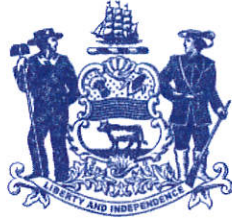


**REPORT ON EXAMINATION
OF THE
GENERAL STAR INDEMNITY COMPANY
AS OF
DECEMBER 31, 2012**

Karen Weldin Stewart, CIR-ML
Commissioner



Delaware Department of Insurance

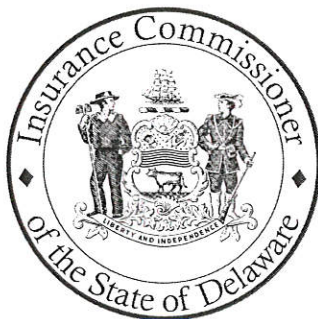
I, Karen Weldin Stewart, Insurance Commissioner of the State of Delaware, do hereby certify that the attached REPORT OF EXAMINATION, made as of December 31, 2012 of the

GENERAL STAR INDEMNITY COMPANY

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

Attest By: Brandi Biddle

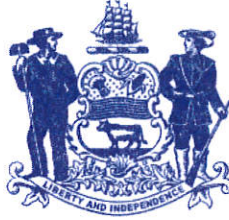
Date: June 19, 2014



In Witness Whereof, I have hereunto set my hand and affixed the official seal of this Department at the City of Dover, this 19th day of June, 2014.

Karen Weldin Stewart, CIR-ML
Insurance Commissioner

Karen Weldin Stewart, CIR-ML
Commissioner



Delaware Department of Insurance

REPORT OF EXAMINATION
OF THE
GENERAL STAR INDEMNITY 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.

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

Karen Weldin Stewart, CIR-ML
Insurance Commissioner

Dated this 19th day of June, 2014

TABLE OF CONTENTS

SALUTATION	1
SCOPE OF EXAMINATION.....	1
SUMMARY OF SIGNIFICANT FINDINGS	3
SUBSEQUENT EVENTS	3
COMPANY HISTORY	3
CAPITALIZATION	4
Common Capital Stock	4
Gross Paid-In and Contributed Surplus	4
Dividends	5
CORPORATE RECORDS	5
MANAGEMENT AND CONTROL	5
Stockholder	5
Board of Directors.....	6
Officers	6
Committees	7
Insurance Holding Company System.....	8
Intercompany Management and Service Agreements	10
TERRITORY AND PLAN OF OPERATION	12
Territory.....	12
Plan of Operation.....	12
GROWTH OF THE COMPANY	13
LOSS EXPERIENCE	13
REINSURANCE.....	14
ACCOUNTS AND RECORDS	15
STATUTORY DEPOSITS	17
FINANCIAL STATEMENTS	18
Assets	18
Liabilities, Surplus and Other Funds	20
Statement of Income	21
Capital and Surplus Account	22
Reconciliation of Capital and Surplus	23
SCHEDULE OF EXAMINATION ADJUSTMENTS.....	23
NOTES TO FINANCIAL STATEMENTS.....	24
Assets.....	24
Liabilities.....	26
COMPLIANCE WITH PRIOR EXAMINATION RECOMMENDATIONS	27
CONCLUSION.....	27

SALUTATION

May 16, 2014

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 Certificate of Authority No. 13.014, dated March 25, 2013, an examination has been made of the affairs, financial condition and management of the

GENERAL STAR INDEMNITY COMPANY

hereinafter referred to as (Company or GSI) and incorporated under the laws of the State of Delaware as a private company with its statutory home office located at 1209 Orange Street, Wilmington, Delaware 19801. The examination was conducted at the administrative office of the Company located at 120 Long Ridge Road, Stamford, CT 06902.

The report of this examination is submitted herewith.

SCOPE OF EXAMINATION

This is the first Delaware regulatory examination of the Company. The Company was a Connecticut domiciled insurer until December 31, 2012, at which time the Company re-domiciled to the state of Delaware. GSI was last examined by the Connecticut Department of Insurance as of December 31, 2009. This financial examination covers the three (3) year period from January 1, 2010 to 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 as of December 31, 2012. Transactions subsequent to the examination date were reviewed where deemed necessary.

The examination was conducted concurrently with that of its immediate parent, General Reinsurance Corporation (GRC) and affiliate, General Star National Insurance Company (GSN), also Delaware domestic insurance companies, at its administrative office in Stamford, Connecticut. Separate reports of examination were filed for each company.

We conducted our examination in accordance with the National Association of Insurance Commissioners (NAIC) *Financial Condition Examiners Handbook* (NAIC Handbook). The NAIC Handbook requires that we plan and perform the examination to assess the financial condition and identify prospective risks by evaluating Company information including operations, corporate governance, identifying and assessing material inherent risks to which the Company is considered exposed, and evaluating processes, systems, controls and other procedures used to mitigate those risks. The examination also included assessing principles used and significant estimates made by management, as well as evaluating overall financial statement presentation and management's compliance with Statutory Accounting Principles and Annual Statement Instructions.

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, Deloitte & Touche, LLP (D&T). Certain auditor work papers of their 2012 external audit have been incorporated into the work papers of this

examination and have been utilized principally in the area of risk mitigation and substantive tests of account balances.

Consideration was also given to work performed by General Re Corporation's (GRN) Internal Audit Department on financial, operational and systems compliance and internal control audits performed on the Company's processes during the examination period.

In addition to items hereinafter incorporated as a part of this report, the following areas were reviewed without material exception and made part of the work papers of this examination:

NAIC Ratios
Legal Actions
Regulatory Agency Correspondence
All other Assets and Liabilities not mentioned

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

There were no material transactions reported subsequent to the examination date.

COMPANY HISTORY

The Company was incorporated on June 21, 1967 in the state of Connecticut and subsequently commenced business on May 11, 1979 under the name North Star Excess Insurance Corporation. The company name was subsequently changed to Genstar Indemnity Company in 1984 and in June 1986, the Company's current name was adopted.

In 1997, the Company established and capitalized a wholly owned United Kingdom subsidiary, General Star International Indemnity Limited (GSIL). From January 1998 until December 2000, GSIL wrote an international property and casualty book of primary and excess of loss business through the London broker market. GSIL ceased writing new business in December 2000. Following approval by

the State of Connecticut Insurance Department, on September 15, 2010, the Company paid an extraordinary dividend to its sole shareholder, GRC, consisting of all issued and outstanding shares of GSIL.

On September 22, 2011, the North Dakota Insurance Commissioner approved the merger of Genesis Indemnity Insurance Company (GIIC), a North Dakota domestic company with and into the Company. The merger of GIIC was approved by the Connecticut Insurance Commissioner effective as of December 31, 2011.

Effective December 31, 2012, the Company re-domesticated from Connecticut to Delaware and became a Delaware domestic surplus lines insurer.

CAPITALIZATION

Common Capital Stock

The Company has 200,000 share of common stock authorized with a par value of \$25 per share. All shares are issued and outstanding and are currently held by the Company's immediate parent, GRC.

Gross Paid-In and Contributed Surplus

As of December 31, 2012, the Company reported \$85,000,000 in gross paid-in and contributed surplus. Gross paid-in and contributed capital increased during the examination period by \$25,000,000. The increase was a result of the merger of GIIC into GSI on September 22, 2011 with GSI being the surviving company. On the date of the merger, GIIC had \$4,200,000 in capital stock and \$20,800,000 in paid-in capital. After the merger, the \$25,000,000 became part of GSI's paid in capital.

Dividends

As previously stated, the Company paid \$26,741,789 in extraordinary dividends in 2010 to its parent GRC, consisting of all issued and outstanding shares of GSIL. No dividends were paid in 2011 or 2012.

CORPORATE RECORDS

The recorded minutes and written resolutions of the Company's shareholder and Board of Directors were reviewed for the period under examination. The recorded minutes of the Board adequately documented its meetings and approval of Company transactions and events, including the authorization of investments as required by 18 Del.C. §1304 Authorization; record of investments.

A review of the Insurance Holding Company Annual Registration Statement filings (Form B and Form C) made by and on behalf of the Company for all years under examination revealed that the Company had complied with the requirements of 18 Del. Admin. Code §1801.

MANAGEMENT AND CONTROL

Pursuant to the General Corporation Laws of the State of Delaware, as implemented by the Company's Articles of Incorporation and bylaws, all corporate powers and its business, property, and affairs are managed by or under the direction of the Board of Directors.

Stockholder

In accordance with Article 1, Section 1.01 of the Company's bylaws, the annual shareholder's meeting shall be held each year on a date and at such time and place designated by the Board of Directors.

Board of Directors

The business affairs and corporate activities are vested in a Board of Directors. The bylaws provide that the number of directors shall be established by the Board of Directors or by action of the stockholder and shall consist of no less than six (6) members. Directors are elected annually at the stockholders meeting and serve until a qualified successor is elected. Currently, the Board is comprised of seven (7) members. A majority of the Board of Directors, but no less than three (3) members, shall constitute a quorum for the transaction of business.

The Board of Directors duly appointed or elected as of December 31, 2012 were as follows:

<u>Director</u>	<u>Primary Business Affiliation</u>
Franklin Montross IV	Chairman, Chief Executive Officer and President General Re Corporation
Robert M. Jones	Chief Executive Officer and President General Star Indemnity Company
Solan B. Schwab	Secretary, Vice President General Reinsurance Corporation
Gregory J. Diorio	Senior Vice President, General Star Management Company Vice President, Genesis Management & Insurance Services Corporation
John V. Regan	Senior Vice President General Reinsurance Corporation
Victoria J. Seeger	Senior Vice President and Chief Underwriting Officer General Star Management Company
Damon N. Vocke	General Counsel, Secretary, and Senior Vice President General Reinsurance Corporation

Officers

Article 3, Section 3.01 of the Company's bylaws require that the Board of Directors elect a Chairman of the Board, a President, a Treasurer, and a Secretary all of whom shall be elected

by the Board of Directors at the next regular meeting after the Annual Meeting of the stockholder. The Chief Executive Officer may from time to time appoint other officers.

As of December 31, 2012 the Company's four (4) officers and their respective titles were as follows:

<u>Officers</u>	<u>Title</u>
Franklin Montross IV	Chairman
Robert M. Jones	Chief Executive Officer & President
Solan B. Schwab	Secretary
William G. Gasdaska, Jr.	Treasurer

It was noted that written correspondence was submitted to the Delaware Department of Insurance (DE DOI) in regards to the changes in officers and directors during the period under examination in compliance with 18 Del. C. § 4919 Change of Directors, Officers; Notice.

Committees

The bylaws provide for the Board to appoint such standing committees and/or special committees, to perform such duties and make such investigations and reports as the Board by resolution may determine. The Company has one special committee, the Risk Committee. Several companies within the General Reinsurance Group which includes General Star Indemnity Company have designated the Audit Committee to serve as the oversight function for the legal entities.

Members of these committees serving as of December 31, 2012 were as follows:

<u>Risk Committee</u>	<u>Audit Committee</u>
Gregory J. Diorio	Franklin Montross IV
Janice C. Englesbe	Imre John Cholnoky
Martin G. Hacala	William G. Gasdaska, Jr.
James Higgins	Damon N. Vocke
Robert M. Jones	Adrienne Mageras
Florene Kissy Beyniouah	Salvatore Curiale

Joseph Majsak
Cole Palmer
John V. Regan
Solan B. Schwab
Victoria J. Seeger

Marc Hamburg
Becki Amick

Conflict of Interest

The Company has an established procedure for the disclosure to its Board of Directors of any material interest or affiliation on the part of any of its officers, directors, or responsible employees which is in conflict with or is likely to conflict with the official duties of such person. The disclosures are made annually. Conflict of Interest Statements completed by all directors and key officers were reviewed and the information contained therein disclosed no evidence of conflicting interests.

Insurance Holding Company System

The Company is a member of an insurance holding company system as defined by 18 Del.C. Ch. §50 Insurance Holding Companies. At December 31, 2012, the Company was owned by GRC, that was in turn owned by GRN, a Delaware insurance holding company. The GRN group of companies provides global reinsurance and financial service operations in over 55 cities in 25 countries, and provides reinsurance worldwide. GRN in turn is owned by Berkshire, a publicly traded holding company whose subsidiaries overall engage in a number of diverse business activities including property and casualty insurance and reinsurance, freight rail transportation, and a group of utilities and energy generation and distribution businesses, along with finance, manufacturing, services and retailing.

The following is an organizational chart which reflects the identities and interrelationships between the Company, parent and all other affiliated insurers of the system as of December 31, 2012:

Berkshire Hathaway Inc. (34.787% owned by Warren E. Buffett)
General Re Corporation (GRN)
General Reinsurance Corporation (DE)
Elm Street Corporation
General Star Indemnity Company (DE)
General Star National Insurance Company (DE)
General Star Management Company
Genesis Management and Insurance Services Corporation
Genesis Insurance Company (CT)
GRC Realty Corporation
General Reinsurance Australia Ltd
General Re Compania de Reaseguros, S.A.
General Reinsurance AG
General Re Holdings Limited
Gen Re Services UK Limited
Faraday Reinsurance Co. Limited
General Star International Indemnity Ltd.
General Reinsurance México S.A.
Gen Re Warsaw Sp. z.o.o.
General Reinsurance Africa Ltd.
General Reinsurance AG Escritório
de Representação no Brasil Ltda.
General Reinsurance Life Australia Ltd.
Gen Re Beirut s.a.l. offshore
General Re Life Corporation
Idealife Insurance Company (CT)
Railsplitter Holdings Corporation
Commercial Casualty Insurance Company (CA)
International American Group Inc.
American Centennial Insurance Company (DE)
International American Management Company (DE)
General Re-New England Asset Management, Inc. (DE)
GR-NEAM Limited
United States Aviation Underwriters, Incorporated
Canadian Aviation Insurance Managers Ltd.
Gen Re Intermediaries Corporation
Faraday Holdings Limited
GRF Services Limited
Faraday Underwriting Limited
Faraday Capital Limited
GRD Holdings Corporation
General Re Financial Products Corporation
Gen Re Long Ridge, LLC

Fidelity Bond

The Company's parent, GRC, had a Financial Institution Bond in place which included the Company as a named insured. The bond coverage limits were \$10 million per employee/\$20 million aggregate, which meets the NAIC recommended limits.

Pensions, Stock Ownership and Insurance Plans

All production and administrative functions are performed by General Star Management Company (GSMC), whose costs are charged back to the Company in a cost allocation formula. Pensions and other employee benefits are part of the expenses charged back to the Company.

The Company's share of net expenses under a defined contribution pension plan sponsored by General Re was \$2,172,648 for 2012. The Company's share of net expenses for a qualified non-contributory defined benefit pension plan and a non-qualified plan sponsored by General Re Corporation, which were frozen in 2005, was \$589,774 and \$985,792 respectively for 2012.

The Company also incurred expenses related to the General Re Corporation Employee Savings and Stock Ownership Plan and Medical/Dental Expense Plan.

The Company does not have an accrual or liability on its balance sheet at December 31, 2012 for pension plan costs. All future liabilities are borne by General Star Management Company and charged back to the Company in the cost allocation formula

Intercompany Management and Service Agreements

The Company was party to various intercompany agreements. The following related party agreements were entered into during the examination period:

Underwriting Management Agreement (GSMC)

Effective March 23, 2011, the Company entered into an amended and restated Underwriting Management Agreement with GSMC. In accordance with the terms of the agreement, GSMC shall manage the underwriting activities for liability lines of business

and conduct the affairs of the Company, subject to the direction and control of the Company, on a fee for services basis. GSMC agrees to develop sources of production, appoint agents, underwrite risks, issue policies, receive premium, adjust claims, comply with all applicable laws, and reinsure the risks underwritten. During 2012, the Company paid GSMC \$46,221,383 in fees under this agreement

Underwriting Management Agreement (GMISC)

Effective March 23, 2011, the Company entered into an amended and restated Underwriting Management Agreement with Genesis Management and Insurance Services Corporation (GMISC). GMISC shall manage the underwriting activities for property and liability lines of business and conduct the affairs of the Company subject to the direction and control of the Company on a fee for services basis. GMISC agrees to develop sources of production, appoint agents, underwrite risks, issue policies, receive premium, adjust claims, comply with all applicable laws, and reinsure the risks underwritten. During 2012, the Company paid GMISC \$96,893 in fees under this agreement.

Cost Allocation Agreement

Effective March 14, 2011, the Company entered into an amended and restated Cost Allocation Agreement with GRN, whereby each would provide various services for each other. The Company did not pay any fees to GRN under the agreement during 2012.

Tax Allocation Agreement

Effective March 14, 2011, the Company entered into an amended and restated Tax Allocation Agreement with GRN, whereby they agreed to file a consolidated tax return. GRN agrees to prepare on a quarterly basis estimates of consolidated tax liability and on an annual basis the annual consolidated federal income tax return for the Company and all other members of the affiliated group.

The following related party contracts were entered into prior to the current examination period and remained in effect as of December 31, 2012:

- Investment Management Agreement with Gen Re – New England Asset Management, Inc. (GR-NEAM) effective January 1, 2009, whereby GR-NEAM will make all investment decisions on behalf of the Company. The Company paid \$162,884 in fees under this agreement in 2012.
- Master Loan Agreement dated February 1, 2007 with GRN and certain of its subsidiaries to create an inter-company short-term loan facility to reduce each participant's level of short-term investments while retaining sufficient liquidity to pay current obligations through affiliate borrowing as needed.
- Joint Asset Agreement dated February 1, 2007 with GRN and its subsidiaries, whereby the participating companies in the agreement joined together creating a short term pool in which each participant contributes cash in excess of general working

- capital. Each participant jointly owns a percentage of the assets in the pool and shares in the investment income/loss in proportion to its contributed assets.
- General Services Agreement dated September 1, 1998 with GRC and several affiliates, whereby GRC performs certain administrative and general services and is reimbursed for costs, fees, and expenses incurred in the performance of its services.

TERRITORY AND PLAN OF OPERATION

Territory

The Company is authorized as a licensed surplus and excess lines carrier in all states, including Delaware, where it is licensed as a domestic surplus lines insurer. In addition, it is licensed in the District of Columbia, Puerto Rico, U.S. Virgin Islands and Guam as a surplus and excess lines carrier.

For the year ending December 31, 2012 the Company wrote approximately (50 %) of its business in the states of Florida (16%); California (13%); Texas (10%); New York (6%); and Massachusetts (5%).

Plan of Operation

The Company has entered into an Underwriting Management Agreement with an affiliate, GSMC, under which the Company appointed GSMC as program manager for the purpose of underwriting and administering certain commercial property, commercial casualty, and professional liability insurance coverages on behalf of the Company. Within defined contractual retention and total limitations, the program manager has full authority to act on behalf of the Company to bind risks and manage the business; issue policies; collect premiums; investigate, negotiate, and settle all claims; and place reinsurance when authorized by the Company.

The principal office of GSMC is located in Stamford, Connecticut with underwriting and claims offices in Atlanta, Chicago, Los Angeles, and New York City.

GROWTH OF THE COMPANY

The following information was obtained from the Company's filed Annual Statements and covers the past three (3) years ending December 31, 2012:

Year	Net Admitted Assets	Surplus as Regards Policyholders	Gross Written Premiums	Net Income (Loss)
2012	\$748,367,744	\$566,370,366	\$125,817,400	\$ 13,974,563
2011	696,558,615	508,712,233	102,046,418	43,191,894
2010	758,825,997	533,441,361	96,155,538	(13,492,985)

Gross written premiums increased \$29.7 million or 30.9% during the examination period. The increase, primarily in 2012, was attributed to increased writings in Fire and Allied Lines, Products Liability and Other Liability lines.

In 2010, the net loss of \$13.5 million was attributable to realized losses of \$47.8 million, offset by underwriting and investment income of \$17.0 million and \$26.4 million respectively. The majority of the realized losses were attributable to the dividend of GSIL to GRC and \$10.4 million for other than temporary impairment recognized on US Bancorp common stock.

The increase in net income in 2011 and 2012 was primarily driven by underwriting and net investment gains.

LOSS EXPERIENCE

Net loss and expenses unpaid reserves as of December 31, 2011 were \$139.9 million. During 2012, \$17.8 million was paid for incurred loss and loss adjustment expenses attributable to insured events of prior years. Reserves remaining for the prior years are now \$90.9 million as a result of re-estimation of unpaid claims and claims adjustment expenses principally in Other Liability lines of insurance. Therefore, there has been \$31.2 million in favorable prior year development since 2011. The favorable development is generally the result of ongoing analysis of recent loss development trends.

REINSURANCE

The Company reported the following distribution of net premiums written in 2012:

Direct and indirect business	\$ 125,817,400
Reinsurance assumed (from affiliates)	0
Reinsurance assumed (from non-affiliates)	0
Total direct and assumed	<u>\$ 125,817,400</u>
Reinsurance ceded (to affiliates)	60,431,792
Reinsurance ceded (to non-affiliates)	6,759,801
Total ceded	<u>\$ 67,191,593</u>
Net premiums written	<u><u>\$ 58,625,807</u></u>

Ceded Reinsurance to Affiliates

Effective January 1, 2005, the Company and certain of the Company's N.A. property and casualty subsidiaries entered into a loss portfolio contract and a quota share reinsurance contract with two (2) other affiliates, National Indemnity Company and Columbia Insurance Company. The agreements cover any retained direct and assumed business.

The loss portfolio contract provides a 50% reinsurance cover for losses paid on business written on or before December 31, 2004, subject to an overall aggregate limit of \$11,155 million. The 50% reinsurance cover under this contract is shared between National Indemnity Company (80%) and Columbia Insurance Company (20%).

The quota share contract provides a 50% reinsurance cover for net losses paid on business written on or after January 1, 2005. The 50% reinsurance cover under this contract is also shared between National Indemnity Company (80%) and Columbia Insurance Company (20%). In calendar year 2012 the Company ceded \$51.9 million in earned premiums under this quota share agreement.

At December 31, 2012, the Company reported \$23.1 million of ceded outstanding losses on the loss portfolio and \$103.6 million of ceded outstanding losses on the quota share.

Ceded Reinsurance to Non Affiliates

Effective July 1, 2009, the Company and GSN entered into a Property Catastrophe Excess of Loss Agreement with various subscribing reinsurers. The coverage was First excess \$12.5 million excess of \$7.5 million and Second excess \$40 million excess of \$20 million. This agreement was last renewed effective May 1, 2012. The Company and GSN paid deposit premiums and deposit premium adjustments in the amount of \$5,854,321 between May 1, 2012 and April 30, 2013; no losses were reported from this agreement during that period.

Assumed Reinsurance

The Company did not assume business during the examination period.

ACCOUNTS AND RECORDS

Accounting Systems and Information

Premium and claims transactions are administered and maintained on GenServe, which is an application developed in-house and first established in 1989. The financial cycle data, principally maintained in the SAP (general ledger) system and its individual modules, is derived from submitted invoices, check requests, purchase orders, manual general journal entries, and automated interfaces from other insurance cycle systems. Personal computers and file servers support financial reporting and analysis. The systems are maintained by personnel located in Trumbull, CT.

The Company's investments are managed and administered by an affiliate, General Re-New England Asset Management, Inc., which utilizes the CAMRA system. The investment related transactions are posted manually by the Finance Department into the general ledger system.

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. In making the assessment in each key area, processes were reviewed, risks were identified, operation and organizational controls were identified and tested, and the Company's methodology for assessing the effectiveness of the established mitigation factors was evaluated.

The primary systems used in the operations of the Company were also evaluated. The Information Systems (IS) review for the examination was performed by INS Services, Inc. The review was performed in accordance with the NAIC Handbook. The review of IS controls included IS management and organizational controls, overall systems documentation, logical and physical security controls, contingency planning, local and wide area networks, personal computers, and mainframe controls. Control testing performed by the Company's SOX and Internal Audit functions and by D&T was evaluated, and testing of end user computing and IS outsourcing controls was performed in making the evaluation. As a result of the procedures performed, the IS Examination Team obtained reasonable assurance that IS general controls and general application controls were functioning as management intended and that an effective system of controls is in place and conducive to the accuracy and reliability of financial information processed and maintained by the Company. There are no reportable items related to the review of IS controls.

Independent Accountants

The Company's financial statements are audited each year by the firm of D&T. The examiners reviewed the audited statutory financial statements for all years under examination. For all years under review, D&T issued an unqualified opinion. The examiners reviewed D&T's

2012 work papers, and incorporated their work and findings as deemed applicable into the current examination.

Actuarial Opinion

The Company's loss reserves and related actuarial items were reviewed by Daniel K. Lyons, FSA, MAAA, who issued a statement of actuarial opinion based on the financial information presented by the Company. The opinion stated that the reserves and related actuarial values carried on the balance sheet were computed in accordance with accepted loss reserving standards and principles, makes a reasonable provision for all unpaid loss and loss expense obligations of the Company under the terms of its contracts and agreements and met the requirements of the insurance laws of the State of Delaware.

The consulting firm of INS Consultants, Inc. (INS), Philadelphia, PA was contracted to perform an independent loss reserving review. The findings of that review are discussed in Note (5) of the "Notes to Financial Statements".

STATUTORY DEPOSITS

The Company's state statutory deposits are comprised of U.S. Treasury bills and other government bonds. The following schedule reflects statutory deposits that were on file with the respective states as of December 31, 2012:

	Deposits For The Benefit of All Policyholders		All Other Special Deposits	
State	Book/Adjusted Carrying Value	Fair Value	All Other Book/Adjusted Carrying Value	All Other Fair Value
Connecticut	\$ 2,910,620	\$ 3,397,551	\$ -	\$ -
Delaware	104,154	120,448		
Massachusetts			100,459	106,773
New Jersey			100,459	106,773
New Mexico			204,531	221,784
New York			5,360,635	6,115,567
Totals	\$ 3,014,774	\$ 3,517,999	\$ 5,766,084	\$ 6,550,897

Statutory deposits with the State of Delaware were directly confirmed and all statutory deposits were traced back to Schedule D – Part 1 of the 2012 Annual Statement with no exceptions noted.

FINANCIAL STATEMENTS

The following pages contain a statement of assets, liabilities, surplus and other funds as of December 31, 2012, as determined by this examination, along with supporting exhibits as detailed below:

Assets
 Liabilities, Surplus and Other Funds
 Statement of Income
 Capital and Surplus Account
 Reconciliation of Capital and Surplus

With the exception of invested assets and reserve related balances, narratives on individual accounts are presented on the “exception basis” in the Notes to the Financial Statements section of this Report.

Assets

General Star Indemnity Company

As of December 31, 2012

	<u>Assets</u>	Nonadmitted <u>Assets</u>	Net Admitted <u>Assets</u>	<u>Notes</u>
Bonds	\$ 86,423,341		\$ 86,423,341	1
Preferred stocks	28,800,000		28,800,000	2
Common stocks	169,667,779		169,667,779	3
Cash and short-term investments	434,288,937		434,288,937	4
Receivable for securities	1,590		1,590	
Subtotals, cash and invested assets	<u>\$ 719,181,647</u>	<u>\$ -</u>	<u>\$ 719,181,647</u>	
Investment income due and accrued	3,105,341		3,105,341	
Uncollected premiums and agents' balances in course of collection	13,950,147	515,075	13,435,072	
Deferred premiums, agents balances and booked but deferred and not yet due	827,092	38,146	788,946	
Amounts recoverable from reinsurers	8,149,215		8,149,215	
Net deferred tax asset	3,861,436	309,567	3,551,869	
Receivables from parent, subsidiaries & affiliates	582		582	
Aggregate write-ins:				
Amounts receiveable under high deductible	220,908	190,836	30,072	
Funds held by direct writing companies	125,000		125,000	
Total Assets	<u>\$ 749,421,368</u>	<u>\$ 1,053,624</u>	<u>\$ 748,367,744</u>	

Liabilities, Surplus and Other Funds
As of December 31, 2012

		<u>Note</u>
Losses	\$ 94,943,530	5
Reinsurance payable on paid losses and loss adjustment expenses		
Loss adjustment expenses	31,746,431	5
Commissions payable, contingent commissions and other similar charges	1,640,678	
Current federal and foreign income taxes	1,872,954	
Unearned premiums	29,218,258	
Ceded reinsurance premiums payable	8,958,393	
Amounts withheld or retained for the account of others	15,046	
Remittances and items not allocated	68,903	
Provision for reinsurance	223,400	
Payable to parent, subsidiaries and affiliates	11,886,960	
Aggregate write-ins for liabilities:		
Uncashed checks pending escheatment	22,825	
Premium deficiency reserve	1,400,000	
Total Liabilities	<u>\$ 181,997,378</u>	
Common capital stock	\$ 5,000,000	
Gross paid in and contributed surplus	85,000,000	
Unassigned funds (surplus)	<u>476,370,366</u>	
Surplus as regards policyholders	<u>\$ 566,370,366</u>	
Total Liabilities, Capital and Surplus	<u><u>\$ 748,367,744</u></u>	

Statement of Income
As of December 31, 2012

UNDERWRITING INCOME	
Premiums earned	<u>\$ 51,990,872</u>
DEDUCTIONS	
Losses incurred	\$ 7,826,608
Loss adjustment expenses incurred	6,521,109
Other underwriting expenses incurred	32,307,116
Premium deficiency reserve - Tier One	<u>(1,000,000)</u>
Total underwriting deductions	<u>\$ 45,654,833</u>
Net underwriting gain or (loss)	<u>\$ 6,336,039</u>
INVESTMENT INCOME	
Net investment income earned	\$ 11,975,362
Net realized capital gains or (losses)	<u>(72,817)</u>
Net investment gain or (loss)	<u>\$ 11,902,545</u>
OTHER INCOME	
Net gain or (loss) from agents' or premium balances charged off	<u>\$ 43,679</u>
Total other income	<u>\$ 43,679</u>
Net income before dividends to policyholders and before federal income taxes	<u>\$ 18,282,263</u>
Dividends to policyholders	<u>-</u>
Net income after dividends to policyholder but before federal income taxes	<u>\$ 18,282,263</u>
Federal and foreign income taxes incurred	<u>\$ 4,307,699</u>
Net income	<u><u>\$ 13,974,564</u></u>

Capital and Surplus Account
As of December 31, 2012

Surplus as regards policyholders, December 31, 2011	<u>\$ 508,712,233</u>
GAINS AND (LOSSES) IN SURPLUS	
Net income	\$ 13,974,564
Change in net unrealized capital gains (losses)	27,888,487
Change in net deferred income tax	(118,088)
Change in non-admitted assets	15,195,509
Change in provision for reinsurance	(8,400)
Cumulative effect of changes in accounting principles	<u>726,062</u>
Change in surplus as regards policyholders for the year	<u>\$ 57,658,134</u>
Surplus as regards policyholder, December 31, 2012	<u><u>\$ 566,370,367</u></u>

Reconciliation of Capital and Surplus
December 31, 2009 through December 31, 2012

	Common Capital Stock	Gross Paid-in and Contributed Surplus	Unassigned Surplus	Total
December 31, 2009	\$5,000,000	\$ 60,000,000	\$427,420,167	\$492,420,167
Operations & Investments 2010			35,883,263	35,883,263
Dividends to Stockholders			(26,741,789)	(26,741,789)
Operations & Investments 2011			(17,849,408)	(17,849,408)
Merger of GIIC*		25,000,000		25,000,000
Operations & Investments 2012			57,658,133	57,658,133
December 31, 2012	<u>\$5,000,000</u>	<u>\$ 85,000,000</u>	<u>\$476,370,366</u>	<u>\$566,370,366</u>

*Genesis Indemnity Insurance Company

SCHEDULE OF EXAMINATION ADJUSTMENTS

There were no financial adjustments made to the Company's balance sheet as a result of this examination.

NOTES TO FINANCIAL STATEMENTS

Assets

Note 1 - Bonds \$86,423,341

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 were as follows:

	Statement Value
Governments	\$ 3,011,305
U.S. States, Territories & Possessions	12,858,315
U.S. Political Subdivisions	3,043,200
U. S. Special Revenue	33,075,926
Industrial and Miscellaneous	<u>34,434,595</u>
Total	\$86,423,341

The Company's bond holdings represent 12.0 % of the Company's total invested assets and 11.5% of total admitted assets at December 31, 2012. Approximately 92.9% of the Company's total bond holdings were categorized as Class 1, 2 or 3 with respect to NAIC credit quality standards.

The Company maintains a conservative investment philosophy with an investment strategy to primarily have adequate fixed income securities in order to meet cash requirements of current operations as well as longer term liabilities. To the extent possible, for funds in excess of these requirements, the objective is to maximize returns within a prudent level of risk.

As of December 31, 2012, the Company's custodian was Bank of New York. The agreement was examined to ensure that it contained provisions recommended in the NAIC Handbook.

Note 2 – Preferred Stocks \$28,800,000

The Company's investment in preferred stocks was comprised of shares of Bank of America Corporation preferred stock.

Note 3 – Common Stocks \$169,667,779

The Company's investment in common stocks was comprised of highly rated equities readily traded on the open markets and common stock warrants.

Note 4 - Cash, Cash Equivalents and Short Term Investments \$434,288,937

Cash, cash equivalents and short term investments represented approximately 58% of total admitted assets at December 31, 2012 and were made up of the following:

Cash equivalents	\$ 384,293,918
Short term investments	<u>49,995,019</u>
	<u><u>\$434,288,937</u></u>

Cash equivalents of \$384,293,918 consisted of U.S. Treasury bills totaling \$349,995,657 acquired in December 2012, and maturing in January 2013 and \$34,298,261 invested in a short term intercompany investment pool that the Company participates in.

Short-term investments were comprised of one (1) U.S. Treasury bill acquired in November 2012 and maturing February 2013.

Liabilities

<u>Note 5 - Losses:</u>	<u>\$ 94,943,530</u>
<u>Note 5 - Loss Adjustment Expenses (LAE):</u>	<u>\$ 31,746,431</u>

The above-captioned amount, which is the same as that reported by the Company in its 2012 Annual Statement, has been accepted for purposes of this report.

The Delaware Department of Insurance retained the services of INS Consultants, 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 recoverables.

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 expenses and adjusting and other expenses. 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.

COMPLIANCE WITH PRIOR EXAMINATION RECOMMENDATIONS

This was the first financial examination by the Delaware Department of Insurance; therefore there are no prior examination recommendations.

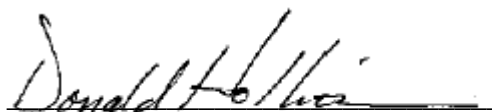
CONCLUSION

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, 2009</u>	<u>December 31, 2012</u>	<u>Increase (Decrease)</u>
Assets	\$ 735,252,589	\$ 748,367,744	\$ 13,115,155
Liabilities	242,832,422	181,997,378	(60,835,044)
Common Capital Stock	5,000,000	5,000,000	-
Gross Paid In and Contributed Surplus	60,000,000	85,000,000	25,000,000
Unassigned Funds (Surplus)	427,420,167	476,370,366	48,950,199
Total Surplus as Regards Policyholders	\$ 492,420,167	\$ 566,370,366	\$ 73,950,199
Totals	<u>\$ 735,252,589</u>	<u>\$ 748,367,744</u>	<u>\$ 13,115,155</u>

The assistance of Delaware's consulting actuarial firm, INS Consultants, Inc. is acknowledged. In addition, the assistance and cooperation of the Company's outside audit firm, Deloitte & Touche, LLP, and the Company's management and staff were appreciated and are acknowledged.

Respectfully submitted,



Don Hollier, CFE
 Examiner-In-Charge
 State of Delaware