

REPORT ON EXAMINATION
OF THE
MT. MCKINLEY INSURANCE COMPANY
AS OF
DECEMBER 31, 2010

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 ON EXAMINATION, made as of December 31, 2010 of the

MT. MCKINLEY INSURANCE COMPANY

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

Attest By: *Brandon Biddle*

Date: 19 Jun 2012



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, 2012.



Karen Weldin Stewart, CIR-ML
Insurance Commissioner

Karen Weldin Stewart, CIR-ML
Commissioner



Delaware Department of Insurance

REPORT ON EXAMINATION
OF THE
MT. MCKINLEY INSURANCE COMPANY
AS OF
DECEMBER 31, 2010

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", is written over a horizontal line.

Karen Weldin Stewart, CIR-ML
Insurance Commissioner

Dated this 19th day of June, 2012

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SALUTATION

February 15, 2012

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. 11.006, dated January 26, 2011, an examination has been made of the affairs, financial condition and management of the

MT. MCKINLEY INSURANCE COMPANY

hereinafter referred to as, (Company or McKinley) and incorporated under the laws of the state of Delaware as a stock company with its statutory home office located at 1209 Orange Street, Wilmington, DE 19801. The examination was conducted at the administrative offices of the Company, located at 477 Martinsville Road, Liberty Corner, New Jersey 07938.

The report of this examination is submitted herewith.

SCOPE OF EXAMINATION

The last examination was completed as of December 31, 2006. This examination covered the period of January 1, 2007, through December 31, 2010 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, 2010. Transactions subsequent to the examination date were reviewed where deemed necessary.

A multi-state examination was conducted in accordance with the National Association of Insurance Commissioners (NAIC) Financial Condition Examiners Handbook (NAIC 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 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 overall financial statement presentation, and 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, PricewaterhouseCoopers, LLP (PwC). Certain auditor work papers 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.

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

The examination of the Company was conducted concurrently with that of its affiliates, including; Everest Reinsurance Company [DE] (Everest Re), Everest National Insurance Company [DE], Everest Indemnity Insurance Company [DE], and Everest Security Insurance Company [GA]. To the fullest extent considered applicable the efforts, resources, project material and findings were coordinated and made available to all participants.

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:

- Subsequent Events
- Corporate Records
- Fidelity Bonds and Other Insurance
- Loss Experience
- Pensions, Stock Ownership and Insurance Plans
- Compliance With Prior Examination Recommendations – none
- Summary of Recommendations - none

SUMMARY OF SIGNIFICANT FINDINGS

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

COMPANY HISTORY

General

The Company (originally named Gibraltar Casualty Insurance Company) was incorporated under the laws of Delaware on May 18, 1978, as a stock multi-line property and casualty insurer to write surplus lines insurance coverage. At that time, all of the outstanding capital stock of the Company was owned by The Prudential Reinsurance Co. (currently named

Mt. McKinley Insurance Company

Everest Reinsurance Company), a subsidiary of The Prudential Insurance Company of America (The Prudential).

In 1985, the Company voluntarily discontinued writing business and has since been operating in run-off status. On December 17, 1991, Prudential Reinsurance Company distributed 100% of the stock of the Company to its parent PRUCO, Inc., which, on the same day, distributed 100% of the shares to its parent, The Prudential. On September 19, 2000, The Prudential sold the Company to Everest Re Holdings, Inc. (Holdings), a Delaware company, and the name was changed to Mt. McKinley Insurance Company.

Effective January 8, 2008, Everest Underwriting Group (Ireland) Limited (Everest Ireland), an Ireland holding company, was formed between Holdings and ultimate parent Everest Re Group, Ltd. (Group), a Bermuda company, pursuant to a plan of re-organization.

Capitalization

The Company is authorized to issue 2,000 shares of common capital stock with a par value of \$5,000 per share. Currently, 2,000 shares are issued and held by Holdings, resulting in paid-in capital of \$10,000,000.

Dividends

According to Company records, no dividends were paid to the sole stockholder for the period under examination.

MANAGEMENT AND CONTROL

The operations of the Company are managed by the Board of Directors, elected by the stockholders. The persons elected and serving as Directors of the Company at December 31, 2010 were:

Directors

The Board of Directors, duly elected in accordance with the Company's bylaws and serving as of December 31, 2010, is as follows:

<u>Directors Name</u>	<u>Principal Business Affiliation</u>
Dominic James Adesso (Chairman)	Everest Reinsurance Company
James Huff Foster	Mt. McKinley Insurance Company

Officers

The bylaws of the Company state that the elected officers of the Company includes a President, one or more Vice Presidents, a Treasurer, a Comptroller, a Corporate Secretary and such additional officers as it may from time to time be decided by a resolution adopted by a majority of the Board. The Board of Directors may also designate from among the vice presidents such number of executive senior vice presidents as may be deemed appropriate.

The following principal officers were elected and serving as of December 31, 2010:

<u>Officer</u>	<u>Title</u>
James Huff. Foster	President
Keith Thomas Shoemaker	Vice President and Comptroller
Sanjoy Mukherjee	Vice President and Secretary
Frank Nicholas Lopapa	Treasurer
Ellen Joy Edmonds	Actuary

Inspection of Company files indicated that ethics statement/conflict of interest affidavits were distributed, completed and returned by all employees at a manager level or above for the examination period.

It was noted that written correspondence was submitted to the Delaware Department of Insurance in regards to the changes in officers and directors during the period under examination in compliance with 18 Del. C. §4919.

Holding Company System

The Company is a member of an insurance holding company system as defined in 18 Del. C. §5001(4) “Insurance Holding Company System”. The Company properly filed Holding Company Registration Statements with the Delaware Department of Insurance.

The following abbreviated organizational chart depicts the Company’s relationship within the holding company system at December 31, 2010.

<u>Company</u>	<u>Domicile</u>	<u>% own</u>
Everest Re Group, Ltd.	Bermuda	
Everest Re Advisors, Ltd.	Bermuda	100%
Everest Advisors (UK), Ltd.	United Kingdom	100%
Everest Reinsurance (Bermuda), Ltd.	Bermuda	100%
Everest Global Services, Inc.	Delaware	100%
Everest International Reinsurance, Ltd.	Bermuda	100%
Everest Underwriting Group (Ireland) Limited	Ireland	100%
Everest Reinsurance Company (Ireland) Limited	Ireland	100%
Everest Reinsurance Holdings, Inc.	Delaware	100%
Everest Re Capital Trust II	Delaware	100%
Mt. McKinley Insurance Company	Delaware	100%
Everest Specialty Underwriters, LLC	Delaware	100%
Mt. McKinley Managers, LLC	New Jersey	100%
WorkCare Southeast, Inc.	Alabama	100%
WorkCare Southeast of Georgia, Inc.	Georgia	100%
Everest Reinsurance Company	Delaware	100%
Everest National Insurance Company	Delaware	100%
Everest Re Company (Brazil)	Brazil	100%
Mt. Whitney Securities, Inc.	Delaware	100%
Everest Indemnity Insurance Company	Delaware	100%
Everest Security Insurance Company	Georgia	100%
Everest Insurance Company of Canada	Canada	100%

Intercompany Management and Service Agreements

The Company has entered into various agreements with members of the affiliated group in an effort to obtain efficiencies in operations and limit cost. The Company had the following intercompany agreements and arrangements in effect as of December 31, 2010.

Service Agreements

The Company was a party to service agreements with various affiliates. Under these agreements, the Company and its affiliates provided each other the services of its employees, supplies, use of equipment, use of office space and for payments to third parties for general expenses, state and local taxes. The agreements obligated the recipient affiliate to reimburse the service-providing affiliate for disbursements made on their behalf and to pay for the cost of providing those services. The agreements were terminated on December 31, 2007, and replaced by the global services agreement described below.

Effective January 1, 2008, the Company entered into a global service agreement with all affiliates of Holdings. Each affiliate agrees to provide administrative, consultative and other support services to other affiliates as needed. In return, ENIC and each of the recipient affiliates, agrees to pay the service-providing affiliate 100% and 108% respectively, of its costs and expenses incurred in providing those services. This global service agreement, which was approved by the Delaware Department of Insurance on January 31, 2008, addresses and allows for payments of convenience.

Tax Allocation Agreement

Effective January 1, 2001, the Company entered into a tax allocation agreement with Holdings along with its affiliates. Holdings, the Company and affiliates constitute an affiliate

group within Section 1504(a) of the Internal Revenue Code of 1986 of which Holdings is the common parent and, therefore, is eligible to file a consolidated income tax return for United States federal income tax purposes and to pay federal income taxes on a consolidated basis, if necessary. Pursuant to the terms of the tax allocation agreement, no party will be required to pay more in taxes, or receive a lesser refund, than it would have paid or received if it computed its taxes independently and filed a separate tax return.

Guarantee Agreements

Effective September 19, 2000, the Company entered into a surplus maintenance agreement with Holdings. The agreement, which was approved by the Delaware Department of Insurance, states that Holdings guarantees that the Company's capital and surplus will not fall below \$15 million. There was no activity related to this agreement during the examination period.

Effective May 5, 2004, the Company entered into a parental guarantee agreement with Holdings. The agreement is in favor of Forster Wheeler LLC (Foster Wheeler) and the 2005 Asbestos Claims Settlement Trust (Asbestos Trust) to guarantee the payment obligations of the Company and Everest Re up to \$30 million. The Company had \$15 million in outstanding obligations under this agreement as of December 31, 2010.

Effective May 15, 2005, the Company entered into an agreement with Everest Re and Coltec Industries, Inc. (Coltec) with regard to a complete buyback of policies issued by the Company. Everest Re has guaranteed settlement payment to Coltec if the Company is unable to meet its payment obligations. The Company had \$14 million in outstanding obligations under this agreement as of December 31, 2010.

Investment Advisory Agreement

Effective February 25, 2010, the Company entered into an investment advisory agreement with Deutsche Investment Management Americas, Inc. (Deutsche), which replaced a similar agreement with Deutsche effective September 19, 2000. This agreement authorizes Deutsche to supervise and direct all domestic investments and to exercise whatever powers the Company may possess with respect to its domestic invested assets. Investment transactions will be in accordance with investment objectives of the Company and subject to restrictions established by the Company, as communicated to Deutsche in writing from time to time. Deutsche is the investment manager for Holdings and fees are based on total assets under management.

Trading Account Agreement

Effective March 14, 2002, the Company entered into a trading account agreement with SEI Investments Distribution Co. (SEI). Pursuant to this agreement, SEI acts as the trading manager for the Company's mutual fund investments. Fees are based on total assets held.

Custodian Agreement

Effective July 18, 2003, the Company entered into a custodian agreement with The Bank of New York (BONY). Pursuant to this agreement, BONY acts as the primary custodian for the Company's portfolio of investment securities. A review of terms indicates that the agreement contains the minimum protective standards required under the NAIC Handbook. Fees are based on total assets held.

TERRITORY AND PLAN OF OPERATION

Territory

As of December 31, 2010, the Company was licensed as a property and casualty insurer in California and Delaware and is eligible to write surplus lines business in 24 U.S. states and the District of Columbia.

Plan of Operation

Since March 4, 1985, the Company has been voluntarily inactive with no plans on the part of management to reactivate operations. All affairs are conducted at the Company's home office located in Liberty Corner, New Jersey. Since the purchase of the Company and subsequent cession of all net balances to Everest Re (Bermuda), Ltd. (Everest Bermuda) the Company's intention is to commute balances with the Management Underwriting Facility (MUF). During the examination period, the Company was successful in commuting several reinsurance agreements with MUF participants.

GROWTH OF THE COMPANY

The following information was obtained from the Company's filed Annual Statements and covers the four proceeding years since its last examination (2006):

<u>Year</u>	<u>Admitted Assets</u>	<u>Capital & Surplus</u>	<u>Net Premiums Written</u>	<u>Net Income</u>
2006	\$ 35,959,656	\$ 19,668,174	\$ -	\$ 1,840,510
2007	\$ 59,048,643	\$ 20,096,244	\$ -	\$ 426,320
2008	\$ 49,874,327	\$ 20,867,714	\$ -	\$ 773,070
2009	\$ 26,555,116	\$ 20,912,400	\$ -	\$ 5,938
2010	\$ 39,856,964	\$ 20,973,599	\$ -	\$ 53,955

Since December 31, 2006, the Company's financial results were as follows:

- 10.84% increase in admitted assets
- 6.64% increase in capital and surplus
- 0.00% change in net premiums written
- 97.07% decrease in net income

Since March 4, 1985, the Company has been voluntarily inactive with no plans on the part of management to reactivate operations.

REINSURANCE

The Company voluntarily discontinued writing direct business in 1985 and continues to run off losses.

In connection with the September 19, 2000, acquisition, Prudential Property and Casualty Company of Indiana (PRUPAC) provided an excess of loss reinsurance contract for 100% of the first \$8.5 million of loss associated with the Company's reserve for potentially uncollectible reinsurance. This coverage expired in 2010 and as of December 31, 2010 the available limit remaining was \$540,000.

Shortly after the acquisition of the Company on September 19, 2000, the Company entered into a 100% quota share (referred to as the Loss Portfolio Transfer) with Everest Bermuda, a wholly owned subsidiary of Group. This transaction, which was approved by the

Delaware Department of Insurance on November 19, 2000, transferred all net liabilities to Everest Bermuda.

ACCOUNTS AND RECORDS

The Company maintains its records on a combination of client server and network applications which utilize various reporting systems to record and report financial information.

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

The Company performs full system backups and rotates copies of programs and data files to its off-site storage facility on a weekly basis. The Company has a disaster recovery plan that covers its mainframe operations that is periodically tested.

The consulting firm of INS Services, Inc. performed a review of the Company's global controls over its information and technology IT environment. It was determined that global controls surrounding the EDP environment were found to be sufficient.

During the course of the examination, the Company's books and records were reviewed and compared to reported items and values in the annual statements. No material discrepancies were noted during this review.

STATUTORY DEPOSITS

The Company's state statutory deposits are comprised of Certificates of Deposit and U.S. Treasury Notes. The following statutory deposits were on file with the following states:

State	Deposits For The Benefit of All Policyholders		All Other Special Deposits	
	Book/Adjusted Carrying Value	Fair Value	Book/Adjusted Carrying Value	Fair Value
Arkansas			\$ 150,000	\$ 150,000
California			125,734	125,734
Delaware			600,000	600,000
Massachusetts			100,287	106,004
New Hampshire			173,310	176,168
New Jersey			160,000	160,000
New Mexico			116,264	122,960
Total Deposits	\$ -	\$ -	\$ 1,425,595	\$ 1,440,866

FINANCIAL STATEMENTS

The following pages contain a statement of assets, liabilities, surplus and other funds as of December 31, 2010, as determined by this examination, along with supporting exhibits as detailed below:

Analysis of Assets, December 31, 2010
Statement of Liabilities, Surplus and Other Funds, December 31, 2010
Underwriting and Investment Exhibit, Statement of Income, December 31, 2010
Capital and Surplus Account, Statement of Income, December 31, 2010
Reconciliation of Surplus since the last Examination
Schedule of Examination Adjustments

Slight differences noted in the following schedules are due to rounding.

**Analysis of Assets
As of December 31, 2010**

	<u>Assets</u>	Nonadmitted <u>Assets</u>	Net Admitted <u>Assets</u>	<u>Note</u>
Bonds	\$266,695		\$266,695	
Common stocks	12,583		12,583	
Cash and short-term investments	32,807,163		32,807,163	
Investment income due and accrued	2,644		2,644	
Amounts recoverable from reinsurers	6,715,720		6,715,720	
Net deferred tax asset	<u>53,040</u>	<u>881</u>	<u>52,159</u>	
Total Assets	<u><u>\$39,857,845</u></u>	<u><u>\$881</u></u>	<u><u>\$39,856,964</u></u>	

**Statement of Liabilities, Surplus and Other Funds
As of December 31, 2010**

<u>Liabilities, Surplus and Other Funds</u>		<u>Note</u>
Losses	\$0	1
Reinsurance payable on paid losses and loss adjustment expenses	5,174,723	
Loss adjustment expenses	0	1
Other expenses	166,345	
Current federal and foreign income taxes	412,927	
Funds held by company under reinsurance treaties	10,528	
Payable to parent, subsidiaries and affiliates	13,118,728	
Aggregate write-ins for liabilities:		
Uncashed checks pending escheatment	<u>114</u>	
Total Liabilities	<u>\$18,883,365</u>	
Common capital stock	\$10,000,000	
Gross paid in and contributed surplus	7,119,267	
Unassigned funds (surplus)	<u>3,854,332</u>	
Surplus as regards policyholders	<u>\$20,973,599</u>	
Total Liabilities, Capital and Surplus	<u><u>\$39,856,964</u></u>	

**Underwriting and Investment Exhibit - Statement of Income
As of December 31, 2010**

UNDERWRITING INCOME

Premiums earned	\$ <u> -</u>
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DEDUCTIONS

Losses incurred	\$ -
Loss adjustment expenses incurred	-
Other underwriting expenses incurred	<u>83,814</u>
Total underwriting deductions	<u>83,814</u>
Net underwriting gain or (loss)	<u>\$ (83,814)</u>

INVESTMENT INCOME

Net investment income earned	\$ 29,664
Net realized capital gains or (losses)	<u>86,481</u>
Net investment gain or (loss)	<u>\$ 116,145</u>

OTHER INCOME

Aggregate write-ins for miscellaneous income	<u>\$ 2,500</u>
Total other income	2,500
Net income before dividends to policyholders and before federal income taxes	<u>34,831</u>
Net income after dividends to policyholder but before federal income taxes	34,831
Federal and foreign income taxes incurred	<u>(19,124)</u>
Net income	<u><u>\$ 53,955</u></u>

**Capital and Surplus Account – Statement of Income
As of December 31, 2010**

CAPITAL AND SURPLUS ACCOUNT

Surplus as regards policyholders, December 31, 2009	\$ 20,912,400
 GAINS AND (LOSSES) IN SURPLUS	
Net income	53,955
Change in net unrealized capital gains or (losses)	(428)
Change in net deferred income tax	7,902
Change in non-admitted assets	(230)
Change in surplus as regards policyholders for the year	61,199
Surplus as regards policyholder, December 31, 2010	\$ 20,973,599

Reconciliation of Surplus since last Examination

	Common Capital Stock	Gross Paid-in & Contributed Surplus	Unassigned Surplus	Total
December 31, 2006	\$ 10,000,000	\$ 7,119,267	\$ 2,548,907	\$ 19,668,174
Operations:				
2007 Operations			428,070	428,070
2008 Operations			771,470	771,470
2009 Operations			44,686	44,686
2010 Operations			61,199	61,199
December 31, 2010	\$ 10,000,000	\$ 7,119,267	\$ 3,854,332	\$ 20,973,599

SCHEDULE OF EXAMINATION ADJUSTMENTS

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

NOTES TO FINANCIAL STATEMENTS

Liabilities

<u>Note 1 - Losses</u>	\$0
<u>Note 1 - Loss Adjustment Expenses</u>	\$0

All of the Company's loss and loss adjustment expense (LAE) reserves have been one hundred percent ceded to Everest Bermuda since 2000. Direct and assumed case loss reserves and LAE amounted to \$130,694,000. Gross incurred but not reported (IBNR) reserves amounted to \$146,203,000. Approximately 65% of the reserves are for asbestos & environmental losses.

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, 2010. The INS analysis was performed using a risk-focused approach according to the guidelines contained in the NAIC Handbook.

The conclusions set forth in INS's report are based on information provided by the Company, including the 2010 Annual Statements, the related 2010 Statement of Actuarial Opinion and underlying actuarial work papers.

As a result of the reserve study performed, Company reserves which net to zero were accepted for this examination. Their reserve analysis did not address the collectability of reinsurance recoverable from Everest Bermuda, an "A+" (Superior) rated Company by A.M. Best.

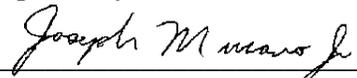
CONCLUSION

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, 2006</u>	<u>December 31, 2010</u>	<u>Increase (Decrease)</u>
Assets	\$ 35,959,656	\$ 39,856,964	\$ 3,897,308
Liabilities	16,291,481	18,883,365	2,591,884
Common Capital Stock	10,000,000	10,000,000	-
Gross Paid In and Contributed Surplus	7,119,267	7,119,267	-
Unassigned Funds (Surplus)	2,548,908	3,854,332	1,305,424
Total Surplus as Regards Policyholders	\$ 19,668,175	\$ 20,973,599	\$ 1,305,424
Totals	\$ 35,959,656	\$ 39,856,964	\$ 3,897,308

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

Respectfully submitted,



 Joseph Murano Jr., CFE
 Examiner-In-Charge
 State of Delaware