THE GRAY CASUALTY & SURETY COMPANY P.O. Box 6202, Metairie, LA 70009-6202

Management's Discussion and Analysis
for the Year Ended December 31, 2010

This discussion, presented by management, provides an assessment of the current financial position, results of operations, cash flow and liquidity, and changes in financial position for The Gray Casualty & Surety Company. Information presented in this discussion supplements the financial statements, schedules and exhibits in the Company's 2010 Annual Statement.

In July of 1996, The Gray Casualty & Surety Company was established as The Gray Casualty Company, a wholly-owned subsidiary of The Gray Insurance Company (Parent), with an initial capitalization of $5,000,000. This was comprised of $2,500,000 in capital stock and $2,500,000 in paid-in surplus. In 1997, the Parent increased the capitalization of the company by $4,000,000 to a total of $9,000,000.

In 2003, the Company's Parent expanded its surety business into construction and commercial bonds bringing in underwriters with substantial experience in the surety business. The Company supported the business with a quota share reinsurance program as outlined in the Operations section.

Business was initially written though the Parent. New business is being written through the Company whenever applicable. Combined premiums of the two companies have dropped to $4,857,157 from the $5,293,379 of the previous year on weakness in the construction market. The Company is taking a cautious approach to the growth of this new line. The table below outlines the progress over the past three years.

	2010	2009	2008
TGIC surety business	$2,294,299	$2,233,321	$3,382,429
TGCSC surety business	2,562,858	3,060,058	2,970,688
Total surety business	$4,857,157	$5,293,379	$6,353,117

Commensurate with the expansion of the surety operations, the name of the Company was changed November 10, 2003 to reflect the activity. Below are figures for The Gray Casualty & Surety Company.

Assets

	2010	2008
Policyholder's Surplus	$14,756,984	$14,666,477
Gross Written Premium	2,562,858	3,060,058
Earned Premium	2,167,684	2,338,447
Income from investments	162,655	161,296
Capital gains/(loss)	0	0

Assets remained relatively unchanged from the prior year as writings stalled. Agent Balances fell to $433,698 from $484,973 of the previous year as a result of the drop in premium volume. Cash balances retained in protected accounts due to the low interest rates were invested in US Treasury's as interest rates came up

Liabilities

The decrease in Liabilities was primarily from income taxes due from the previous year that were paid in 2010. Loss reserves increased over the prior year by 2.9%.

	2010	2009
Loss and LAE reserves	$813,092	$790,045

Capital and Surplus

As indicated above, Capital and Surplus grew only slightly due to income that was reduced over the prior year by the increase in loss reserves.

	2010	2009
Net Underwriting Income	$ 22,466	$552,004
Losses Incurred	950,626	569,134

Operations

The Company continues working its plan for development of the surety business. In 2006, the branch office in Birmingham, Alabama was expanded with the addition of a second underwriter. At the end of 2010, the Company brought on Mr. David A. Castillo to be the President of the surety operations. Mr. Castillo brings 28 years of experience to the Company. In the first quarter of 2011, the Company opened an office in Phoenix, Arizona.

	2010	2009
Gross Written Premium	$2,562,858	$3,060,058
Net Written Premium	2,237,315	2,518,808
Earned Premium	2,167,684	2,338,447

In 2004, the terms on the quota share reinsurance were amended to a 60/40 quota share with the Company retaining the 60%. In 2005, the reinsurance program was transferred by XL Reinsurance America Inc. to Endurance Reinsurance Corporation of America (ERCA) as

ERCA expanded its presence in the market. The ceding percent remained the same at 40% for 2006. In June of 2008, the Company modified its reinsurance coverage from quota share to an excess of loss program, signaling management's comfort with the book of business and overall business plan. The reinsurance was established with a $1 million retention and $5 million of coverage above. This program was renewed in June of 2010, but only placed for 75% such that the retention is now $1.75 million with $4.25 in coverage above that.

The Company is currently admitted to fifteen states. In 2007, Arizona, Kentucky, Missouri, Nevada, and North Carolina admitted the Company. Additionally, the Company has a Treasury Listing and is approved to write bonds on federal work.

Hurricane Katrina

While the effects of Hurricane Katrina have had a major impact to the area, effects to the Company have been minimal. The Parent's home office sustained minor damage to roof vents; however the surety office sustained substantial damage. Two days after the storm, the Company began operations out of the Parent's satellite office. Within two weeks the Company had returned to the Metairie area.

The Company does not write property coverages and suffered no direct loss from the storm. As its principals are involved in heavy construction, they make up the force cleaning up the area and rebuilding the infrastructure. The Company has experienced some growth from the clean up and rebuilding.

Current Economic Environment

There are no direct effects from the meltdown of the financial markets; however, the Company expects that the slowdown in the construction market will impact the number and size of future bonds. The Company has taken a conservative approach for investments, with an eye to preservation of capital. The Company has matured and is past the start-up mode.

With The Gray Casualty & Surety Company passing its fourteenth anniversary with eight years of surety business under its belt, the Company is looking to expand their operations into targeted markets beginning with the Southwest.

David A. Castillo, President
March 31, 2011