis and up to $10 million for direct or assumed Workers' Compensation or Excess Workers' Compensation losses when the Original Market Insured Property Damage Loss exceeds $15 billion. The primary

purpose of Industry Loss Warranties is to cover catastrophic losses that may arise under the Company's Assumed Reinsurance book.

The Company does not currently maintain reinsurance for Aggregate and Specific Excess Unemployment Compensation business, Aggregate Excess Workers' Compensation business, Surety - Bail Bonds, or Surety -Workers' Compensation Self-Insurance Bonds. The Company attempts to limit its exposure on these coverages through its policy terms and underwriting practices.

ACCOUNTS AND RECORDS

General

The Company uses a commercial software accounting system (PeopleSoft) for the general ledger and accounts payable, and outsources payroll processing to ADP. Claims are processed on a commercial system (Claims Management System) while premiums are processed on a combination of internally developed and commercially available systems. Investment functions are performed at the Delphi Financial level for all subsidiaries, including Safety National.

Independent Auditor

The Company's financial statements are audited annually by the accounting firm of Ernst & Young, LLP. The workpapers and reports of the 2010 and 2011 independent audits were reviewed for this examination. These workpapers and reports were used in the course of this examination as deemed appropriate.

Independent Actuaries

Reserves and related actuarial accounts reported in the financial statements were reviewed and certified by Christopher Walker, FCAS, MAAA, of PriceWaterhouseCoopers.

Jon W. Michelson, FCAS, MAAA of Expert Actuarial Services, LLC was retained by the Missouri DIFP as the Consulting Actuary to review the adequacy of the Company's reserves.

Information Systems

In conjunction with this examination, Andrew Balas, Information Systems Financial Examiner with the DIFP, conducted a review of the Company's information systems.

STATUTORY DEPOSITS

Deposits with the State of Missouri

The funds on deposit with the DIFP as of December 31, 2011, as reflected below, were sufficient in par and market value to meet the deposit requirement for the state of Missouri in accordance with Section 379.098 RSMo (Securities to be deposited by all companies, kind and amount).

Type of Security	Par Value	Market Value	Statement Value
Metro St. Louis Sewer District Muni Bond	2,750,000	2,962,960	2,825,700
US Treasury Note	400,000	433,846	392,680
	$ 3,150,000	$ 3,396,806	$ 3,218,380

Deposits with Other States

The Company also has funds on deposit with other states and Canada to satisfy their statutory deposit requirements. Those funds on deposit as of December 31, 2011, were as follows:

State	Type of Security	Par Value	Market Value	Statement Value
Arizona	Various	$ 13,550,000	$ 14,272,212	$ 13,694,073
California	Municipal Bonds	122,465,000	132,560,623	126,051,514
Delaware	IL Midway Bond	100,000	99,995	98,140
Florida	WA Municipal Bond	1,500,000	1,688,295	1,549,442
Georgia	Various	125,000	124,995	123,140
Idaho	US Treasury Note	300,000	317,064	300,848
Indiana	IN Cash Bail Bond	75,000	75,000	75,000
Maine	Various	800,000	809,582	787,921
Massachusetts	IL Municipal Bond	1,150,000	1,149,943	1,128,611
Montana	US Treasury Note	4,525,000	4,879,762	4,553,471
Nevada	WA Municipal Bond	100,000	106,891	101,601
New Hampshire	IL Municipal Bond	1,600,000	1,599,920	1,570,241
New Jersey	CA Municipal Bond	200,000	209,208	202,599
New Mexico	Municipal Bonds	400,000	453,626	398,104
North Carolina	Various	1,871,362	1,937,611	1,878,644
Oklahoma	Municipal Bonds	4,500,000	4,776,590	4,517,609
Oregon	Municipal Bonds	6,530,000	6,857,675	6,640,688
South Carolina	PA Municipal Bond	175,000	204,568	186,462
Texas	Certificates of Deposit	3,285,311	3,285,311	3,285,311
Virginia	IL Municipal Bond	300,000	299,985	294,420
Canada	Municipal Bonds	34,994,125	42,368,068	36,279,238
Totals		$ 198,545,798	$ 218,076,923	$ 203,717,075

FINANCIAL STATEMENTS

The following financial statements, with supporting exhibits, present the financial condition of the Company as of December 31, 2011, and the results of operations for the year then ended. Any examination adjustments to the amounts reported in the financial statements and/or comments regarding such are made in the "Comments On Financial Statements" section, which follow the financial statements.

There may have been additional differences found in the course of this examination that are not shown in the "Comments On Financial Statements." These differences were determined to be immaterial in relation to the financial statements and therefore were only communicated to the Company and noted in the workpapers for each individual annual statement item.

ASSETS

	Assets	Non-Admitted Assets	Net Admitted Assets
Bonds	$ 2,232,840,919	$ -	$ 2,232,840,919
Preferred stocks	122,530,000	-	122,530,000
Common stocks	158,164,844	27,479	158,137,365
First liens - mortgage loans on real estate	3,058,723	297,123	2,761,600
Other than first liens - mortgage loans on real estate	777,973	-	777,973
Properties occupied by the company	23,525,765	-	23,525,765
Properties held for sale	1,229,565	-	1,229,565
Cash, cash equivalents and short-term investments	53,327,701	-	53,327,701
Other invested assets	122,926,784	-	122,926,784
Receivables for securities	3,169,060	-	3,169,060
Investment income due and accrued	34,596,714	26,250	34,570,464
Uncollected premiums	26,789,391	2,029,084	24,760,307
Deferred premiums	64,767,365	-	64,767,365
Amounts recoverable from reinsurers	3,007,019	-	3,007,019
Funds held by or deposited with reinsured companies	1,607,002	-	1,607,002
Net deferred tax asset	22,477,450	5,478,595	16,998,855
Guaranty funds receivable or on deposit	346,526	-	346,526
Electronic data processing equipment and software	4,798,196	3,395,121	1,403,075
Furniture and equipment	3,137,037	3,137,037	-
Receivables from parent, subsidiaries and affiliates	195,104	-	195,104
Prepaid assets	50,687	-	50,687
TOTAL ASSETS	**$ 2,883,323,825**	**$ 14,390,689**	**$ 2,868,933,136**

LIABILITIES, SURPLUS AND OTHER FUNDS

Losses	$ 1,655,080,246
Loss adjustment expenses	36,080,408
Other expenses	21,519,269
Taxes; licenses and fees	5,588,268
Current federal and foreign income taxes	2,465,201
Unearned premiums	170,554,283
Ceded reinsurance premiums payable	8,774,507
Funds held by company under reinsurance treaties	1,385,105
Amounts withheld or retained for account of others	27,235,677
Remittances and items not allocated	4,287,444
Provision for reinsurance	7,376,000
Payable to parent; subsidiaries and affiliates	413,293
Derivatives	28,050
Payable for securities	496,725
Retroactive insurance assumed reserves	77,096,894
Retroactive insurance assumed other expenses	3,464,922
Deposits	2,614,968
TOTAL LIABILITIES	**$ 2,024,461,260**
Change in accounting method SSAP 10R	$ 3,983,729
Common capital stock	5,000,000
Preferred capital stock	25,000,000
Surplus notes	41,283,333
Gross paid in and contributed surplus	106,649,399
Unassigned funds (surplus)	662,555,415
SURPLUS AS REGARDS POLICYHOLDERS	**$ 844,471,876**
TOTAL LIABILITIES AND SURPLUS	**$ 2,868,933,136**

STATEMENT OF INCOME

Underwriting Income:		
Premiums earned		$ 417,854,456
Deductions:		
Losses incurred	$ 312,810,304	
Loss expenses incurred	8,407,102	
Other underwriting expenses incurred	116,697,332	
Retroactive Insurance Income	(4,041,674)	
Total underwriting deductions		433,873,064
Net Underwriting Gain (Loss)		**$ (16,018,608)**
Investment Income:		
Net investment income earned	$ 117,972,273	
Net realized capital gains	(715,108)	
Net Investment Gain (Loss)		**$ 117,257,165**
Other Income:		
Net loss from agents or premium balances charged off	$ (62,368)	
Other Income	1,750	
Total Other Income		**$ (60,618)**
Net income before dividends, federal and foreign income taxes		**$ 101,177,939**
Dividends to policyholders		-
Net income after dividends before federal income taxes		**$ 101,177,939**
Federal income taxes incurred		11,289,780
Net income after dividends, federal and foreign income taxes		**$ 89,888,159**

CAPITAL AND SURPLUS ACCOUNT

Surplus as Regards Policyholders: December 31, 2008		$	**530,906,586**
Net Income - 2009	$ 19,441,732		
Change in Net Unrealized Capital Gains	50,448,175		
Change in Net Unrealized Foreign Exchange Capital Gain	1,851,799		
Change in Net Deferred Income Tax	9,457,559		
Change in Nonadmitted Assets	11,873,166		
Change in Provision for Reinsurance	2,511,600		
Change in Surplus Notes	1,283,334		
Cumulative Effect of Changes in Accounting Principles	489,259		
Dividends to Stockholders	(2,000,000)		
Unapproved Interest on Surplus Notes	(1,283,334)		
Change in Accounting Method 10R	1,152,135		
Change in Surplus as Regards Policyholders - 2009			95,225,425
Surplus as Regards Policyholders: December 31, 2009		$	**626,132,011**
Net Income - 2010	93,973,617		
Change in Net Unrealized Capital Gains	16,058,393		
Change in Net Unrealized Foreign Exchange Capital Gain	501,452		
Change in Net Deferred Income Tax	(5,380,899)		
Change in Nonadmitted Assets	10,892,585		
Change in Provision for Reinsurance	(1,260,000)		
Change in Surplus Notes	1,283,333		
Dividends to Stockholders	(12,000,000)		
Unapproved Interest on Surplus Notes	(1,283,333)		
Change in Accounting Method 10R	(140,390)		
Reclassification of Additional Admitted Deferred Tax Assets	140,390		
Change in Surplus as Regards Policyholders - 2010			102,785,148
Surplus as Regards Policyholders: December 31, 2010		$	**728,917,159**
Net Income - 2011	89,888,159		
Change in Net Unrealized Capital Gains	18,241,097		
Change in Net Unrealized Foreign Exchange Capital Gain	(3,345,945)		
Change in Net Deferred Income Tax	(319,951)		
Change in Nonadmitted Assets	17,214,757		
Change in Provision for Reinsurance	(4,123,400)		
Change in Surplus Notes	1,283,333		
Dividends to Stockholders	(2,000,000)		
Unapproved Interest on Surplus Notes	(1,283,333)		
Change in Accounting Method 10R	2,971,984		
Reclassification of Additional Admitted Deferred Tax Assets	(2,971,984)		
Change in Surplus as Regards Policyholders - 2011			115,554,717
Surplus as Regards Policyholders: December 31, 2011		$	**844,471,876**

COMMENTS ON FINANCIAL STATEMENTS

There are no comments on the Company's financial statements.

GENERAL COMMENTS OR RECOMMENDATIONS

Loss Experience **Page 14**

The Company has experienced significant adverse loss development in recent years. This issue is discussed in the Loss Experience section, and in the Summary of Significant Findings section. The adequacy of the Company's reserves was a noted as a major concern during the previous examination, and will continue to be a concern until the trend of material adverse development is broken.

ACKNOWLEDGEMENT

The assistance and cooperation extended by the officers and employees of Safety National Casualty Corporation during the course of this examination is hereby acknowledged and appreciated. In addition to the undersigned, John Boczkiewicz, CFE, CPA; Douglas Daniels, CFE, CPA; Jeff Blume, AFE; and Andy Balas, AES, CFE, CPA; examiners for the Missouri Department of Insurance, Financial Institutions and Professional Registration; and Jon W. Michelson, FCAA, MAAA, of Expert Actuarial Services, LLC, participated in this examination.

VERIFICATION

State of Missouri)
) ss
County of St. Louis)

I, Richard Hayes, on my oath swear that to the best of my knowledge and belief the above examination report is true and accurate and is comprised of only facts appearing upon the books, records or other documents of the Company, its agents or other persons examined or as ascertained from the testimony of its officers or agents or other persons examined concerning its affairs and such conclusions and recommendations as the examiners find reasonably warranted from the facts.

ARIADNE ASHFORD
Notary Public - Notary Seal
State of Missouri
Commissioned for St. Louis City
My Commission Expires: May 14, 2016
Commission Number: 12341768

Richard Hayes, CFE, FLMI
Examiner-in-Charge
Missouri Department of Insurance, Financial Institutions and Professional Registration

Sworn to and subscribed before me this 28 day of Nov 2012
My commission expires:
5/14/16

Notary Public

SUPERVISION

The examination process has been monitored and supervised by the undersigned. The examination report and supporting workpapers have been reviewed and approved. Compliance with NAIC procedures and guidelines as contained in the Financial Condition Examiners Handbook has been confirmed.

Michael Shadowens, CFE
Audit Manager, St. Louis
Missouri Department of Insurance, Financial Institutions and Professional Registration

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January 28, 2013

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Chief Financial Examiner & Division Director
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MO. DEPT OF INSURANCE, FINANCIAL INSTITUTIONS & PROFESSIONAL REGISTRATION

Re: Examination Report

Dear Mr. Heese,

I am writing in response to your letter dated January 10, 2013. Safety National has the following response to the comment in the Examination Report.

Loss Experience

Comment: The Company has experienced significant adverse loss development in recent years. This issue is discussed in the Loss Experience section, and in the Summary of Significant Findings section. The adequacy of the Company's reserves was a noted major concern during the previous examination, and will continue to be a concern until the trend of material adverse development is broken.

Company's Response to Examiner's Comment:

As has been typical of industry writers of long-tail lines of business in recent years, the Company has experienced increases in its estimates of prior year ultimate losses. While the Examination Report found that the Company's reserves were in the reasonable range, the Company felt it was prudent to take a more conservative position going forward. In 2012, the Company adopted a more systematic approach to making actuarial judgments on its excess workers' compensation line of business. This new approach resulted in a strengthening of reserves to a more conservative position as of December 31, 2012 and reduces the likelihood of future significant increases in estimated ultimate losses.

We would like to have this response included in the Examination Report. If you require additional information, please do not hesitate to contact me.

Very truly yours,

John Csik
Chief Financial Officer