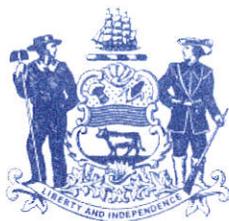


**REPORT ON EXAMINATION**  
**OF THE**  
**AMERICAN BUSINESS & MERCANTILE INSURANCE MUTUAL, INC.**  
**AS OF**  
**DECEMBER 31, 2012**

Karen Weldin Stewart, CIR-ML  
Commissioner



Delaware Department of Insurance

I, Karen Weldin Stewart, Insurance Commissioner of the State of Delaware, do hereby certify that the attached REPORT OF EXAMINATION, made as of December 31, 2012 of the

**AMERICAN BUSINESS & MERCANTILE INSURANCE MUTUAL, INC.**

is a true and correct copy of the document filed with this Department.

Attest By: \_\_\_\_\_

A handwritten signature in black ink, appearing to be "J. M. M.", written over a horizontal line.

Date: January 27, 2014



In Witness Whereof, I have hereunto set my hand and affixed the official seal of this Department at the City of Dover, this 27<sup>th</sup> day of January, 2014.

A handwritten signature in black ink, appearing to be "Karen Weldin Stewart", written over a horizontal line.

Karen Weldin Stewart, CIR-ML  
Insurance Commissioner



REPORT OF EXAMINATION  
OF THE  
AMERICAN BUSINESS & MERCANTILE INSURANCE MUTUAL, INC.  
AS OF  
DECEMBER 31, 2012

The above-captioned report was completed by examiners of the Delaware Department of Insurance.

Consideration has been duly given to the comments, conclusions and recommendations of the examiners regarding the status of the company as reflected in the report.

This report is hereby accepted, adopted and filed as an official record of this Department.

A handwritten signature in black ink, appearing to read 'Karen Weldin Stewart'.

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Karen Weldin Stewart, CIR-ML  
Insurance Commissioner

Dated this 27<sup>th</sup> day of January, 2014

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## **SALUTATION**

November 4, 2013

Honorable Karen Weldin Stewart, CIR-ML  
Commissioner  
Delaware Department of Insurance  
Rodney Building  
841 Silver Lake Blvd.  
Dover, Delaware 19904

Dear Commissioner:

In compliance with instructions and pursuant to statutory provisions contained in Certification Number 13.031, dated April 15, 2013, a financial examination has been made of the affairs, financial condition and management of the

### **AMERICAN BUSINESS & MERCANTILE INSURANCE MUTUAL, INC.**

hereinafter referred to as (Company or ABMIM) incorporated under the laws of the State of Delaware. The statutory home office was located at The Corporation Trust Company, 1209 Orange Street, Wilmington, Delaware 19801. The main administrative office of the Company was 307 North Michigan Avenue, Chicago, Illinois 60601. The report of this examination is respectfully submitted.

## **SCOPE OF EXAMINATION**

The last examination was completed as of December 31, 2007, by the Delaware Insurance Department. This examination covered the period of January 1, 2008, through December 31, 2012, and encompasses a general review of transactions during the period, the Company's business policies and practices, as well as management and relevant corporate matters, with a determination

American Business & Mercantile Mutual, Inc.

of the financial condition of the Company at December 31, 2012. Transactions subsequent to the examination date were reviewed where deemed necessary.

We conducted our examination in accordance with the *National Association of Insurance Commissioners (NAIC) Financial Condition Examiners Handbook* (Handbook) and generally accepted statutory insurance examination standards consistent with the Insurance Laws and Regulations of the State of Delaware. The NAIC Handbook requires that we plan and perform the examination to evaluate the financial condition and identify prospective risks of the Company by obtaining information about the Company, including corporate governance, identifying and assessing inherent risks within the Company and evaluating system controls and procedures used to mitigate those risks. The examination also included assessing the principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation, management's compliance with Statutory Accounting Principles and annual statement instructions when applicable to domestic state regulations.

All accounts and activities of the Company were considered in accordance with the risk focused examination process. The examination report addresses regulatory issues reviewed during the examination process.

During the course of this examination, consideration was given to work performed by the Company's external accounting firm, KPMG LLP. Certain auditor work papers of their 2012 audit have been incorporated into the work papers of the examiners and have been utilized in determining the scope, areas of emphasis in conducting the examination and in the area of risk mitigation and substantive testing.

In addition to items noted in this report, the topics below were reviewed without material exception and are included in the work papers of this examination:

Corporate Records  
Fidelity Bond and Other Insurance  
Pensions  
Statutory Deposits

The financial examination of the Company was conducted concurrently with examinations of other affiliates of the Old Republic group of insurance companies, with the Pennsylvania Insurance Department (Pennsylvania Department) as the domiciliary lead state. Other state insurance departments involved in the coordinated examination that conducted concurrent full scope financial examinations as of December 31, 2012, included: the Illinois Department of Insurance (Illinois Department), the Texas Department of Insurance (Texas Department) and the Wisconsin Insurance Department (Wisconsin Department).

#### **SUMMARY OF SIGNIFICANT FINDINGS**

There were no significant findings as a result of this examination.

#### **SUBSEQUENT EVENTS**

There were no reportable subsequent events to this examination.

#### **COMPANY HISTORY**

The Company was incorporated on July 9, 1981 as American Business & Mercantile Insurance Mutual Inc., and commenced business January 29, 1982 under the laws of the State of Delaware. On October 16, 1995 the Company's Articles of Incorporation were amended to change the Company's name to American Business & Personal Insurance Mutual, Inc. On October 11, 2012, the Company's Articles of Incorporation were amended to change the Company's name back to American Business & Mercantile Insurance Mutual, Inc. The Company's bylaws were restated on September 7, 2012 to reflect the Company's name change to American Business &

American Business & Mercantile Mutual, Inc.

Mercantile Insurance Mutual, Inc. The Company's registered and home offices are located at 307 North Michigan Avenue, Chicago, Illinois.

As set forth in its Charter, the Company was organized as a mutual plan insurance company under 18 Del. C. § 4905(b) Mutual insurers – Initial qualifications under the aegis of the Old Republic group of insurance companies. The Company was originally formed to provide insurance coverage (mostly workers' compensation) to small coal mining companies. The coal mining insurance business proved to be unprofitable and the line (covering both occupational and traumatic workers' compensation exposures) was placed in run-off operating mode in the late 1980's, as it remains today.

In 2008, the Company began to write direct workers' compensation coverage for the trucking industry, specifically for owner-operators (independent contractors) who are on lease to motor carriers. This business is underwritten by its national trucking affiliate, Great West Casualty Company (GWCC). In 2009, additional direct business was solicited and underwritten by affiliate Old Republic Agribusiness Underwriters, Inc. (ORAGU). Business underwritten by ORAGU on behalf of the Company includes commercial general liability (including products liability), commercial automobile liability, commercial automobile physical damage, commercial inland marine (cargo), and statutory workers' compensation coverage.

## **MANAGEMENT AND CONTROL**

### **Membership**

Each policyholder of a domestic mutual insurer, other than of a reinsurance contract, is a member of the mutual insurer during the period of insurance coverage, with all rights and obligations of such Membership. All issued policies specify this fact.

### Board of Directors

The amended bylaws state that the Company's business and affairs are to be managed by a Board of Directors consisting of not less than three (3) or more than seven (7) directors. The directors are to be elected at the annual meeting of the Membership and hold office until a successor is elected and qualified. It is not necessary for the directors to be members.

The following individuals, elected by unanimous vote, constitute the current Board of Directors as of December 31, 2012:

<u>Name</u>	<u>Principal Business Affiliation</u>	<u>Term Expires</u>
Aldo Charles Zucaro	Board Chairman and CEO, Old Republic International	May 2013
James Alan Kellogg	Executive Vice Chairman, Old Republic International	May 2014
Karl William Mueller	Senior Vice President and CFO, Old Republic International	May 2014
Spencer LeRoy III	Senior V. P., Secretary and General Counsel, Old Republic International	May 2015
Richard Scott Rager	President and COO, Old Republic International	May 2013

### Officers

The amended bylaws state that the officers of the Company shall consist of a Chairman of the Board, a President, as many Vice Presidents for general and specific purposes as needed, a Secretary and a Treasurer, and one or more Assistant Vice Presidents, Assistant Secretaries or Assistant Treasurers. The following were elected by unanimous vote of the Board of Directors at the meeting of May 16, 2012 as officers of the Company:

<u>Name</u>	<u>Title</u>
Aldo Charles Zucaro	Chairman and CEO
Richard Scott Rager	President and COO
Spencer LeRoy III	Senior Vice President, Secretary and General Counsel
Charles Stuart Boone	Senior Vice President and Treasurer
Karl William Mueller	Senior Vice President and CFO
Fred Mario Savaglio	Vice President, Controller and Assistant Treasurer
Steven Jon Olson	Vice President
Terry James Keime	Vice President
Gaylen Lee TenHulzen	Vice President
Scott Putnam White	Vice President
JoAnn Handel	Assistant Vice President and Assistant Controller
William J. Dasso	Assistant Vice President and Assistant Secretary
Deborah J. Matthews	Assistant Vice President

### **HOLDING COMPANY SYSTEM**

The Company is a member of the Old Republic International Corporation (ORI) holding company system as defined under 18 Del. C. 50, “Insurance Holding Companies”. ORI, a Delaware corporation, is the ultimate controlling entity of the holding company system. Because the Company is a mutual insurer, it is not owned by any ORI subsidiary or affiliate, however, ORI exerts significant influence and direction over the Company’s daily business affairs because key management, officers and directors within the holding company system comprise the Company’s Board of Directors and hold all the key officer positions. In addition, the Company is party to several intercompany agreements; whereby, ORI affiliated companies perform management and general services on behalf of the Company. Finally, the Company’s surplus notes are held by ORI and a direct subsidiary.

The following chart reflects the direct subsidiaries of the Company:

American Business & Mercantile Insurance Mutual, Inc.  
Inter Capital Group, Inc. (DE)  
Inter Capital Company of Chicago (DE)  
Inter Capital Reality Corporation (DE)

## **MANAGEMENT AND SERVICE AGREEMENTS**

The Company was involved in the following types of service arrangements with affiliates or subsidiaries throughout the current examination period:

### **Tax Allocation**

Since 1983 the Company has been involved in a tax sharing arrangement with its subsidiaries. Per the agreement the Company files a consolidated federal tax return on behalf of itself and its subsidiaries. Funds are transferred between entities annually based on the differences between the consolidated filing and filing on a stand-alone basis.

### **Reinsurance Management**

Since 1982 the Company has utilized the services of its affiliate, Brummel Brothers, Inc. (f/k/a International Business & Mercantile Insurance Managers) (Brummel), pursuant to a management agreement. An amended version of this agreement became effective January 1, 1997. The terms of the amended agreement allows Brummel to perform various administrative services pertaining to the Company's reinsurance operation. The charge to the Company for services and facilities provided is based upon a percentage of reinsurance premiums on a program by program basis not to exceed ten percent (10%). The service fee is paid quarterly. The total amount paid by the Company to Brummel in 2012 was \$419.

### **Investment Counsel Services Agreement**

The Company entered into an investment counsel services agreement effective October 1, 1995, and subsequently revised July 1, 2012, with affiliate Old Republic Asset Management Corporation (ORAM) to advise and assist in the maintenance of its investment portfolio and perform certain investment counsel, management, and accounting services on behalf of the Company. ORAM will direct the Company's asset custodian, The Northern Trust Company, to investment instructions. The Company pays a service fee quarterly to ORAM based on the market

American Business & Mercantile Mutual, Inc.

value of the investment portfolio at the end of each quarter. The total amount paid by the Company to ORAM in 2012 pursuant to the investment counsel services agreement was \$23,441.

#### Administrative Services Agreement

The Company entered into an administrative service agreement effective July 1, 2004 with affiliate Old Republic General Services, Inc. (ORGS). ORGS performs certain administrative services on behalf of the Company to include, but not limited to, telecommunications services, legal services, computer services, electronic data processing services, facilities and integration, software programming, and computer hardware. The total amount paid by the Company to ORGS in 2012 pursuant to the administrative services agreement was \$139,743.

#### Agency Contract

The Company entered into an agency contract effective April 1, 2008 with Joe Morten & Son, Inc. (JMS). Pursuant to the contract, JMS acts as an agent for the Company in the placement of property and casualty insurance. The total amount paid by the Company to JMS in 2012 pursuant to the agency contract was \$35,166.

#### Claims Serving Agreement

The Company entered into a claims servicing agreement with affiliate Great West Casualty Company (GWCC) effective July 1, 2009. Pursuant to the agreement, GWCC performs claims reporting and loss settlement duties on behalf of the Company with respect to commercial general liability (including products liability), commercial automobile liability, commercial automobile physical damage, commercial inland marine (cargo), and statutory workers' compensation underwritten by ORAGU. The total amount paid by the Company to GWCC in 2012 pursuant to the claims servicing agreement was \$39,181.

### Service Agreement

The Company entered into a service agreement with affiliate Great West Casualty Company (GWCC) effective January 1, 2008. Pursuant to the agreement, GWCC performs underwriting, accounting, reporting, premium collection/disbursement, and claims service to the Company and its reinsurers with respect to the workers' compensation business for independent leased trucking operators. Pursuant to the service agreement, the amounts paid by the Company in 2012 for management fees and loss settlement fees totaled \$104,919, net of ceded reinsurance amounts of \$26,229.

### Managing General Agent Agreement

The Company entered into a Managing General Agent (MGA) agreement with affiliate Old Republic Agribusiness Underwriters, Inc. (ORAGU) effective June 30, 2009. ORAGU will underwrite, administer, market, and consult with respect to commercial general liability, commercial automobile, and workers' compensation business on behalf of the Company. There were no intercompany expenses per the MGA Agreement with ORAGU because Old Republic Insurance Company (ORINSCO) is currently the direct writer for premium. All ORAGU business is assumed from ORINSCO under a Master Facultative Reinsurance Agreement.

### Run-off Claims Servicing Agreement

The Company entered into a management agreement with affiliate Old Republic Marketing, Inc. (ORM) effective October 15, 1981. ORM performed management, underwriting, claims, accounting, and general services for the workers' compensation and employers' liability insurance for coal mining operators. The business is currently in run-off mode, with only the accounting and claims or loss servicing duties required. A management agreement was executed on January 4, 1982 with affiliate Old Republic Company (ORINSCO) that transferred retroactively

to inception, the underwriting, accounting and claims or loss servicing duties set forth in the Management Agreement with ORM described above.

### **TERRITORY AND PLAN OF OPERATION**

#### Territory

The Company is licensed to transact business in the following jurisdictions:

Alaska	Iowa	Minnesota	Pennsylvania
Arizona	Kansas	Nebraska	Texas
Delaware	Kentucky	Nevada	Utah
District of Columbia	Michigan	New Mexico	Wisconsin
Georgia	Mississippi	North Carolina	
Illinois	Missouri	North Dakota	
Indiana	Montana	Oregon	

The lines of business written by the Company through its managing affiliates GWCC and ORAGU include commercial general liability (including products liability), commercial automobile liability, commercial automobile physical damage, commercial inland marine (cargo), and statutory workers' compensation coverage. As of December 31, 2012, there were 23 active independent agencies producing business on behalf of the Company.

#### Plan of Operation

The Company is a mutual organization that was originally formed to provide workers' compensation coverage to small coal mining companies. That business became unprofitable and is in run-off. Thereafter, the Company was limited to small assumptions of treaty reinsurance business ceded by Old Republic insurers. In 2008 the Company began to write direct workers' compensation coverage for the trucking industry, specifically for independent contractors who are on lease to motor carriers. This business is underwritten by an affiliate, Great West Casualty Company (GWCC). In 2009 additional direct business for the Company was underwritten by Old Republic Agribusiness Underwriters, Inc. (ORAGU), an affiliated MGA. The Company continues to pursue this course.

### **GROWTH OF THE COMPANY**

The following information, obtained from the Company's filed Annual Statements, reflects the Company's growth during the current period under review:

Year	Admitted Assets	Surplus	Gross Premiums Written	Net Income
2008	44,099,961	23,946,838	190,837	(390,632)
2009	46,262,638	26,365,461	795,852	(166,964)
2010	53,044,791	31,094,466	1,299,955	(1,797,972)
2011	47,524,760	25,526,138	2,257,718	26,289
2012	51,283,927	27,447,886	2,699,525	(2,524,489)

The Company's steady increase in gross premiums written was due to the new business writings that began in 2008 (trucking business) and 2009 (agribusiness) and have subsequently increased each year. The net loss in 2012 was attributable to the loss development from the run-off business and new business writings.

### **LOSS EXPERIENCE**

As taken from the Company's Annual Statement 2012 Five-Year Historical Data, key data elements relating to the Company's Loss Experience are presented below:

<b>Data Element</b>	<b>2012</b>	<b>2011</b>
Losses	20,392,058	19,525,291
Loss Adjustment Expenses	1,375,811	1,282,561
Gross Losses Paid	3,417,472	2,600,883
Losses Incurred Operating Percentage	236.1%	105.5%
Loss Expenses Incurred Operating Percentage	47.8%	17.7%
% Development Losses & Loss Expenses Incurred to Policyholder Surplus - 1 Yr	5.0%	-6.2%
% Development Losses & Loss Expenses Incurred to Policyholder Surplus - 2 Yrs	-3.4%	4.0%

The Company's prior year reported net loss and loss adjustment expense reserves as of December 31, 2011, were \$20,807,852. During 2012, \$2,332,122 was paid for incurred loss and loss adjustment expenses attributed to insured events prior to 2012. Net loss and loss adjustment expense reserves as of December 31, 2012, for years prior to 2012 were \$20,928,501 as a result of re-estimation of unpaid claims and claims adjustment expenses. Therefore, there

American Business & Mercantile Mutual, Inc.

was \$2,452,771 or 11.8% of unfavorable loss development prior to 2012. In addition, as of December 31, 2012, the Company experienced \$394,413 or 1.8% of unfavorable loss development on reported net loss and loss expense reserves as of December 31, 2010.

### **REINSURANCE**

The following is a description of the Company's reinsurance activity for the examination period under review.

#### **Assumed**

Throughout the examination period, the Company assumed risk from a multiple line excess of loss agreement with ORI affiliates. The agreement has been in place since January 1, 1985 and has had numerous amendments. The primary lines of business are workers' compensation, other liability and commercial auto liability. The Company also assumed risk from the National Workers' Compensation Reinsurance Pool during the current period.

#### **Ceded**

The Company was involved in several cession contracts during the current period under review. Certain contracts are related to the run-off block of workers' compensation business for which reinsurance balances are with Munich Reinsurance of America and Old Republic Insurance Company. The Company uses reinsurance with its affiliates to manage its new business exposures.

#### **Agribusiness**

For Agribusiness, the maximum Commercial General Liability (CGL) offered is \$5M in the program. Aggregates are placed on all CGL policies. Reinsurance is placed on an excess of loss (XOL) basis of \$4.5M excess of \$500,000. Worker's compensation coverage is offered on a statutory basis (employer's liability \$1M limits) with the XOL cover in place as outlined, and above that, additional per person and catastrophe loss coverage with \$20M and \$200M limits, respectively.

### Trucking Business

The exposure is quota shared with Great West Casualty Company (GWCC) on a 20/80 net basis with XOL reinsurance attaching at \$500,000 in the GWCC program to \$5M and above that into the ORI Group program. The largest the book has been on an annual basis is near a \$1 million in gross written premiums and about 200 policies.

### Net Premiums Written

A schedule of the Company's total 2012 net premiums written is as follows:

Direct		\$ 1,336,259
Assumed		1,363,266
Ceded:		
Affiliates	\$ 492,356	
Non-Affiliates	<u>483,895</u>	
Total Ceded		<u>976,251</u>
Total Net Premiums		<u><u>\$ 1,723,274</u></u>

### **ACCOUNTS AND RECORDS**

The Information Technology (IT) systems for the Old Republic group of companies exist within multiple branch offices, each with different IT control environments. IT functions are managed broadly by ORI and include the operations of the Company. The general ledger system utilized by the Company is the I-Works Enterprise Accounting System (EAS). The Company's affiliated investment advisor, Old Republic Asset Management Corporation (ORAM), utilizes the I-Works Investment Accounting System for investment management and accounting services it provides to the Company. The investment management function is centralized in Chicago, Illinois.

The Company's external accounting firm, KPMG LLP (KPMG), audits the statutory-basis financial statements of the Company annually. KPMG reviewed the internal control structure in

order to establish the necessary audit procedures required to express an opinion on the financial statements as of December 31, 2012. No significant or qualifying deficiencies were found to exist in the design or operation of the internal control structure.

The accounts and records review included an assessment of the Company's risk management process in identifying and controlling risks in the key operational areas of the Company, which was determined from the review of work performed by other states, as well as the review of risk management processes related specifically to the Company, as provided by the Company. In making the assessment in each key area, processes were reviewed, risks were identified, operational and organizational controls were tested and the methodology for assessing the effectiveness of the established mitigation factors was evaluated.

The assessment of the global controls over the IT environment was documented by the Pennsylvania Insurance Department for the period ending December 31, 2012, with branch office IT control assessments performed by various state departments and IT specialists. It was determined that global controls surrounding the IT environment were sufficient and may be relied upon by the financial examination teams.

### **FINANCIAL STATEMENTS**

The following pages contain the Company's Financial Statements for the year ending December 31, 2012, as determined by this examination, with supporting detailed exhibits below.

Analysis of Assets  
Liabilities, Surplus and Other Funds  
Statement of Income  
Capital and Surplus Account  
Reconciliation of Surplus for Examination Period

**Analysis of Assets**  
**As of December 31, 2012**

	<u>Assets</u>	<u>Assets</u>	<u>Assets</u>
Bonds	\$ 23,934,708		\$ 23,934,708 (1)
Common stocks	19,324,228		19,324,228 (2)
Cash, cash equivalents, and short-term investments	5,073,771		5,073,771
Investment income due and accrued	292,560		292,560
Uncollected premiums and agents balances in the course of collection	772,816		772,816
Deferred premiums	435,985		435,985
Amounts recoverable from reinsurers	349,759		349,759
Current federal and foreign income tax recoverable	1,100,100		1,100,100
Aggregate write-ins for other than invested assets (Prepaid Expenses)	<u>2,000</u>	<u>\$ 2,000</u>	<u>0</u>
Total Assets	<u>\$ 51,285,927</u>	<u>\$ 2,000</u>	<u>\$ 51,283,927</u>

**Liabilities, Surplus and Other Funds**  
**December 31, 2012**

Losses	\$ 20,392,058 (3)
Reinsurance payable on paid losses and loss adjustment expenses	62,371
Loss adjustment expenses	1,375,811 (3)
Commissions payable	60
Other expenses	22,421
Unearned premiums	1,078,070
Ceded reinsurance premiums payable	458,823
Funds held by company under reinsurance treaties	100,000
Amounts withheld or retained by company for account of others	854
Drafts outstanding	53,984
Payable to parent, subsidiaries, and affiliates	276,263
Aggregate write-ins for liabilities	<u>15,326</u>
Total Liabilities	<u>\$ 23,836,041</u>
Surplus notes	\$ 15,500,000
Unassigned funds (surplus)	<u>11,947,886</u>
Surplus as regards policyholders	<u>\$ 27,447,886</u>
Totals	<u>\$ 51,283,927</u>

**Statement of Income**  
**December 31, 2012**

**UNDERWRITING INCOME**

Premiums earned \$ 1,323,800

**DEDUCTIONS**

Losses incurred \$ 3,125,805

Loss expenses incurred 632,760

Other underwriting expenses incurred 617,315

Total underwriting deductions \$ 4,375,880

Net underwriting gain or (loss) \$ (3,052,080)

**INVESTMENT INCOME**

Net investment income earned \$ 536,524

Net realized capital gains or (losses) (1,102,914)

Net investment gain or (loss) \$ (566,390)

Net income before dividends to policyholders and before  
federal income taxes \$ (3,618,470)

Dividends to policyholders 14,153

Net income after dividends to policyholder but before federal  
income taxes \$ (3,632,623)

Federal and foreign income taxes incurred (1,108,134)

Net income \$ (2,524,489)

**Capital and Surplus Account  
December 31, 2012**

Surplus as regards policyholders, December 31, 2011	<u>\$ 25,526,138</u>
Net income	\$ (2,524,489)
Change in net unrealized capital gains or (losses)	3,383,461
Change in net deferred income tax	715,971
Change in nonadmitted assets	<u>346,805</u>
Change in surplus as regards policyholders for the year	<u>\$ 1,921,748</u>
Surplus as regards policyholder, December 31, 2012	<u><u>\$ 27,447,886</u></u>

**Reconciliation of Surplus for Examination Period  
December 31, 2012**

Surplus as regards policyholders, December 31, 2007	<u>\$ 21,488,682</u>
Net Income	\$ (4,853,768)
Change in net unrealized capital gains or (losses) less capital gains tax	5,941,890
Change in net deferred income tax	(1,528,467)
Change in nonadmitted assets	1,399,549
Change in surplus notes	<u>5,000,000</u>
Change in surplus as regards policyholders for the years 2008-2012	<u>\$ 5,959,204</u>
Surplus as regards policyholders, December 31, 2012	<u><u>\$ 27,447,886</u></u>

**NOTES TO FINANCIAL STATEMENTS**

Assets:

(1) Bonds \$23,934,708

Investments in bonds are reported at values (amortized cost) adopted and approved by the Securities Valuation Office (SVO) of the NAIC. Bonds owned by the Company as of December 31, 2012 are as follows:

	<u>Statement Value</u>
US Governments	\$ 3,938,533
US Special Revenue & Special Assessment	1,936,538
Industrial & Miscellaneous	18,059,637
Total	<u>\$ 23,934,708</u>

Of the Company's bond holdings, 99.9% were categorized as Class 1 or 2 with respect to NAIC creditquality standards. Bonds comprised 49.5% of the Company's total cash and invested assets and 46.7% of the Company's total net admitted assets. In addition, 100.0% of the Company's total bonds were issuer obligations.

(2) Common Stocks \$19,324,228

Common stocks comprised 40.0% of the Company's total cash and invested assets and 37.7% of the Company's total net admitted assets. Of the common stock owned by the Company, 76.0% is comprised of ownership in its subsidiary, controlled or affiliated companies.

Liabilities:

(3) Losses \$20,392,058  
 (3) Loss Adjustment Expenses \$ 1,375,811

The Delaware Department of Insurance retained the services of INS Consultants, Inc. (INS), to conduct an independent review of the Company's loss and LAE reserves as of December 31, 2012. The Consulting Actuary's analysis was performed using a risk-focused approach according to the guidelines contained in the NAIC Handbook. The conclusions set forth in the

American Business & Mercantile Mutual, Inc.

Consulting Actuary's report are based on information provided by the Company, including the 2012 Annual Statement. The Statement of Actuarial Opinion for the Company and the Actuarial Report for the Company were signed by the Company's actuary, Kevin G. Dickson, FCAS, MAAA.

Based on work performed, the Consulting Actuary found the Company's carried December 31, 2012 net and gross loss and LAE reserves to be reasonably stated, and as such, no financial adjustment was required for examination purposes.

#### **SCHEDULE OF EXAMINATION ADJUSTMENTS**

There were no financial statement adjustments made as a result of this examination.

#### **COMPLIANCE WITH PRIOR EXAMINATION RECOMMENDATIONS**

There were no recommendations or changes made in the December 31, 2007, Report on Examination.

#### **SUMMARY OF RECOMMENDATIONS**

No recommendations were made as a result of this examination.

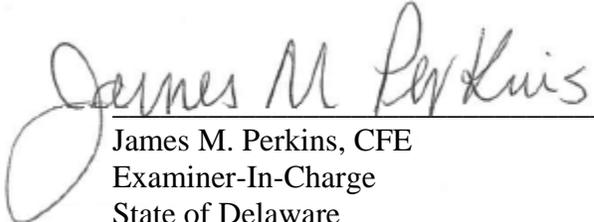
#### **CONCLUSION**

The following schedule shows the results of this examination and the results of the prior examination with changes between the examination periods:

<u>Description</u>	<u>December 31, 2007</u>	<u>December 31, 2012</u>	<u>Increase (Decrease)</u>
Assets	\$41,817,486	\$51,283,927	\$9,466,441
Liabilities	20,328,804	23,836,041	3,507,237
Surplus Notes	10,500,000	15,500,000	5,000,000
Unassigned Funds (Surplus)	10,988,682	11,947,886	959,204
Total Surplus as Regards Policyholders	21,488,682	27,447,886	5,959,204
Totals	\$41,817,486	\$51,283,927	\$9,466,441

Appreciation is extended to each examination team member of the Pennsylvania Insurance Department whose examination work was relied upon for specific Company operational areas reviewed in this multi-state coordinated examination. In addition, the assistance and cooperation of the consulting actuarial firm, INS Consultants, Inc., the Company's outside audit firm KPMG LLP and the Company's management and staff was appreciated and is acknowledged.

Respectfully submitted,

  
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Examiner-In-Charge  
State of Delaware  
Department of Insurance