

REPORT ON EXAMINATION

OF

CLARENDON SELECT INSURANCE

COMPANY, INC.

MAITLAND, FLORIDA

AS OF

DECEMBER 31, 2004

BY THE

OFFICE OF INSURANCE REGULATION

TABLE OF CONTENTS

LETTER OF TRANSMITTAL	-
SCOPE OF EXAMINATION	1
STATUS OF ADVERSE FINDINGS FROM PRIOR EXAMINATION	2
HISTORY	6
GENERAL	6
CAPITAL STOCK	7
PROFITABILITY OF COMPANY	8
DIVIDENDS TO STOCKHOLDERS	8
MANAGEMENT	8
DIRECTORS	8
SENIOR OFFICERS	9
CONFLICT OF INTEREST PROCEDURE	9
CORPORATE RECORDS	10
ACQUISITIONS, MERGERS, DISPOSALS, DISSOLUTIONS, AND PURCHASE OR SALES THROUGH REINSURANCE	10
SURPLUS DEBENTURES	10
AFFILIATED COMPANIES	10
TAX ALLOCATION AGREEMENT	11
COST SHARING AGREEMENT	11
INVESTMENT MANAGEMENT AGREEMENT	11
ORGANIZATIONAL CHART	12
FIDELITY BOND AND OTHER INSURANCE	13
PENSION, STOCK OWNERSHIP, AND INSURANCE PLANS	13
STATUTORY DEPOSITS	13
INSURANCE PRODUCTS AND RELATED PRACTICES	14
TERRITORY	14
TREATMENT OF POLICYHOLDERS	14
REINSURANCE	14
ASSUMED	15
CEDED	15
ACCOUNTS AND RECORDS	15
CUSTODIAL AGREEMENT	16
MGA AGREEMENT	16
CLAIMS AGREEMENT	16
INDEPENDENT AUDITOR AGREEMENT	17
RISK-BASED CAPITAL	17
INFORMATION TECHNOLOGY	17
FINANCIAL STATEMENTS PER EXAMINATION	17
ASSETS	18

LIABILITIES	19
STATEMENT OF INCOME	20
COMMENTS ON FINANCIAL STATEMENTS.....	21
ASSETS.....	21
LIABILITIES	21
COMPARATIVE ANALYSIS OF CHANGES IN SURPLUS	22
SUMMARY OF FINDINGS	23
CONCLUSION	27

Tallahassee, Florida

May 13, 2005

Kevin M. McCarty
Commissioner
Office of Insurance Regulation
State of Florida
Tallahassee, Florida 32399-0326

Dear Sir:

Pursuant to your instructions, in compliance with Section 624.316, Florida Statutes (FS), and in accordance with the practices and procedures promulgated by the National Association of Insurance Commissioners (NAIC), we have conducted an examination as of December 31, 2004, of the financial condition and corporate affairs of:

**CLARENDON SELECT INSURANCE COMPANY, INC.
2600 WESTHALL LANE, SUITE 400
MAITLAND, FLORIDA 32751**

Hereinafter referred to as the "Company". Such report of examination is herewith respectfully submitted.

SCOPE OF EXAMINATION

This examination covered the period of January 1, 2002 through December 31, 2004. The Company was last examined by representatives of the Florida Office of Insurance Regulation (Office) as of December 31, 2001. This examination commenced with planning at the Office from March 21, 2005 to March 25, 2005. The fieldwork commenced on March 28, 2005 and was concluded as of May 13, 2005. The examination included any material transactions and/or events occurring subsequent to the examination date and noted during the course of the examination.

This financial examination was a statutory financial examination conducted in accordance with the Financial Condition Examiners Handbook, Accounting Practices and Procedures Manual and Annual Statement Instructions promulgated by the NAIC as adopted by Rules 69O-137.001(4) and 69O-138.001, Florida Administrative Code (FAC), with due regard to the statutory requirements of the insurance laws and rules of the State of Florida.

In this examination, emphasis was directed to the quality, value and integrity of the statement assets and the determination of liabilities, as those balances affect the financial solvency of the Company.

The examination included a review of the corporate records and other selected records deemed pertinent to the Company's operations and practices. In addition, the NAIC IRIS ratio report and the A.M. Best Report were reviewed and utilized where applicable within the scope of this examination. We valued and/or verified the amounts of the Company's assets and liabilities as reported by the Company in its annual statement as of December

31, 2004. Transactions subsequent to year-end 2004 were reviewed where relevant and deemed significant to the Company's financial condition.

This report of examination is confined to financial statements and comments on matters that involve departures from laws, regulations or rules, or which are deemed to require special explanation or description.

Status of Adverse Findings from Prior Examination

The following is a summary of significant adverse findings contained in the Office's prior examination report as of December 31, 2001, along with resulting action taken by the Company in connection therewith.

Corporate Records

The Company failed to have an adequate number of directors in accordance with their articles and by-laws and to comply with Section 607.0202, 607.0206, 607.803(1) and 628.231(1), FS.

Resolution: For the years 2003 and 2004 the Company elected the correct number of directors in accordance with their articles and by-laws and was in compliance with Section 607.0202, 607.0206, 607.803(1) and 628.231(1), FS.

The Company failed to maintain the Board of Director and committee minutes.

Resolution: The Company maintained Board of Director minutes. The audit and investment committee minutes were maintained at the Clarendon group level.

The Company's stock certificate did not state "common" as the class of stock on the face of the certificate.

Resolution: The Company corrected the stock certificate effective August 22, 2005.

Reinsurance

Schedule F of the annual statement identified Farm Family Casualty Insurance Company as an authorized reinsurer. It was not an authorized reinsurer.

On Schedule F, the Company reported Hannover Ruckversicherungs AG and Bayerische Ruehversicherung AG as an Unauthorized – Other Non – US insurer. These should be reported under Section 179999 as Unauthorized – Affiliates – Other (Non – US) insurers.

Resolution: The Company has correctly listed its affiliated and unauthorized reinsurers.

The Letter's of Credit (LOC), reported on Schedule F, did not contain an appropriate evergreen clause due to the fact they were cancelable in thirty (30) days. Also, the LOC's referenced other entities on the face of the certificates.

Resolution: The Company's LOC's presently comply.

Account and Records

The Company could not provide the examination team with the Policy Collection Register, Policy Register, Return Premium Register, Receivable Register and an aging accounts receivable journal. **Resolution:** This examination did not identify any similar problems as in the prior examination.

Cash and Short Term Investments

The Company did not include checks outstanding from three of their cash accounts totaling \$1,360,335. The Company incorrectly reported \$46,973 as a Short term investment rather than Cash on their annual statement. The Company made an additional cash error when reporting their Premium account, in the amount of \$179,722.

Resolution: This examination again discovered a material error in the reporting of Cash balances, as discussed in the Comments on Financial Statements.

Agents' Balances

The Company did not provide Agents' balances detail that reconciled to reported Agents' balances or to documentation in the policy files.

Resolution: The Company still does not maintain adequate records for agents' balances.

Reinsurance Recoverables

The reported balance for reinsurance recoverables contained errors due to the fact that the recoverable balance was an estimated figure.

Resolution: This examination did not uncover similar problems with reinsurance recoverables.

Losses & Loss Adjustment Expenses

Schedule P of the annual statement did not reconcile.

Resolution: The Office Actuary again encountered similar difficulties during this 2004 examination in reconciling amounts on Schedule P.

Taxes, Licenses and Fees

The Company failed to accrue all liabilities.

Resolution: Again in this examination, the Company did not accrue any miscellaneous liabilities.

Federal Income Tax Payable

The Company's Federal income tax allocation and settlement policy with its parent stated that taxes were due on or before the prescribed due date of the federal consolidated income tax return for the group. The Company carried the final quarterly federal income tax payable from year-to-year, which does not comply with the policy.

Resolution: The Company did not have any outstanding federal income tax payables at year-end 2004.

HISTORY

General

The Company was incorporated on June 17, 1986, under the laws of the State of Oklahoma, under the name of Winston Insurance Company. Effective February 28, 1997, the Company was re-domesticated to Florida. As of December 20, 1996, the Company became a controlled insurer of Lion Holding, Inc., a Delaware corporation. The stock of Lion Holding, Inc., was then held solely by the management of Clarendon Insurance Group and Kansa International Corp. The name of Winston Insurance Company was changed to Clarendon Select Insurance Company, by approval of the Office in April of 1997.

In June, 1998, Clarendon National Insurance Company acquired one hundred percent (100%) of the outstanding voting securities of the Company as a result of the dissolution of RLH Winston Holding, Inc.

On February 25, 1999, the Company became a controlled insurer of Hannover Finance, Inc., when Hannover Finance, Inc., acquired all of the issued and outstanding shares of common stock of Lion Holding, Inc. At that time, Hannover Finance was owned one hundred percent (100%) by Hannover Ruckversicherung-Aktiengesellschaft (Hannover Re), a German company.

In accordance with Section 624.401(1), FS, the Company was authorized to transact the following insurance coverage, in the State of Florida, on December 31, 2004:

Homeowners Multi Peril
Allied Lines
Fire
Mobile Home Multi Peril
Mobile Home Physical Damage
Accident and Health

The articles of incorporation and the bylaws were not amended during the period covered by this examination.

Capital Stock

As of December 31, 2004, the Company's capitalization was as follows:

Number of authorized common capital shares	2,000,000
Number of shares issued and outstanding	166,667
Total common capital stock	\$3,000,000
Par value per share	\$18

The Company's parent, Clarendon National Insurance Company (CNIC), a one hundred percent (100%) owner of the stock issued by the Company, maintained control of the Company. The ultimate parent was Hannover Re.

The Company did not maintain their stock certificate in accordance with Section 607.0625(2), FS, which states that the certificate shall note the class of the stock on the face of the document; however, such was corrected effective August 22, 2005.

Profitability of Company (\$)

	2002	2003	2004
Premiums Written	104,857,026	93,880,718	119,046,288
Net Underwriting Gain/(Loss)	(1,577,357)	4,436,432	4,169,032
Net Income	(35,049)	3,963,560	3,494,563
Total Assets	47,530,714	49,167,460	56,164,869
Total Liabilities	23,248,258	20,817,873	23,866,933
Surplus As Regards Policyholders	24,282,455	28,349,587	32,297,935

Dividends to Stockholders

In accordance with Section 628.371, FS, the Company did not declare or pay dividends to its shareholder during the period of the examination.

Management

The directors serving as of December 31, 2004, were as follows:

Directors

Name and Location

Jurgen Lang
New York, NY

Gerhard Ketels
Mamaroneck, New York

Principal Occupation

Chief Program Officer,
Clarendon Group

General Counsel,
Clarendon Group

Grace Ann Meek
New York, NY

VP, Clarendon Group

Anders Folke Larsson
Westport, CT

CFO, Clarendon Group

Stephen Najjar
Greenwich, CT

President & CEO
Clarendon Group

The following senior officers were appointed by the Board of Directors in accordance with the Company's bylaws:

Senior Officers

Name	Title
Stephen Najjar	President
Anders Folke Larsson	Treasurer
Gerhard Ketels	Secretary

Conflict of Interest Procedure

The Company adopted a policy statement that required annual disclosure on conflicts of interest, in accordance with Section 607.0832, FS. No conflicts of interest were noted during this examination period.

Corporate Records

The Company maintained separate minutes of the meetings by the Investment and Audit Committees on a Clarendon Group basis for the period under examination. The minutes did not record the authorization of investments in accordance with Section 625.304, FS.

Acquisitions, Mergers, Disposals, Dissolutions, and Purchase or Sales through Reinsurance

The Company had no acquisitions, mergers, disposals, dissolutions or purchase/sales through reinsurance in the year 2004.

Surplus Debentures

The Company had no surplus debentures.

AFFILIATED COMPANIES

The Company was a member of an insurance holding company system as defined by Rule 69O-143.045(3), FAC. The latest holding company registration filing with the State of Florida, as required by Section 628.801, FS, and Rule 69O-143.046, FAC, was made on June 7, 2004.

Schedule Y of the 2004 annual statement identified all members of the holding company system, in compliance with Rule 69O-137.001(4) (a), FAC.

The following agreements were in force between the Company and its affiliates:

Tax Allocation Agreement

The Company had a Federal income tax allocation and settlement policy agreement with its parent and several affiliates. The allocation was based on the income that each affiliate would have filed on a separate income tax return basis.

Cost Sharing Agreement

The Company had an expense allocation agreement with CNIC and other participating companies. The Company did not maintain an operating checking account because CNIC paid all expenses of the Company.

Investment Management Agreement

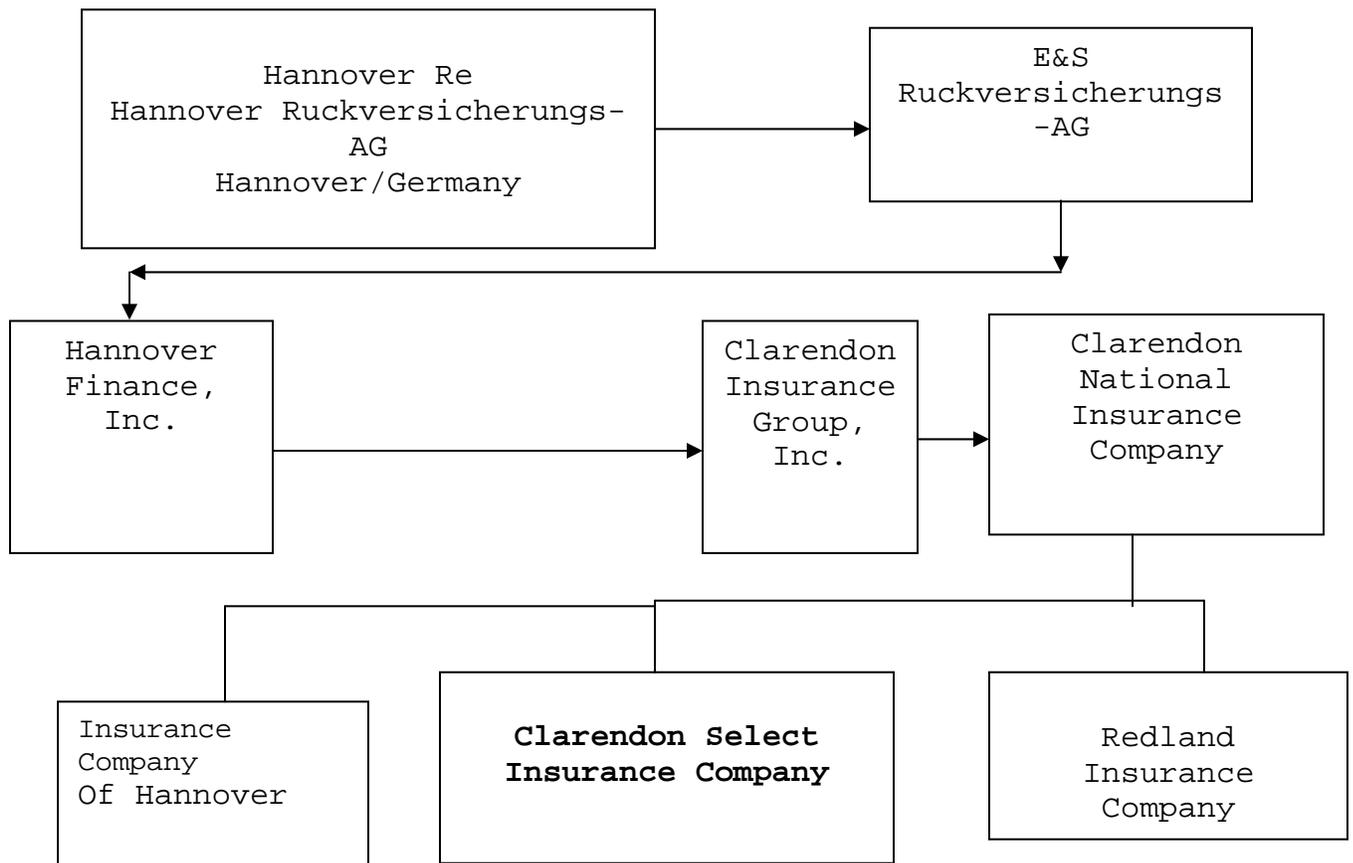
The Company had an investment management agreement with Hannover Finance, Inc., and several of its affiliates, to manage the assets of the Company.

A simplified organizational chart as of December 31, 2004 reflecting the holding company system, is shown below. Schedule Y of the 2004 annual statement provided a complete list of all related companies of the holding company group.

CLARENDON SELECT INSURANCE COMPANY

ORGANIZATIONAL CHART

DECEMBER 31, 2004



FIDELITY BOND AND OTHER INSURANCE

The Company, through the Clarendon group policy, maintained fidelity bond coverage up to \$15,000,000 with a deductible of \$250,000. This insurance adequately covered the suggested minimum amount of coverage for the Company, as recommended by the NAIC.

PENSION, STOCK OWNERSHIP, AND INSURANCE PLANS

The Company had no employees.

STATUTORY DEPOSITS

The following securities were deposited with the State of Florida as required by Section 624.411, FS:

State	Description	Par Value	Fair Value
FL	US Treasury Note,7.875%,04/01/96	\$ 150,000	\$ 150,328
FL	US Treasury Note,3.125%,10/21/04	400,000	399,796
TOTAL FLORIDA DEPOSITS		\$ 550,000	\$ 550,124
TOTAL SPECIAL DEPOSITS		<u>\$ 550,000</u>	<u>\$ 550,124</u>

INSURANCE PRODUCTS AND RELATED PRACTICES

Territory

The Company was authorized to transact insurance in Florida, in accordance with Section 624.401(2), FS. Premiums were written in the State of Florida for the years 2002, 2003 and 2004. The Company was also licensed in Oklahoma but did not write any premium in that state during 2004.

Treatment of Policyholders

The Company had established procedures for handling written complaints in accordance with Section 626.9541(1)(j), FS.

The Company maintained a claims procedure manual that included detailed procedures for handling each type of claim.

REINSURANCE

The reinsurance agreements reviewed met the NAIC regulations with respect to the standard insolvency clause, arbitration clause, and transfer of risk, reporting and settlement information deadlines.

Assumed

The Company did not assume new business.

Ceded

The Company ceded risk on an excess of loss and quota share basis to various reinsurers as recorded on Schedule F of the annual statement.

The reinsurance contracts were reviewed by the Company's appointed actuary and were utilized in determining the ultimate loss opinion.

The Company maintained a reimbursement contract with the State of Florida Hurricane Catastrophe Fund. The Company maintained an industry loss warrant excess reinsurance contract between affiliates and subscribing reinsurers.

ACCOUNTS AND RECORDS

The Company was audited annually by a CPA in accordance with Section 624.424(8), FS. Audited statutory financial statements and supporting work papers had not yet been prepared by the CPA as of the date of our examination.

The Company's accounting records were maintained on a computerized system and the Company's balance sheet accounts were verified with the line items of the annual statement submitted to the Office except where noted in this report.

The Company maintained its principal operational offices in New York, New York. The examination was conducted in Maitland, Florida, and Gainesville Florida, where the Company's MGA was located, and in New York, New York.

The following agreements were in force between the Company and non-affiliates:

Custodial Agreement

The Company maintained a custodial agreement with Wachovia. The agreement was in compliance with Rule 69O-143.042(I), FAC.

MGA Agreement

The Company entered into an exclusive Managing General Agency (MGA) agreement with Tower Hill Insurance Group, Inc. (Tower Hill) on May 1, 1997. Tower Hill collected premiums, received and processed all claims, and administered and managed all policies of the Company.

Claims Agreement

The Company entered into a claims administration agreement with Claim Solution Services, Inc. (an affiliate of Tower Hill) to administer and adjust all claims of the Company.

Independent Auditor Agreement

The Company contracted with KMPG, LLC, CPA, of New York, New York to perform the annual audit. The Company failed to annually appoint a CPA firm for any of the years covered by this examination, as required by Section 624.424(8), FS.

Risk-Based Capital

The Company reported its risk-based capital at an adequate level.

Information Technology

The business continuity plan developed in 2000 has not been tested for some time, has omissions and has had few updates since its creation.

FINANCIAL STATEMENTS PER EXAMINATION

The following pages contain financial statements showing the Company's financial position as of December 31, 2004, and the results of its operations for the year then ended as determined by this examination. Adjustments made as a result of the examination are noted in the section of this report captioned, "Comparative Analysis of Changes in Surplus."

CLARENDON SELECT INSURANCE COMPANY
Assets

DECEMBER 31, 2004

Classification	Per Company	Examination Adjustments	Per Examination
Bonds	\$554,146	\$0	\$554,146
Cash:			
On deposit	82,506,303	(12,282,311)	70,223,992
Short-term investments	8,029,144		8,029,144
Agents' Balances:			
Deferred premium	389,416		389,416
Reinsurance Recoverable	1,947,077		1,947,077
Funds held by reinsurance comp.	(37,274,128)	12,282,311	(24,991,817)
Interest and dividend income due & accrued	1,000 11,911		1,000 11,911
Totals	<u>\$56,164,869</u>	<u>\$0</u>	<u>\$56,164,869</u>

CLARENDON SELECT INSURANCE COMPANY
Liabilities, Surplus and Other Funds

DECEMBER 31, 2004

Liabilities	Per Company	Examination Adjustments	Per Examination
Commissions payable	\$316,866		\$316,866
Taxes, licenses and fees	2,291,916		2,291,916
Current federal income taxes payable	1,881,688		1,881,688
Funds held under reinsurance treaties	80,403		80,403
Amounts withheld	171,200		171,200
Ceded reinsurance premiums payable	178,656		178,656
Payable to parent, subsidiaries and affiliates	18,993,307		18,993,307
Aggregate write-ins for liabilities	<u>(47,102)</u>		<u>(47,102)</u>
Total Liabilities	\$23,866,934		\$23,866,934
Common capital stock	\$3,000,000		\$3,000,000
Gross paid in and contributed surplus	10,850,000		10,850,000
Unassigned funds (surplus)	<u>18,447,935</u>		<u>18,447,935</u>
Surplus as regards policyholders	<u>\$32,297,935</u>		<u>\$32,297,935</u>
Total liabilities, capital and surplus	<u>\$56,164,869</u>	<u>\$0</u>	<u>\$56,164,869</u>

**Clarendon Select Insurance Company
Statement of Income**

DECEMBER 31, 2004

Underwriting Income

Premiums earned	\$0
DEDUCTIONS:	
Losses incurred	0
Loss expenses incurred	581,436
Other underwriting expenses incurred	(4,750,468)
Aggregate write-ins for underwriting deductions	0
Total underwriting deductions	<u>(\$4,169,032)</u>
Net underwriting gain or (loss)	\$4,169,032

Investment Income

Net investment income earned	\$780,205
Net realized capital gains or (losses)	425,319
Net investment gain or (loss)	<u>\$1,205,524</u>

Other Income

Net gain or (loss) from agents' or premium balances charged off	\$1,694
Aggregate write-ins for miscellaneous income	0
Total other income	<u>\$1,694</u>

Net income before dividends to policyholders and before federal & foreign income taxes	\$5,376,251
Dividends to policyholders	<u>0</u>
Net Income, after dividends to policyholders, but before federal & foreign income taxes	\$5,376,251
Federal & foreign income taxes	<u>1,881,688</u>
Net Income	\$3,494,563

Capital and Surplus Account

Surplus as regards policyholders, December 31 prior year	\$28,349,589
--	--------------

Gains and (Losses) in Surplus

Net Income	\$3,494,563
Change in provision for reinsurance	453,784
Examination Adjustment	0
Change in surplus as regards policyholders for the year	<u>\$3,948,347</u>
Surplus as regards policyholders, December 31 current year	<u><u>\$32,297,936</u></u>

COMMENTS ON FINANCIAL STATEMENTS

Assets

Cash **\$90,535,447**

The Company's cash balance was overstated by an amount of \$12,282,311, because of the failure to adjust the December 31, 2004 estimated outstanding check amount to the actual figure. The Company used an estimation process each month, but did not adjust the estimation to the actual amount at year end. As the error occurred in the claims account, the offsetting entry was to "Funds held by reinsurance company".

Liabilities

Losses and Loss Adjustment Expenses **\$0**

The Company reinsured all premiums written one hundred percent (100%) through various quota share and excess of loss treaties to both affiliated and non-affiliated companies. Therefore, the Company had no net incurred losses or outstanding losses and loss expenses as at December 31, 2004.

In the 2001 OIR financial examination, Schedule P did not reconcile. Again in this examination, the Office Actuary encountered similar difficulties in reconciling amounts to and within Schedule P.

**CLARENDON SELECT INSURANCE COMPANY
COMPARATIVE ANALYSIS OF CHANGES IN SURPLUS**

DECEMBER 31, 2004

The following is a reconciliation of surplus as regards policyholders between that reported by the Company and as determined by the examination.

Surplus as Regards Policyholders per December 31, 2004, Annual Statement	\$32,297,935
---	--------------

	<u>PER COMPANY</u>	<u>PER EXAM</u>	<u>INCREASE (DECREASE) IN SURPLUS</u>
ASSETS:			
Cash	82,506,303	70,223,992	(12,282,311)
Fund held by reinsurance company	(37,274,128)	(24,991,817)	12,282,311
LIABILITIES:			
No adjustments needed.			
Net Change in Surplus:			0
Surplus as Regards Policyholders December 31, 2004, Per Examination			\$32,297,935

SUMMARY OF FINDINGS

Compliance with previous directives

The Company has not taken the necessary actions to comply with all of the comments made in the 2001 examination report issued by the Office; specifically regarding the corporate minutes, the stock certificate, cash, agents' balances and Schedule P.

Current examination comments and corrective action

The following is a brief summary of items of interest and corrective action to be taken by the Company regarding findings in the examination as of December 31, 2004:

Claims Outstanding Check Understatement

The Company's general ledger (and annual statement) at December 31, 2004 indicates a claims outstanding check amount of \$37,676,517. However, the December 31, 2004 claims outstanding check reconciliation calculated by Tower Hill and provided to the Company, indicated that the actual reconciled outstanding amount was \$49,958,828. **It is recommended that the Company report the reconciled balance in all future annual and quarterly statement filings.**

The Company failed to annually appoint the CPA firm performing the audit. This was not done for any of the years covered by this examination, as required by Section 624.424(8), FS. **It is recommended that the Board of Directors annually appoint the CPA firm in all future years.**

Subsequent Event: The Company appointed KPMG as auditors of the Company in a Board of Directors meeting held on April 11, 2005.

Investment Approval

The Board of Directors, or an Investment Committee appointed by the Board, is required by Section 625.304, FS, to approve all investments made by the Company. This has not been done in any of the three years under examination. The Company did not have an Investment Committee although there was an Investment Committee for all Clarendon group companies. In the CNIC board meetings held on March 14, 2004 and November 16, 2004, all investment transactions were approved to date. These must be ratified at least annually and by the Company's own Board. **It is recommended that the Company form its own investment committee to approve all investments or insure that the Company's Board approves the investments; and that the Company provide evidence of such to the Office within 90 days of the issuance of this report.**

Appointment of Actuary

The Company's Board of Directors has failed, in all of the three years covered by this examination, to appoint an actuary. **It is recommended that the Company's Board of Directors annually appoint an actuary in all future years.**

Subsequent Event: In a Board of Director, meeting held on April 11, 2005, the Board appointed an actuary for the Company.

Reconciliation of Schedule

It was noted by the Office Actuary that several deficiencies existed in reconciling Schedule P to the annual statement. These deficiencies included a significant number of December 2004 losses paid by the Company that were not included in Schedule P, together with losses paid and salvage and subrogation amounts that did not reconcile to the supporting details. **We recommend that the Company reconcile its Schedule P to agree with the underlying loss paid details; and provide such amendment to the Office within 90 days of the issuance of this report.**

Subsequent Event:

On September 30, 2005 the Company provided adjustments to Schedule P that the Company will reflect in the 2005 Annual Statement Schedule P.

Corporate Records

The Company did not maintain their stock certificate in accordance with Section 607.0625 (2), FS. **We recommend that the Company correct the stock certificate to reflect the class of stock; and to provide a copy of the certificate to the Office within 90 days of the issuance of this report.**

Subsequent Event:

On August 22, 2005 the stock certificate was corrected to show the class of stock.

Information Technology

The business continuity plan is outdated. **It is recommended that the Company update its business continuity plan and provide a copy of the updated plan within 180 days of the issuance of this report.**

Taxes Licenses and Fees

The Company failed to accrue all miscellaneous liabilities and also did not provide a proper reconciliation between premium taxes payable and the annual statement. **We recommend that the Company correctly accrue liabilities in all future annual and quarterly statements and reconcile the premium taxes payable to the annual statement in all future years.**

CONCLUSION

The customary insurance examination practices and procedures as promulgated by the NAIC have been followed in ascertaining the financial condition of **Clarendon Select Insurance Company, Inc.** as of December 31, 2004, consistent with the insurance laws of the State of Florida.

Per examination findings, the Company's surplus as regards policyholders was \$32,297,935, which was in compliance with Section 624.408, FS.

In addition to the undersigned, Michael Hampton, CFE, CIE, DABFA, CFE, CPM, Financial Examiner/Analyst Supervisor, Jerry Golden, Financial Examiner/Analyst II, Richard A. Shaffer, Financial Examiner/Analyst I and Joe Boor, FCAS, Office Actuary, participated in the examination.

Respectfully submitted,

David Schleit, CPA
Financial Examiner/Analyst II
Florida Office of Insurance Regulation