

**DEPARTMENT OF INSURANCE, FINANCIAL
INSTITUTIONS AND PROFESSIONAL REGISTRATION**

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

RE: Examination Report of Old Reliable Casualty Company for the period ended December 31, 2013

ORDER

After full consideration and review of the report of the financial examination of Old Reliable Casualty Company for the period ended December 31, 2013, 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 Old Reliable Casualty Company as of December 31, 2013 be and is hereby ADOPTED as filed and for Old Reliable Casualty Company 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 12th day of June, 2015.



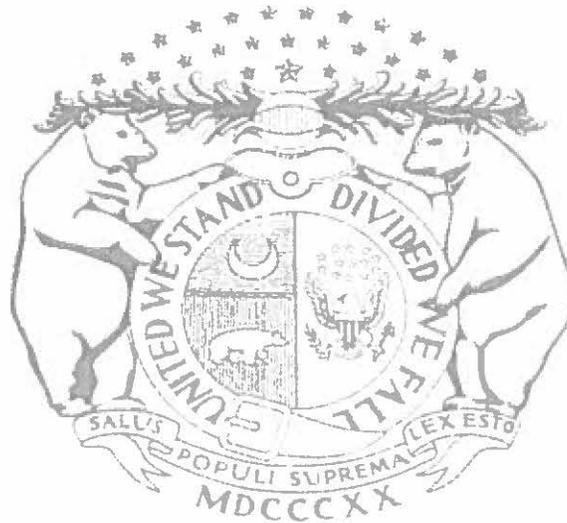
John M. Huff, Director
Department of Insurance, Financial Institutions
and Professional Registration

REPORT OF
FINANCIAL EXAMINATION

Old Reliable Casualty Company

As of:
DECEMBER 31, 2013

FILED
JUN 22 2015
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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April 10, 2015
St. 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

Old Reliable Casualty Company

hereinafter referred to as "Old Reliable", or the "Company". The Company's home office is located at 12115 Lackland Road, St. Louis, Missouri 63146; telephone number (314) 819-4300. Examination fieldwork began on June 2, 2014, and concluded on the above date.

SCOPE OF EXAMINATION

Period Covered

We have performed a multi-state examination of Old Reliable Casualty Company in conjunction with examiners from the State of Illinois. The last examination was completed as of December 31, 2009. This examination covers the period from January 1, 2010, through December 31, 2013. This examination also included material transactions or events occurring subsequent to December 31, 2013.

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: Affiliated Companies, Claims and Reserves, Expenses, Investments and Treasury, Premiums and Underwriting, and Reinsurance.

Old Reliable is a member of the Kemper Corporation group. Illinois is the designated lead state for the Kemper Home Services segment of companies (which includes Old Reliable) within this group. The Illinois Department of Insurance led the coordinated examination of the Kemper Home Service companies. We relied heavily on control documentation and testing performed by the Illinois examiners for common areas of operation and shared functions between Old Reliable and the other Kemper Home Services companies.

SUMMARY OF SIGNIFICANT FINDINGS

There were no material adverse findings, significant non-compliance issues or material changes to the financial statements identified during the examination.

SUBSEQUENT EVENTS

On January 24, 2014, DIFP approved the Company's request to pay an extraordinary dividend of \$3,500,000 to Capitol County Mutual Fire Insurance Company. The dividend was paid on February 14, 2014.

COMPANY HISTORY

General

The Company was incorporated on December 18, 1978 and received its certificate of authority to operate under Chapter 379 RSMo (Insurance Other than Life) on December 29, 1978.

At the time of its incorporation, 100% of the capital stock of Old Reliable was owned by The Reliable Life Insurance Company (Reliable), a Missouri domestic insurer. During 1981, Reliable sold the stock of Old Reliable to Clayton Holdings Corporation, a subsidiary of Capitol County Mutual Fire Insurance Company (Capitol County), resulting in Capitol County becoming the indirect ultimate controlling entity of Old Reliable.

In 1986, Clayton Holdings Corporation contributed all of the capital stock of Old Reliable to Capitol County, leaving Capitol County as the direct owner and ultimate controlling entity of the Company.

Old Reliable has a service agreement with United Insurance Company of America (United), whereby United manages all the underwriting functions of the Company on an at-cost basis. A review by the State of Texas of the agreement and management structures in place between Capitol County and Reliable found the two Companies to be affiliates, and Texas required that the affiliation be reported by Capitol County. Subsequent inquiry into this matter by the DIFP resulted in an agreement by Old Reliable that it is affiliated with Reliable and ultimately Unitrin

Inc. as well, and thus the reporting of Unitrin as the ultimate controlling entity of Old Reliable was initiated. This holding company structure has generally remained the same since that date.

On August 25, 2011, Unitrin Inc. changed its name to Kemper Corporation (a Delaware corporation).

Capital Stock

The Company has 500,000 shares of \$10 par value common stock authorized with 150,000 shares issued and outstanding. During 2013, the Company transferred \$1,000,000 from the Common Capital Stock account to the Gross Paid-in and Contributed Surplus account. This reduced the Common Capital Stock account from \$2,500,000 to \$1,500,000. There was no effect on surplus as a result of this transaction.

Dividends

Old Reliable did not pay any dividends from inception through December 31, 2013. On January 24, 2014, the Company paid an extraordinary dividend of \$3,500,000 to Capitol County Mutual Fire Insurance Company.

Surplus Debentures

The Company has no surplus debentures.

Mergers and Acquisitions

There were no mergers or acquisitions during the examination period.

CORPORATE RECORDS

The Articles of Incorporation and Bylaws of Old Reliable were reviewed. Article IV of the Articles of Incorporation was amended on August 23, 2013 to remove the requirement that shares of capital stock be issued at a rate not less than \$15 per share. The amended article also allows the board of directors to issue new shares at their discretion. This amendment was approved by the Department on August 9, 2013. There were no changes to the Bylaws during the examination period.

The minutes of the meetings of the shareholder and the Board of Directors were reviewed for the period under examination. The minutes appear to properly document and approve corporate events and transactions.

MANAGEMENT AND CONTROL

Board of Directors

The Board of Directors consists of nine individuals. Directors are elected annually at the shareholders' meeting of the Company's parent, Capitol County Mutual Fire Insurance Company. The individuals serving on the Board of Directors as of December 31, 2013 were as follows:

<u>Name</u>	<u>Principal Occupation</u>
John M. Boschelli	Vice President and Chief Investment Officer Kemper Corporation
Edward J. Konar	Life and Health Group Executive President Kemper Home Service Companies
Maxwell T. Mindak	Vice President, Financial Planning and Analysis Kemper Corporation
Christopher L. Moses	Vice President and Treasurer Kemper Corporation
Thomas D. Myers	Senior Vice President and Chief Operating Officer Kemper Home Service Companies
Deborah L. Quaglia	Senior Vice President and Operations Officer Kemper Home Service Companies
Scott Renwick	Senior Vice President and General Counsel Kemper Corporation
Richard Roeske	Vice President and Chief Accounting Officer Kemper Corporation
Dennis J. Sandelski	Vice President, Tax and Corporate Development Kemper Corporation

Officers

The officers of the Company serving as of December 31, 2013 were as follows:

<u>Name</u>	<u>Office</u>
Edward J. Konar	President
Thomas D. Myers	Senior Vice President and Chief Operating Officer
John R. Camillo	Senior Vice President, Secretary and Group Counsel
Richard J. Miller	Senior Vice President and Chief Agency Officer
Tal B. Kaufmann	Vice President and Treasurer

Committees

Committee assignments as of December 31, 2013 were as follows:

Executive Committee: Edward J. Konar and Maxwell T. Mindak

Investment Committee: John M. Boschelli and Edward J. Konar

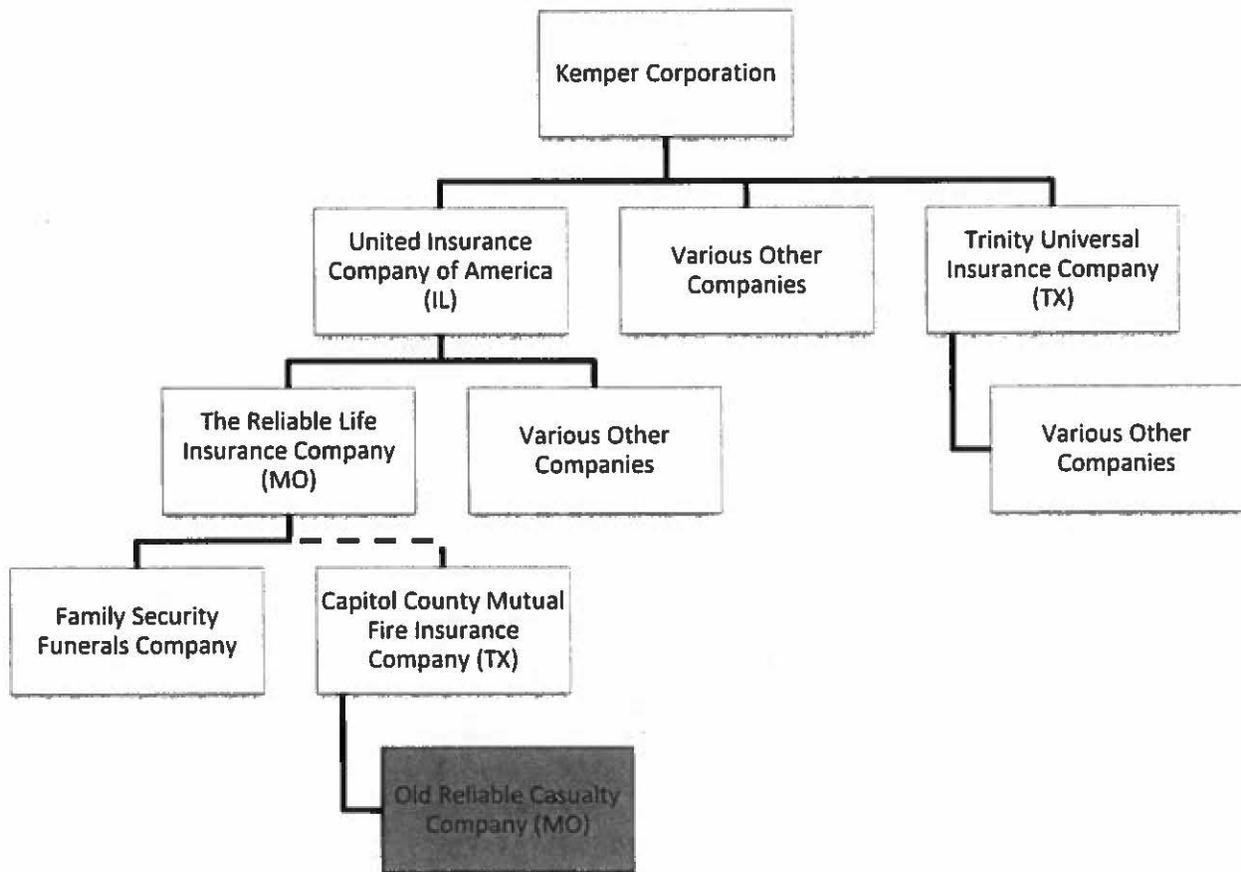
Audit Committee: The Board of Directors appointed the audit committee of United Insurance Company of America to serve as the audit committee for the Company.

Holding Company, Subsidiaries and Affiliates

The company is a member of an insurance holding company system as defined by Chapter 382 RSMo (Insurance Holding Companies). Capitol County Mutual Fire Insurance Company and Old Reliable are part of the Kemper Corporation Group by way of a management agreement between Capitol County and The Reliable Life Insurance Company. As of December 31, 2013, the Company had no subsidiaries.

Organizational Chart

The following organizational chart depicts an abbreviated portion of the holding company system at December 31, 2013, including the Company. All subsidiaries shown are wholly owned. The dotted line represents an affiliation via a management agreement. A complete list of all companies within the holding company system is included within the annual statement.



Affiliated Transactions

As of December 31, 2013 Old Reliable was party to the following affiliated agreements:

1) Tax Allocation Agreement

Parties: Old Reliable and Capitol County Mutual Fire Insurance Company

Effective: 1994 consolidated statement

Terms: Under this agreement the tax liability apportioned to each member is based on the relative federal income tax liability each company would have incurred on a separate company basis.

Rate(s): Old Reliable earned fees of \$77,463 in 2013 and incurred fees of \$37,253 in 2012 under this agreement.

2) Insurance Administration Agreement

Parties: Old Reliable and United Insurance Company of America

Effective: August 1, 2007

Terms: United is responsible for providing administrative services necessary for the conduct of Old Reliable's existing and future fire, allied lines and burglary/theft insurance book of business. Services provided include underwriting services, printing, data processing support, legal support and agent licensing and adherence to all applicable insurance laws and regulations. Old Reliable will reimburse United on a monthly basis for the actual costs incurred by United in provision of the services.

Rate(s): Fees during 2013 and 2012 were \$0 under this agreement. Administrative services were provided by United under the Assignment and Consent Agreement described below.

3) Quota Share Reinsurance Agreement

Parties: Old Reliable and Trinity Universal Insurance Company (Trinity)

Effective: January 1, 2006. Amended and restated effective January 1, 2009. First Amendment effective January 1, 2013.

Terms: Under the terms of the original agreement, Trinity agreed to assume 100% of the existing and future business written by Old Reliable. This agreement effectively eliminated all pricing, underwriting and loss reserving risks for Old Reliable. This agreement was amended effective January 1, 2013, to state that Trinity will retrocede back to the Company 90% of dwelling losses in excess of 65% of net premiums earned on business assumed from the Company. Old Reliable's liability for the excess losses will not be in an amount in the aggregate that would reduce its surplus below the minimum surplus level required under Missouri insurance laws.

Rates: There are no costs associated with the reinsurance agreement.

4) Assignment and Consent Agreement

Parties: Old Reliable Casualty Company, Trinity Universal Insurance Company and United Insurance Company of America

Effective: January 1, 2009

Terms: United provides the administration of policies assumed by Trinity under the Quota Share Reinsurance Agreement between Trinity and Old Reliable.

Rate(s): Old Reliable incurred fees of \$2,904,752 in 2013 and \$3,180,156 in 2012 under this agreement.

FIDELITY BOND AND OTHER INSURANCE

Kemper Corporation has a financial institutions bond with limits of liability of \$20 million per loss and \$40 million aggregate. Old Reliable is included as a named insured on the policy. This coverage complies with the suggested minimum amount of coverage according to NAIC guidelines.

The Company is also included on a number of other insurance policies held by Kemper Corporation. Coverage provided includes property, general liability, auto liability, umbrella, cyber risk liability, workers compensation, directors and officers liability, errors and omissions and others.

The Company's insurance coverage appears adequate.

PENSIONS, STOCK OWNERSHIP AND INSURANCE PLANS

The Company has no employees. Administrative services are provided by employees of United Insurance Company of America under the terms of the Assignment and Consent Agreement between the Company, United and Trinity Universal Insurance Company. United employees are offered a variety of benefits which are sponsored by Kemper Corporation including contributory and non-contributory qualified defined pension plans, a 401(K) savings plan and a defined benefit post retirement plan which provides certain medical and life insurance benefits for active and retired employees. The Company is allocated its share of employment expenses under these plans.

TERRITORY AND PLAN OF OPERATIONS

Old Reliable is licensed in Missouri under Chapter 379 RSMo (Insurance laws other than life) as a multiple line carrier to write fire and allied lines, homeowners multiple peril and auto liability insurance. The Company is also licensed in the states of Arkansas, Illinois, Indiana, Kansas, Oklahoma, and Tennessee. The majority of premiums written by the company are in Arkansas and Missouri. The Company offers only low value dwelling policies covering the personal property of the insureds on a named perils basis.

Old Reliable is part of the Kemper Home Service Companies segment along with several affiliated companies. These companies operate as traditional home services companies marketing their products through a network of employee agents. These agents sell and service products in person to their target customer base of moderate and low income individuals and families. Premiums are typically collected by the agents in person on a monthly basis.

GROWTH OF COMPANY

The table below shows various indicators of the Company's growth over the past four years.

	<u>2010</u>	<u>2011</u>	<u>2012</u>	<u>2013</u>
Direct and Assumed Premiums	\$9,615,364	\$8,916,802	\$8,147,319	\$7,107,805
Reinsurance Ceded	9,615,364	8,916,802	8,147,319	7,107,805
Net Premiums Written	-	-	-	-
Net Admitted Assets	11,121,104	9,971,114	9,943,212	9,787,680
Total Liabilities	2,703,330	1,441,764	1,226,554	1,093,192
Total Capital and Surplus	8,417,775	8,529,350	8,716,658	8,694,488

Direct premiums have declined somewhat in recent years. Net premiums were \$0 as all premiums were ceded to Trinity Universal Insurance Company. Capital and Surplus increased from 2010-2012 before decreasing slightly in 2013. The increases were primarily due to investment gains.

LOSS EXPERIENCE

The following exhibit illustrates Old Reliable's underwriting results for each of the last four years.

	<u>2010</u>	<u>2011</u>	<u>2012</u>	<u>2013</u>
Net Premiums Earned	\$ -	\$ -	\$ -	\$ -
Net Underwriting Gain/(Loss)	(24,109)	(24,089)	(24,092)	(391,521)
Net Investment Gain/(Loss)	170,395	277,021	207,502	199,521
Net Income	116,939	215,263	146,157	(114,537)

All premiums and underwriting risk for 2010-2012 was 100% ceded under a reinsurance agreement with Trinity Universal Insurance Company. After an amendment to the agreement in 2013, Old Reliable will retain a small amount of underwriting risk going forward. As a result of the reinsurance agreement, operating results were primarily driven by investment performance. The Company reported positive net income for 3 of the 4 years during the examination period.

REINSURANCE

General

Premiums written by Old Reliable during the examination period were as follows:

Assumed

Old Reliable's only assumed premiums are due to its participation in mandatory state insurance pools.

	<u>2010</u>	<u>2011</u>	<u>2012</u>	<u>2013</u>
Direct Premiums Written	\$ 9,605,203	\$ 8,907,946	\$ 8,139,590	\$ 7,101,151
Assumed Premiums	10,161	8,856	7,729	6,654
Ceded Premiums:				
To Affiliates	9,621,993	8,914,840	8,147,083	7,107,596
To Non-Affiliates	(6,629)	1,962	236	209
Net Premiums Written	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>

Ceded

Pursuant to a 100% quota share reinsurance agreement effective January 1, 2006, Old Reliable cedes 100% of its past, present and future premiums to an affiliate, Trinity Universal Insurance Company. This 100% cession agreement effectively eliminated all pricing, underwriting and loss reserving risk for the Company. This agreement was amended effective January 1, 2013, to state that Trinity will retrocede to the Company 90% of dwelling losses in excess of 65% of net premiums earned on business assumed from the Company.

ACCOUNTS AND RECORDS

General

The Kemper Home Service companies use a modified commercial package (Life 70) for policy and claims administration, and Oracle Finance for the general ledger software system.

The companies are in the process of converting to a new administration system called "The Administrator" to replace the Life 70 system. This conversion is expected to be completed sometime in 2015.

Independent Auditor

The Company is audited by the accounting firm of Deloitte & Touche, LLC. Workpapers from the most recent audit were used during the course of the examination as deemed appropriate.

Independent Actuary

Reserves and related actuarial items reported in the financial statements were certified by the Company's Appointed Actuary, Kevin D. Rosenstein, FCAS, MAAA.

A consulting actuary was retained by the Illinois Department of Insurance to review the reserves of Trinity Universal Insurance Company and the other property and casualty insurers in the Kemper group (including Old Reliable) as of December 31, 2013. No materially significant issues were identified during the review.

Information Systems

In conjunction with this examination, Andrew Balas, DIFP Information Systems Financial Examiner, conducted a review of the Company’s information systems. No materially significant issues were identified during the review.

STATUTORY DEPOSITS

Deposits with the State of Missouri

The funds on deposit with the Missouri DIFP as of December 31, 2013, as reflected below, were deemed sufficient in par and market value to meet the deposit requirement (\$1,200,000) for the State of Missouri in accordance with Section 379.098 RSMo (Securities to be Deposited by all Companies):

<u>Type of Security</u>	<u>Par Value</u>	<u>Market Value</u>	<u>Statement Value</u>
US Treasury Bond	\$ 250,000	\$ 300,195	\$ 266,292
US Treasury Bond	250,000	318,555	273,138
US Treasury Bond	250,000	307,383	288,398
US Treasury Note	892,000	942,384	888,250
Totals	\$ 1,642,000	\$ 1,868,517	\$ 1,716,078

Deposits with Other States

The Company also has funds on deposit with one other state in which it is licensed. Those funds on deposit as of December 31, 2013, were as follows:

<u>State</u>	<u>Type of Secu</u>	<u>Par Value</u>	<u>Market Value</u>	<u>Statement Va</u>
Arkansas	US Treasury	\$ 100,000	\$ 130,969	\$ 119,381

FINANCIAL STATEMENTS

The following financial statements, with supporting exhibits, present the financial condition of the Company as of December 31, 2013, 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	\$ 5,569,935	\$ -	\$ 5,569,935
Common stocks	673,195	-	673,195
Cash and short-term investments	2,954,426	-	2,954,426
Investment income due and accrued	66,599	-	66,599
Uncollected premiums	140,594	-	140,594
Amounts recoverable from reinsurers	207,497	-	207,497
Funds held by reinsured companies	16,883	-	16,883
Current federal income tax recoverable	77,463	-	77,463
Receivables from affiliates	79,139	-	79,139
Equities and deposits in pools and associations	1,948	-	1,948
TOTAL ASSETS	\$9,787,679	\$ -	\$9,787,679

LIABILITIES, SURPLUS AND OTHER FUNDS

Reinsurance payable on paid losses and LAE	\$ 15,430
Commissions payable	40
Other expenses	6,419
Taxes, licenses and fees	22,768
Net deferred tax liability	48,404
Advance premium	165,891
Ceded reinsurance premiums payable	480,962
Funds held under reinsurance treaties	1,341
Remittances and items not allocated	643
Payable to parent, subsidiaries and affiliates	317,988
Reserve for escheat funds	33,305
TOTAL LIABILITIES	<u>\$ 1,093,191</u>
Common capital stock	\$ 1,500,000
Gross paid in and contributed surplus	7,500,000
Unassigned funds (surplus)	<u>(305,512)</u>
SURPLUS AS REGARDS POLICYHOLDERS	<u>\$ 8,694,488</u>
TOTAL LIABILITIES AND SURPLUS	<u><u>\$ 9,787,679</u></u>

STATEMENT OF INCOME

Underwriting Income:

Premiums earned		\$	-
Deductions:			
Losses incurred	\$	346,188	
Loss adjustment expenses incurred		<u>45,333</u>	
Total underwriting deductions			<u>391,521</u>
Net Underwriting Gain (Loss)		\$	(391,521)

Investment Income:

Net investment income earned	\$	199,521	
Net realized capital gains		<u>-</u>	
Net Investment Gain (Loss)		\$	199,521

Other Income:

Net loss from agents or premium balances charged off	\$	-	
Finance and service charges		-	
Gain/(Loss) on sale of assets		<u>-</u>	
Total Other Income		\$	<u>-</u>

Net income before dividends and FIT \$ (192,000)

Dividends to policyholders		-	
Federal income taxes incurred		<u>(77,463)</u>	
Net income		\$	<u>(114,537)</u>

RECONCILIATION OF SURPLUS

Changes from December 31, 2010 to December 31, 2013

	<u>2010</u>	<u>2011</u>	<u>2012</u>	<u>2013</u>
Capital and surplus;				
December 31 prior year	\$8,244,439	\$ 8,417,774	\$ 8,529,349	\$ 8,716,657
Net income	116,939	215,263	146,157	(114,537)
Change in net U/R capital gains	53,196	(59,866)	40,680	101,713
Change in net deferred income tax	(19,647)	(20,520)	(22,821)	(9,680)
Change in nonadmitted assets	46,101	(11,876)	16,148	-
Change in provision for reins.	(326)	(7,153)	7,144	335
Aggregate write-ins	(22,927)	(4,273)	-	-
Change in capital and surplus	<u>173,336</u>	<u>111,575</u>	<u>187,308</u>	<u>(22,169)</u>
Capital and surplus;				
December 31 current year	<u>\$8,417,774</u>	<u>\$ 8,529,349</u>	<u>\$8,716,657</u>	<u>\$8,694,488</u>

ANALYSIS OF EXAMINATION CHANGES

There were no examination changes.

COMMENTS ON FINANCIAL STATEMENTS

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

SUMMARY OF RECOMMENDATIONS

There are no recommendations.

