REPORT ON EXAMINATION

OF THE

ENDURANCE AMERICAN INSURANCE COMPANY

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

ENDURANCE AMERICAN INSURANCE COMPANY

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

Attest By: Janelle S. Wa

Date: February 17, 2014

Insurance Commissioner of the State of Delaware

In Witness Whereof, I have hereunto set my hand and affixed the official seal of this Department at the City of Dover, this 17th day of February, 2014.

Karen Weldin Stewart, CIR-ML
Insurance Commissioner

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Karen Weldin Stewart, CIR-ML
Commissioner

Delaware Department of Insurance

REPORT OF EXAMINATION

OF THE

ENDURANCE AMERICAN INSURANCE COMPANY

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.

Karen Weldin Stewart, CIR-ML
Insurance Commissioner

Dated this 17th day of February, 2014

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SALUTATION

December 03, 2013

Honorable Karen Weldin Stewart, CIR-ML
Delaware Insurance 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 Certificate of Authority No. 13.009, dated March 25, 2013, a risk focused examination has been made of the affairs, financial condition and management of the

ENDURANCE AMERICAN INSURANCE COMPANY

hereinafter referred to as "the Company" or "EAIC" and incorporated under the laws of the state of Delaware. The Company's registered office in the State of Delaware is located at 1209 Orange Street, Wilmington, Delaware. The examination was conducted at the Company's administrative office located at 333 Westchester Avenue, White Plains, New York. The examination of the Company was conducted concurrently with Endurance Reinsurance Corporation of America (ERCA), Endurance American Specialty Insurance Company (EASIC) and Endurance Risk Solutions Assurance Co. (ERSAC), all Delaware domiciled insurers. Separate reports of examination were filed for each company.

The report of examination thereon is respectfully submitted.

SCOPE OF EXAMINATION

The Delaware Department of Insurance performed a full scope coordinated multi-state risk focused examination of the Company, as the Lead State. The Texas Department of Insurance participated in this coordinated examination. American Agri-Business Insurance Company (AA-BIC), a Texas domiciled insurance company, was examined concurrently with the four Delaware companies.

The last examination was completed as of December 31, 2007. 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 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.

In accordance with these efforts, the consulting firm of INS Services, Inc. conducted a review of the Evaluation of Controls in Information Technology (Exhibit C). The review included tests of the operating effectiveness of specific policies and procedures relating to the Company's controls over information systems and its control environment.

During the examination, consideration was given to work performed by the Company's external accounting firm, Ernst & Young LLP (E&Y), New York, NY. Certain auditor work papers of their 2011 and 2012 audits have been incorporated into the work papers of the examiners and have been utilized in determining the scope and areas of emphasis in conducting the examination. In addition, the Company was Sarbanes Oxley (SOX) Section 404 compliant as of the examination date and we reviewed and relied on the work where deemed necessary.

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 Bonds and Other Insurance
Risk Based Capital
Employees and Agents Welfare
Statutory Deposits
Legal Actions
All Assets and Liability Items Not Mentioned

This report of examination was confined to financial statements and comments on matters that involved departures from laws, regulation or rules, or which were deemed to require special explanation or description.

SUMMARY OF SIGNIFICANT FINDINGS

There were no material adverse findings, adjustments to the financial statements, or specific recommendations as a result of this examination.

SUBSEQUENT EVENTS

The Company notified the examiners on May 28, 2013 that Endurance Specialty Holdings Ltd. (ESHL) announced that its Board of Directors had elected John R. Charman as ESHL's Chairman and Chief Executive Officer, effective immediately. David Cash stepped down as the Company's Chief Executive Officer and as a member of the Board. William H. Bolinder, the then current Chairman of the Board, became ESHL's Lead Director.

COMPANY HISTORY

The Company was organized and incorporated as CORE Insurance Company by owner representatives of CORE Reinsurance Company, a Bermuda domiciled property and casualty reinsurance company, under the laws of the State of Vermont on March 21, 1996. The Company commenced business on April 5, 1996. In July, 2001, the Company was placed in run-off by resolution of its Board of Directors and all then existing business was assumed and retro-ceded to Employers Reinsurance Corporation (ERC). On May 15, 2003, the Company was purchased by ERC. On June 5, 2006, the Company was purchased as a shell by ERCA, a property and casualty insurance and reinsurance company. ERCA is a wholly owned subsidiary of ESHL, a Bermuda company. In October 2006, the Company re-domesticated to the State of Delaware from Vermont and amended and restated its Certificate of Incorporation to change its name to Endurance American Insurance Company.

Common Capital Stock

As of December 31, 2012, the Company had 6,000,000 shares of $1.00 par value common stock authorized, issued and outstanding.

MANAGEMENT AND CONTROL

Board of Directors

The Board of Directors (Board) shall not have less than one member and the total number of directors shall be determined by the Board. As of the examination date, the Board was comprised of three members. Individuals elected and serving on the Board of Directors at December 31, 2012 were:

David Somers Cash*, Chairman
John Virgilio Del Col
Michael James McGuire

*David Somers Cash is no longer with the Company.

Officers

The bylaws of the Company state that officers shall be elected or appointed by the Board. As of December 31, 2012, the Company's principal officers and their respective titles are as follows:

Joseph Charles O'Donnell,	President
Daniel Simeon Lurie,	Secretary
Kenneth Gerald Cadematori*	Treasurer
Richard Martin Appel,	Senior Vice President
Marc Jeffrey Karnell,	Executive Vice President
John Charles Minett,	Senior Vice President

*Kenneth Gerald Cadematori is no longer with the Company.

Committees

The Company's bylaws provide that the Board may establish one or more committees. There are no committees at the Company level. Corporate governance is administered at the ultimate controlling party level by ESHL.

Conflict of Interest

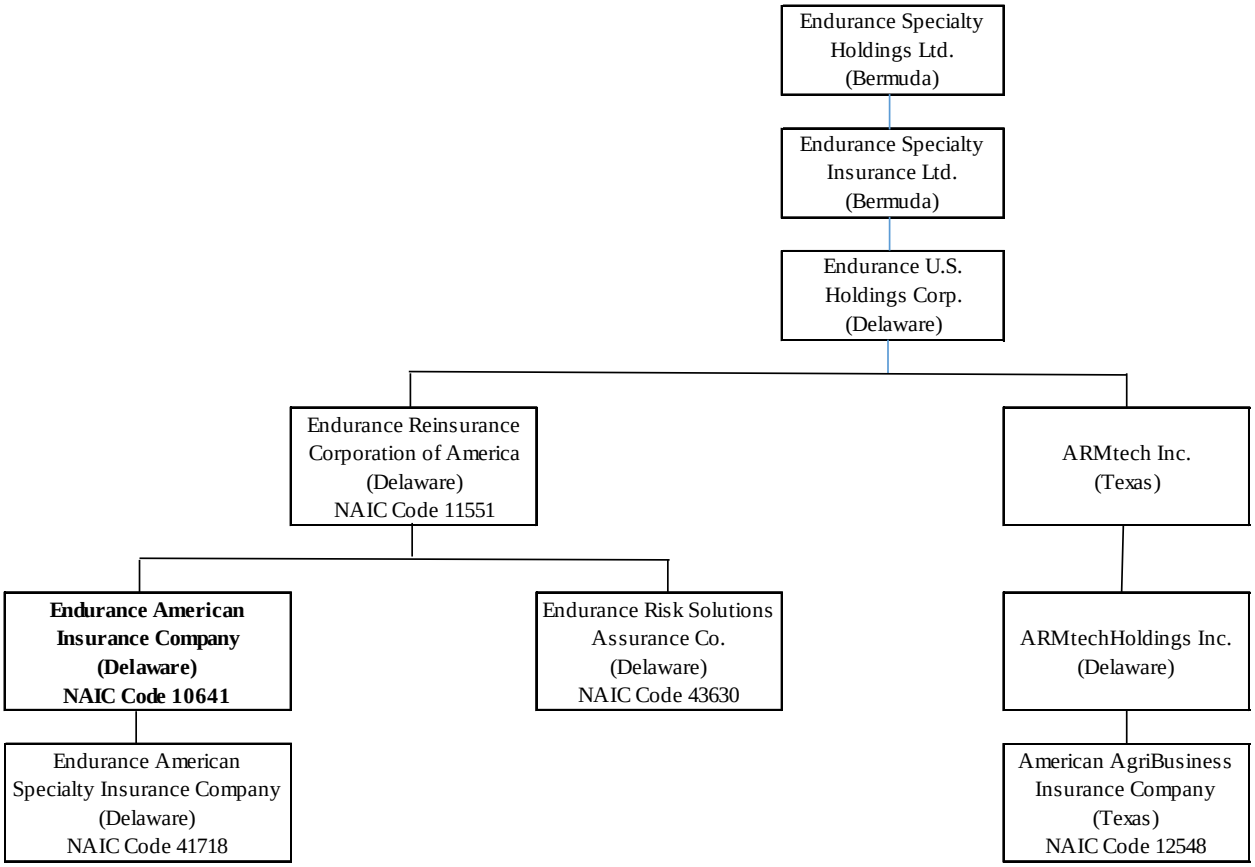
The Company has in place an established conflict of interest policy and procedures for the disclosure of any material interest or affiliation by any director, officer or employee which is likely to conflict with their official duties. The signed conflict of interest disclosure statement for each director and officer serving during 2012 was reviewed with no exceptions noted.

Insurance Holding Company System

The Company is a member of an insurance holding company system as it is defined under 18 Del.C. § 5001 "Insurance Holding Company System". Holding company registration statements were properly filed by the Company with the Delaware Insurance Department.

The ultimate controlling person is Endurance Specialty Holdings Ltd. (ESHL), a Bermuda corporation, which is primarily engaged through its subsidiaries in the business of property and casualty insurance. For the year ending December 31, 2012, ESHL possessed assets of approximately $8.8 billion and shareholders' equity of approximately $2.7 billion. ESHL's common stock is traded on the New York Stock Exchange under the symbol "ENH".

The following abbreviated organizational chart shows the Company's affiliates as of December 31, 2012:



Intercompany Management and Service Agreements

The Company was party to the following affiliate agreements in effect as of the examination date:

Administrative Services Agreement

Effective July 1, 2012, the Company entered into an Amended and Restated Administrative Services Agreement among all parties in the Endurance holding company group which allows for the sharing of management and administrative services among the various entities. This agreement replaces the previous and all prior administrative services agreements. This agreement was properly filed and approved by the Department on August 21, 2012.

Consolidated Tax Allocation Agreement

Effective June 5, 2006, the Company became a party to a Consolidated Tax Allocation Agreement among EASIC, ERSAC and Endurance U.S. Holdings Corp (EUSH). The agreement

sets forth the manner in which the total consolidated federal income tax liability or benefit is allocated to each entity in the group as if separate tax returns were filed.

TERRITORY AND PLAN OF OPERATION

As of December 31, 2012, the Company is licensed to transact business in 45 jurisdictions: the District of Columbia and all states except California, Connecticut, Florida, Maine, Minnesota and Virginia, and is an accredited reinsurer in Connecticut, Maine and Virginia.

For the year ending December 31, 2012, the Company wrote approximately 57% of its business in the states of New York (33%), New Jersey (16%) and Illinois (8%).

The Company has entered into Program Management Agreements with its affiliates, Endurance Specialty Insurance Marketing Corp. (ESIMC) and Endurance Specialty Insurance Marketing Corp. of Illinois (ESIMCI) under which the Company appointed ESIMC and ESIMCI as program managers for the purpose of underwriting and administering certain commercial special risk property and casualty insurance coverages on behalf of the Company. Within defined contractual retention and total limitations the program managers have full authority to act on behalf of the Company to bind risks and manage the business as well as investigate, negotiate and settle all claims.

GROWTH OF THE COMPANY

The following information was obtained from the Company's filed Annual Statements and covers the five proceeding years since its last examination (2007):

Year	Admitted Assets	Liabilities	Unassigned Surplus	Net Written Premiums	Net Income
2008	$167,775,687	$15,116,279	$(34,493,889)	$1,044,731	$(6,379,520)
2009	$290,879,997	$165,707,737	$(61,981,037)	$80,433,796	$(13,092,143)
2010	$748,224,574	$637,864,608	$(76,793,331)	$164,370,933	$(8,494,641)

2011	$1,264,885,300	$1,029,228,204	$(121,496,201)	$239,231,957	$(30,721,841)
2012	$1,305,183,484	$1,074,181,107	$(226,150,920)	$357,974,750	$(71,411,213)

Since December 31, 2008, growth of the Company has taken the form of the following:

- 678% increase in admitted assets
- 7,006% increase in liabilities
- 556% decrease in unassigned surplus
- 34,165% increase in net written premiums

The following factors contributed to the Company's change during the period covered by this exam:

- Admitted assets increased by $1.1 billion during this period. Cash and invested assets increased primarily from capital contributions totaling $320 million received from ERCA during 2008, 2011 and 2012, and positive cash flows from operations. Of the capital contributions received, $123.8 million was contributed to the Company's subsidiary, EASIC. The investment strategy focuses on high quality fixed maturity investments and comprised 40%-55% of total invested assets during the five year period. During 2012, the Company adjusted the composition of its investment portfolio to optimize risk adjusted return potential and as a result reduced its holdings in U.S. government bonds and increased its holdings in corporate securities. As of December 31, 2012, 98.7% of fixed maturity investments are investment grade with a NAIC designation of 1 or 2. During 2008 through 2011, 100% of the Company's fixed maturity investments held a NAIC designation of 1. Premium receivable increased $619.7 million from December 2008 to December 2012 as a result of increased business assumed from its affiliate, AA-BIC, which primarily writes multi-peril crop insurance under a program administered by the Federal Crop Insurance Corporation. Amounts recoverable from reinsurers increased $234.7 from 2008 to 2012 resulting primarily from drought related losses on the AA-BIC business which the Company ceded to ERCA in conjunction with a quota share

reinsurance agreement (ERCA Quota Share).

- Total liabilities increased $1.1 billion during this period. Losses and LAE reserves increased $191.4 million which is attributable to reserves for Superstorm Sandy during the fourth quarter of 2012, a net increase in agriculture reserves due to continued drought conditions in the Midwest United States and the termination of the ERCA Quota Share. Reinsurance payable on paid losses and loss adjustment expenses increased $476.9 million and was primarily attributable to business assumed from AA-BIC. Ceded reinsurance balances payable increased a net total of $299 million and were primarily driven by increased premiums assumed from AA-BIC and subsequently ceded to ERCA. During 2012, this liability decreased $149.6 million due to the termination of the ERCA Quota Share.
- Unassigned surplus decreased approximately $191.7 million due to cumulative net losses totaling $130.1 million, unfavorable changes in net unrealized capital losses totaling $81.3 million and provision for reinsurance of $2.5 million.
- Net premiums written (NPW) increased each year from 2008 to 2012, resulting in total NPW for the period of $843.1 million. The increases from 2008 through 2011 are primarily due to increased business assumed from AA-BIC. During 2012, the increase in net premiums was due to a reduction in ceded premiums as a result of the termination of the ERCA Quota Share.
- Net income was negative for all five years under examination resulting in a cumulative net loss of $130.1 million. Net investment gains of $17.8 million were offset by significant underwriting losses of $154.2 million. Investment income earned was derived primarily from interest on fixed maturity investments and decreased during these years as

the result of lower reinvestment rates. Offsetting these declines were realized capital gains on sales of fixed maturity and short-term investments.

- The loss, loss adjustment expense and other underwriting expenses combined ratios during 2009 through 2010 were in the 104% - 109% range and reflect the costs associated with building the U.S. insurance operations. The combined ratio for 2011 and 2012 increased to 114% and 122% respectively. The increases are mainly attributable to increased losses resulting from adverse crop related losses due to the impact of drought and flooding conditions associated with the AA-BIC agriculture insurance business and from catastrophe losses incurred from Superstorm Sandy.

REINSURANCE

The Company reported the following written and assumed premiums for 2012:

Direct		$64,719,995
Assumed:		
Affiliates	$814,604,836	
Non-Affiliates	3,013,698	
Total Assumed		817,618,534
Ceded:		
Affiliates	$447,059,008	
Non-Affiliates	77,304,771	
Total Ceded		524,363,779
Total Net Premiums		$357,974,750

Pooling Agreement

Effective January 1, 2009, the Company entered into a pooling agreement with its Delaware insurance company affiliates EASIC and ERSAC (Pooling Agreement). The Company assumes from EASIC and ERSAC 100% of their gross premium, losses, insurance expenses, and other related underwriting activity. The Company cedes 50% of the net Pool business (excluding business assumed by the Company from its Texas domiciled affiliate, AA-

BIC to its Bermuda affiliate Endurance Specialty Insurance Ltd. (ESIL). The remaining 50% of the net Pool business is combined with the business assumed from AA-BIC and retro-ceded 27% to EASIC and 20% to ERSAC on a quota share basis with the Company retaining 53%.

Assumed Reinsurance – Affiliates:

Effective July 1, 2009, EAIC assumed on a 100% quota share basis all agricultural insurance business written by AA-BIC.

Effective July 1, 2011, the Company assumed on a 100% quota share basis all livestock insurance business written by AA-BIC.

Effective July 1, 2009, pursuant to the Pooling Agreement, EAIC assumed on a 100% quota share basis all business written by EASIC and ERSAC.

Assumed Reinsurance – Non-Affiliates:

During 2012, the Company assumed business from ten non-affiliated insurance companies for a total non-affiliate assumed premium of $3,013,698.

Ceded Reinsurance - Affiliates:

Effective January 1, 2009, EAIC ceded 50% of the retained Pool business (excluding business assumed from AA-BIC) to ESIL.

Effective January 1, 2009, pursuant to the terms of the Pooling Agreement, the Company retro-ceded 27% of the Pool business to EASIC and 20% to ERSAC retaining the remaining 53%.

Effective January 1, 2009, the Company maintained a Stop-Loss agreement with ESIL whereby the Company retains and is liable for an amount of incurred loss equal to 96% of its net earned premium for the agreement year. ESIL is then liable for the amount by which the Company's incurred ultimate net loss exceeds its retention but shall not exceed 40% of the

Company's net earned premium. The Stop-Loss agreement excludes business assumed by the Company from AA-BIC.

Effective April 1, 2006, the Company entered into a quota share reinsurance agreement with ESIL whereby the Company ceded 100% of its ultimate net liability created by the default in payment of any unaffiliated third party reinsurance purchased by the Company on or after April 1. 2006.

Ceded Reinsurance – Non-Affiliates

The Pool business is protected by third-party casualty and professional liability excess of loss, quota share and surplus share reinsurance contracts.

ACCOUNTS AND RECORDS

The accounts and records reviewed included an evaluation of the Company's operational and organizational controls. The areas evaluated included computer systems, accounting systems, organizational structure, management and compliance. The Company operates in a computer dominated environment. The general ledger account balances were reconciled and traced to amounts reported in the Annual Statement for the most recent year under review. All balance sheet accounts were summarized and traced to the appropriate asset exhibits and liability lines within the Annual Statement. All services and operational needs of the Company are provided under the Administrative Services Agreement.

E&Y audited the statutory financial statements of the Company annually. E&Y reviewed the internal control structure in order to establish necessary audit procedures required to express an opinion on the December 31, 2012 financial statements. No material qualifying deficiencies were found to exist in either the design or oversight of the internal control structure of the Endurance Group.

Based on the examination review of the Company's accounts and records related to its filed Annual Statement, observations, discussions with management, and our review of financial reporting processes and controls, the Company's accounting systems, processes and procedures were found to conform to required insurance accounting practices.

FINANCIAL STATEMENTS

The financial condition of the Company and the results of its operations for the-year ended December 31, 2012 are reflected in the following statements:

Statement of Assets

Statement of Liabilities, Surplus and Other Funds

Statement of Income

Statement of Capital and Surplus

Reconciliation of Surplus Since Last Examination

Statement of Assets

For The Year Ended December 31, 2012

		Note
Bonds	$ 237,719,170	1
Common stocks	86,764,906	2
Cash and short term investments	105,261,180	
Subtotals	429,745,256	
Investment income due and accrued	1,294,955	
Uncollected premiums	23,744,735	
Deferred premiums	602,023,022	3
Amounts recoverable from reinsurers	235,162,697	
Funds held by reinsured companies	13,199,161	
Current federal income tax recoverable	13,658	
Total Assets	$1,305,183,484	

Statement of Liabilities, Surplus and Other Funds

For The Year Ended December 31, 2012

		Note
Losses	$ 161,943,913	4
Reinsurance payable on paid losses	476,869,288	5
Loss adjustment expenses	30,910,883	4
Commissions payable	(1,371,658)	
Other expenses	422,720	
Taxes, licenses and fees	661,743	
Unearned premiums	79,899,685	
Ceded reinsurance premiums payable	309,633,972	6
Funds held by company under reinsurance treaties	2,912,442	
Amounts withheld or retained by company	671,679	
Remittance and items not allocated	355,977	
Provision for reinsurance	3,192,000	
Payable to parent, subsidiaries and affiliates	4,265,621	
Payable for securities	3,296,089	
Aggregate write-ins for liabilities	516,753	
Total Liabilities	$ 1,074,181,107	
Common capital stock	$ 6,000,000	
Gross paid in and contributed surplus	451,153,297	
Unassigned funds (surplus)	(226,150,920)	
Surplus as Regards Policyholders	$231,002,377	
Total Liabilities, Surplus & Other Funds	$1,305,183,484	

Statement of Income

For The Year Ended December 31, 2012

Underwriting Income	
Premiums earned	$352,993,350
Deductions	
Losses incurred	347,105,216
Loss adjustment expenses incurred	16,687,562
Other underwriting expenses incurred	68,074,448
Aggregate write-ins for underwriting deductions	413,404
Total underwriting deductions	432,280,630
Net underwriting (loss)	(79,287,280)
Investment Income	
Net investment income earned	3,238,877
Net realized capital gains	3,495,225
Net investment gain	6,734,102
Other Income	
Net loss from premium balances charged off	(740,079)
Aggregate write-ins for miscellaneous income	0
Total other income	(740,079)
Net income before federal income taxes	(73,293,257)
Federal income taxes incurred	(1,882,044)
Net Income	$(71,411,213)

Statement of Capital and Surplus

For The Year Ended December 31, 2012

Capital and Surplus, December 31, 2011	$235,657,096
Net income	(71,411,213)
Change in net unrealized capital losses	(32,867,378)
Change in nonadmitted assets	917,412
Change in provision for reinsurance	(1,293,540)
Paid in surplus	100,000,000
Net change in capital and surplus	(4,654,719)
Capital and Surplus, December 31, 2012	$231,002,377

Reconciliation of Surplus Since Last Examination

	Common Capital Stock	Paid In & Contributed Surplus	Unassigned Funds (Surplus)	Total
December 31, 2007	$6,000,000	$131,153,297	($11,736,933)	$125,416,364
Operations (1)				
2008 Operations		50,000,000	(22,756,956)	27,243,044
2009 Operations			(27,487,148)	(27,487,148)
2010 Operations			(14,812,294)	(14,812,294)
2011 Operations		170,000,000	(44,702,870)	125,297,130
2012 Operations		100,000,000	(104,654,719)	(4,654,719)
Total	$6,000,000	$451,153,297	($226,150,920)	$231,002,377

(1) Operations is defined as: Net income, change in net unrealized capital gains or (losses), change in net deferred income tax, change in non-admitted assets, change in provision for reinsurance and cumulative effect of accounting changes.

SCHEDULE OF EXAMINATION ADJUSTMENTS

No examination changes were made as a result of this examination.

NOTES TO FINANCIAL STATEMENTS

Note 1 - Bonds **$237,719,170**

The above-captioned amount, which is the same as reported by the Company in its Annual Statement, has been accepted for purposes of this report.

The Company's bond holdings comprised 55.32% of total invested assets and 18.21% of total admitted assets.

Security composition for the year ending 2012 was comprised of the following:

U.S. Governments	$61,196,282	25.74%
U.S. Special Revenue	62,560,990	26.32%
Industrial & Miscellaneous – U.S.	94,547,662	39.77%
Industrial & Miscellaneous – Other Countries	19,414,236	8.17%
Total	$237,719,170	100.00%

In April 2012, the Company became a designated subsidiary borrower under the $700,000,000 Credit Agreement by and among ESHL; various designated subsidiary borrowers, various lending institutions, and JP Morgan Chase Bank, as administrative agent (Credit Facility). The Credit Facility is comprised of two tranches. Tranche one is available to issue up to $560,000,000 of secured letters of credit and tranche two is available for up to $140,000,000 of revolving credit borrowings and for issuance of unsecured letters of credit. The Credit Facility, which expires in April, 2016, requires the borrowers to comply with certain customary restrictions, including requiring the Company to maintain a claim paying rating from A.M. Best of at least B++ at all times.

Up to $560,000,000 of the letter of credit issuances under the Credit Facility may be collateralized by a portion of the investment portfolio of the designated subsidiary borrowing

under the Credit Facility to the extent of such subsidiary's borrowing. ESHL guarantees the obligations of its subsidiaries that are parties to the Credit Facility.

Note 2 – Common Stocks **$86,764,906**

The above-captioned amount, which is the same as reported by the Company in its Annual Statement, has been accepted for purposes of this report.

The Company's common stock holdings comprised 19% of total invested assets and 6.65% of total admitted assets. This entire balance is comprised of the Company's 100% ownership of EASIC.

Note 3 – Deferred Premiums **$602,023,022**

The above-captioned amount, which is the same as reported by the Company in its Annual Statement, has been accepted for purposes of this report.

The amount of deferred premiums was attributable to the agriculture business assumed by the Company from its Texas affiliate, AA-BIC. The agriculture business is settled on an annual basis in accordance with the Federal Crop Insurance Corporation guidelines.

Note 4 - Losses **$161,943,913**
Note 4 - Loss Adjustment Expenses **$30,910,883**

The above-captioned amounts, which are the same as those reported by the Company in its Annual Statement, have been accepted for purposes of this report.

The Delaware Department of Insurance retained the services of INS Consultants (INS) to conduct an independent review of the Company's loss and LAE reserves as of December 31, 2012. The INS analysis was performed using a risk-focused approach according to the guidelines contained in the NAIC Handbook. The review does not address the collectability of reinsurance recoverable.

The conclusions set forth in the INS report are based on information provided by the Company, including the 2012 Annual Statements and the related 2012 Statement of Actuarial Opinion with underlying actuarial work papers.

INS performed an analysis on the Company's book of business by segment of business on both a gross and a net basis for loss, defense and cost containment expense and adjusting and other expense. INS also reviewed the Company's work papers which reconcile the year-end 2012 data to Schedule P. The work papers supported the conclusion that the year-end amounts were closely reconciled to the Schedule P amounts.

Based on work performed, INS concluded the Company's carried net and gross loss and LAE reserves at December 31, 2012 were reasonably stated, and as such, no financial adjustment was required for examination purposes.

Note 5 – Reinsurance Payable on Paid Loss $476,869,288

The above-captioned amount, which is the same as reported by the Company in its Annual Statement, has been accepted for purposes of this report.

The amount of reinsurance payable on paid loss was attributable to the agriculture business assumed by the Company from its Texas affiliate, AA-BIC. The agriculture business is settled on an annual basis in accordance with the Federal Crop Insurance Corporation guidelines.

Note 6 – Ceded Reinsurance Premium Payable $309,633,972

The above-captioned amount, which is the same as reported by the Company in its Annual Statement, has been accepted for purposes of this report.

Ceded reinsurance balances payable are primarily attributable to increased premiums assumed from AA-BIC. Settlement of the ceded AA-BIC balances follows the settlement of the assumed balances.

COMPLIANCE WITH PRIOR EXAMINATION RECOMMENDATIONS

The prior examination report as of December 31, 2007 disclosed no recommendations.

SUMMARY OF RECOMMENDATIONS

There are no proposed financial adjustments to the Company's filed 2012 Annual Statement based on the results 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:

Description	December 31, 2007	December 31, 2012	Increase (Decrease)
Assets	$132,579,808	$1,305,183,484	$1,172,603,676
Liabilities	$ 7,163,444	$1,074,181,107	$1,067,017,663
Aggregate Write-ins for Special Surplus		-	
Common Capital Stock	6,000,000	6,000,000	-
Gross Paid In and Contributed Surplus	131,153,297	451,153,297	320,000,000
Unassigned Funds (Surplus)	(11,736,933)	(226,150,920)	(214,413,987)
Total Surplus as Regards Policyholders	$125,416,364	$ 231,002,377	$ 105,586,013
Totals	$132,579,808	$1,305,183,484	$1,172,603,676

The assistance of Delaware's consulting actuarial firm, INS Consultants, Inc. and INS Services, Inc., is acknowledged.

Respectfully submitted,

Greg Taylor

Greg Taylor, CFE
Examiner-In-Charge
State of Delaware