

**EXAMINATION REPORT**  
**OF THE**  
**ESSEX INSURANCE COMPANY**  
**AS OF**  
**DECEMBER 31, 2015**

Trinidad Navarro  
Commissioner



Delaware Department of Insurance

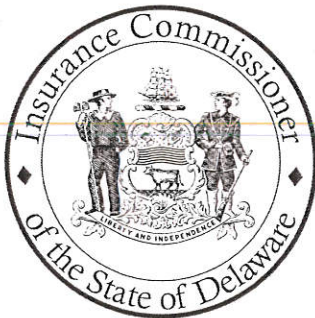
I, Trinidad Navarro, Insurance Commissioner of the State of Delaware, do hereby certify that the attached REPORT ON EXAMINATION, made as of December 31, 2015 of the

**ESSEX INSURANCE COMPANY**

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

Attest By: Raylyn Brown

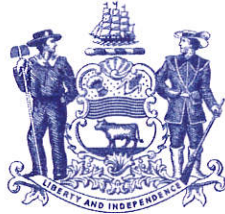
Date: June 5, 2017



In Witness Whereof, I have hereunto set my hand and affixed the official seal of this Department at the City of Dover, this 5<sup>th</sup> day of June, 2017.

Trinidad Navarro  
Trinidad Navarro  
Insurance Commissioner

Trinidad Navarro  
Commissioner



Delaware Department of Insurance

REPORT ON EXAMINATION  
OF THE  
ESSEX INSURANCE COMPANY  
AS OF  
DECEMBER 31, 2015

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.

Handwritten signature of Trinidad Navarro in blue ink.

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Trinidad Navarro  
Insurance Commissioner

Dated this 5<sup>th</sup> day of June, 2017

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## **SALUTATION**

March 3, 2017

Honorable Trinidad Navarro  
Insurance Commissioner  
Delaware Department of Insurance  
841 Silver Lake Boulevard  
Dover, Delaware 19904

Commissioner:

In compliance with instructions and pursuant to statutory provisions contained in Certificate of Authority No. 16-010, dated March 30, 2016, an examination has been made of the affairs, financial condition and management of the

### **ESSEX INSURANCE COMPANY**

hereinafter referred to as “Company” or “Essex”, incorporated under the laws of the State of Delaware as a stock company with its home office located at 1209 Orange Street, Wilmington, Delaware. The examination was conducted at the offices of the Company located at Ten Parkway North, Deerfield, Illinois.

The examination report thereon is respectfully submitted.

### **SCOPE OF EXAMINATION**

In coordination with the Illinois Department of Insurance, we have performed our examination of Essex Insurance Company, a multi-state insurer. The last examination covered the period from January 1, 2008 through December 31, 2010. This examination covers the period of January 1, 2011 through December 31, 2015.

We conducted our examination in accordance with the NAIC *Financial Condition Examiners Handbook* (NAIC Handbook). The NAIC Handbook requires that we plan and perform the examination to evaluate the financial condition, assess corporate governance, identify current and prospective risks of the company and evaluate system controls and procedures used to mitigate those risks. An examination also includes identifying and evaluating significant risks that could cause an insurer's surplus to be materially misstated both currently and prospectively.

All accounts and activities of the Company were considered in accordance with the risk-focused examination process. This may include assessing significant estimates made by management and evaluating management's compliance with Statutory Accounting Principles. The examination does not attest to the fair presentation of the financial statements included herein. If during the course of the examination an adjustment is identified, the impact of such adjustment will be documented separately following the Company's financial statements.

This examination report includes significant findings of fact, pursuant to the General Corporation Law of the State of Delaware as required by 18 Del. C. §321, along with general information about the insurer and its financial condition. There may be other items identified during the examination that, due to their nature (e.g., subjective conclusions, proprietary information, etc.), are not included within the examination report but separately communicated to other regulators and/or the Company.

During the course of this examination, consideration was given to work performed by the Company's external auditing firm, KPMG LLP. Certain auditor work papers have been incorporated into the work papers of the examination.

## **SUMMARY OF SIGNIFICANT FINDINGS**

There were no significant findings or material adjustments to the Company's financial statements that warranted disclosure in this examination report.

## **COMPANY HISTORY**

The Company was incorporated on February 29, 1980, under the laws of the State of Delaware. Effective March 31, 2001, Markel North America, Inc., a Virginia domiciled corporation and wholly-owned subsidiary of Markel Corporation (Markel) was merged into Markel. As a result of this merger transaction, Markel, the ultimate controlling parent of the Company, became the sole shareholder of the Company.

### **Common Capital Stock**

The Articles of Incorporation provide for authorized capital in the amount of \$9,000,000, consisting of 30,000 shares of common stock with a par value of \$300. As of December 31, 2015 there were 15,000 common shares issued and outstanding representing \$4,500,000 in common capital stock. There were no changes made to the common capital stock during the examination period.

All shares outstanding as of December 31, 2015 were owned by the Company's parent and sole shareholder, Markel Corporation.

### **Gross Paid In and Contributed Surplus**

At December 31, 2015, the Company reported a balance of gross paid in and contributed surplus in the amount of \$108,577,322. During the period under examination there were no changes to the Company's gross paid-in and contributed surplus.

Dividends to Stockholders

During the period under examination, the Company paid the following stockholder dividends.

2011	\$ 33,963,524	Ordinary
2012	\$ 75,000,000	Extraordinary
2013	\$ 100,000,000	Extraordinary
2014	\$ 81,258,786	Ordinary
2015	\$ 110,000,000	Extraordinary

Extraordinary dividends were approved by the Delaware Department of Insurance as required by 18 Del. C. §5005 (b).

**MANAGEMENT AND CONTROL**

Shareholder

At December 31, 2015, the sole shareholder of the Company was Markel Corporation, a Virginia corporation.

Board of Directors

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 are exercised by or under the direction of the Board of Directors. The bylaws provide that the Company's business shall be managed by or under the direction of its Board of Directors.

At December 31, 2015, the members of the Board of Directors were as follows:

Name and Residence	Principal Occupation
Gerard Albanese, Jr. Richmond, Virginia	Executive Vice President and Chief Underwriting Officer Markel Corporation
Francis Michael Crowley Richmond, Virginia	President/Co-Chief Operating Officer Markel Corporation



Britton Lee Glisson  
Doswell, Virginia

Chief Administrative Officer  
Markel Corporation

Ann Galbraith Waleski  
Richmond, Virginia

Executive Vice President and Chief Financial  
Officer  
Markel Corporation

Richard Reeves Whitt, III  
Glen Allen, Virginia

President/Co-Chief Operating Officer  
Markel Corporation

### Committees

The Company's bylaws provide for the Board of Directors, by resolution, to designate one or more committees as deemed appropriate. As of December 31, 2015, the Company was represented in the following committees with the Markel Group of insurance companies:

Audit Committee  
Risk Management Committee  
Compensation Committee  
Nominating Committee  
Reinsurance Committee

It was noted the all members of the audit committee are independent and five of the members qualify as financial experts.

### Officers

In accordance with the bylaws, the principal Officers of the Company shall consist of a President, a Treasurer, a Secretary and such Vice Presidents, Assistant Treasurers, Assistant Secretaries or other officers as may be elected by the Board of Directors or appointed by the President. Key officers elected and serving at December 31, 2015 were:

<u>Officer</u>	<u>Position</u>
Gerard Albanese, Jr.	President and Chairman of the Board
Richard Reeves Whitt, III	Senior Vice President
Joanne Michelle Cichon- Feeney	Vice President

Nora Newton Crouch	Vice President
Richard Randolph Grinnan	Vice President & Assistant Secretary
Bruce Alan Kay	Vice President
Robert Glenn Whitt, III	Controller
Kathleen Anne Sturgeon	Secretary

#### Corporate Records

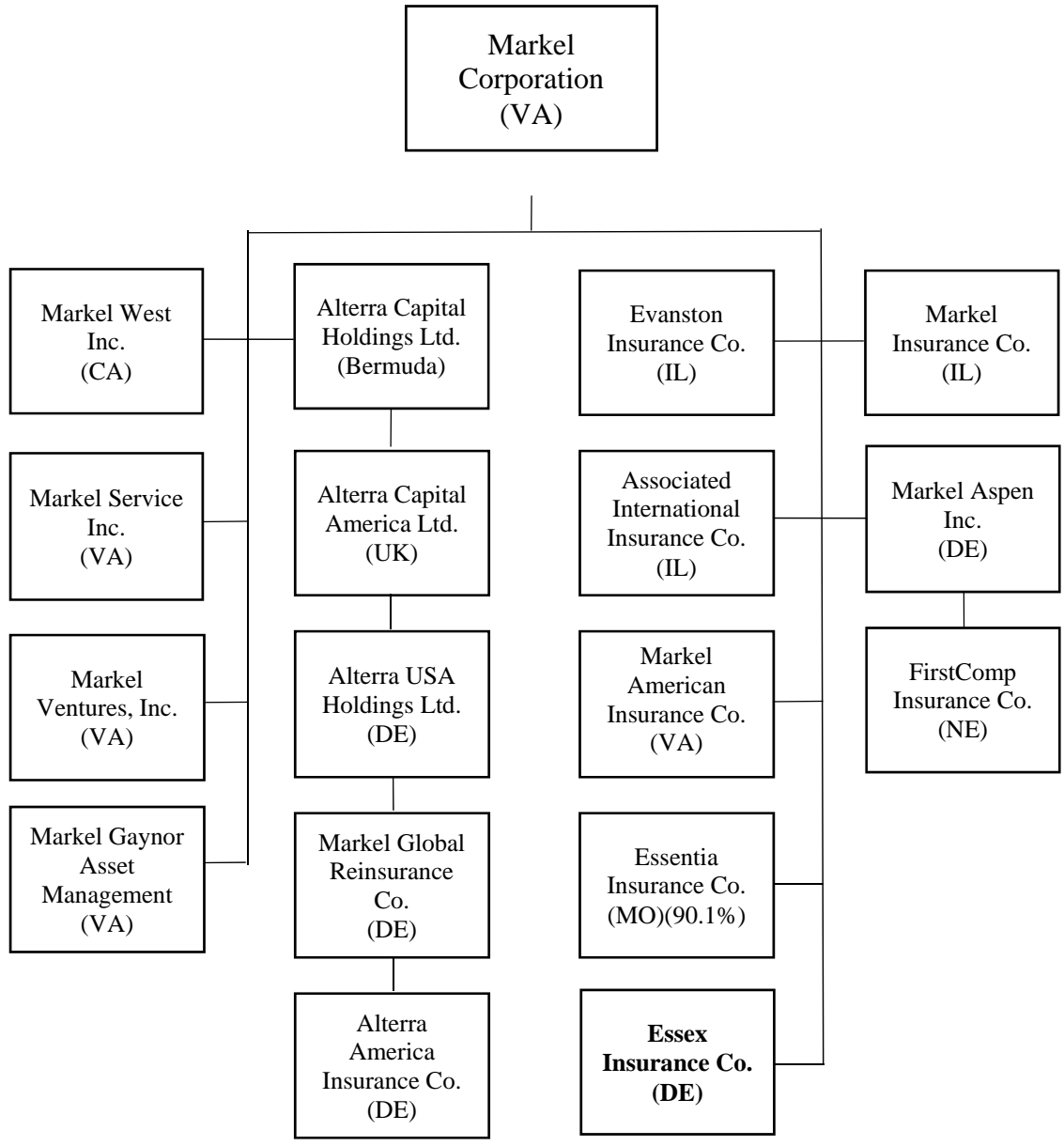
The recorded minutes of the sole shareholder and Board of Directors were reviewed for the period under examination. The recorded minutes of the Board adequately documented its meetings and approval of Company transactions and events, including the authorization of investments as required by 18 Del. C.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

#### Articles of Incorporation and Bylaws

The Company did not amend its Articles of Incorporation or bylaws during the period under examination.

#### Holding Company System

The Company is a member of an insurance holding company system as defined under 18 Del. C. §5001(5) “Insurance holding company system”. The following is an abbreviated organizational chart that reflects the identities and interrelationships between the Company and other members of the holding company system as of December 31, 2015:



### Affiliated Agreements

The Company is party to agreements with its parents and affiliates as follows:

#### *Intercompany Services Agreement*

Effective October 1, 2013, the Company entered into a Management Agreement with Markel Service, Incorporated (MSI), whereby MSI acts as the exclusive business and underwriting manager for the Company.

#### *Investment Management Services Agreement*

Effective May 1, 2013, the Company entered into an Investment Advisory Agreement with Markel-Gayner Asset Management Corporation (Markel-Gayner). Markel Gayner provides investment advisory services to AAIC with respect to its debt and equity investment portfolio. As compensation for its services, Markel-Gayner receives an annual fee equal to one percent of the equity portfolio's market value, payable in quarterly installments. Effective January 1, 2015, the Company and Markel-Gayner entered into an Amendment to the Investment Advisory Agreement to allow a 20 basis point annual fee on the non-equity portfolio.

#### *Cash Management*

Effective August 1, 2003, the Company entered into a Service Agreement with Markel Services, Inc. (MSI). The agreement provides cash management services including investment, banking account management and administration services to the Company. As compensation for its services, MSI receives a fee equal to its expenses related to these services.

#### *Allocation Agreement*

Effective May 1, 2007, the Company entered into the First Amended and Restated Allocation Agreement to which Markel and its other insurance company subsidiaries are parties, providing for the ongoing apportionment of premium, retention and recovery for policies ceded to joint reinsurance programs providing reinsurance cover to the Markel insurer affiliates. The

purpose of this agreement is to comply with the requirements under SSAP No. 62 that allocation agreements for multiple cedent reinsurance agreements be in writing.

*Tax Allocation Agreement*

Effective January 1, 2013, the Company became a party to the Tax Allocation Agreement (the Agreement) among Markel and its affiliates which is a standard form tax allocation agreement that sets forth the basis on which those Markel entities joining in Markel's annual consolidated federal income tax returns are to share in the tax liabilities, losses, deductions, tax credits and other tax attributes associated with Markel's consolidated tax returns. The general rule applicable under the agreement is that each entity's share of the consolidated federal income tax liability of the affiliated group is to be equal to the federal income tax liability it would incur had it filed a separate tax return.

**TERRITORY AND PLAN OF OPERATION**

The Company is authorized to transact business in all fifty states and the District of Columbia. Essex is a surplus lines company writer and underwrites specialty insurance products and programs. Significant areas of underwriting include casualty and property lines.

Direct premiums written as of December 31, 2015 were as follows:

<u>State</u>	<u>Premium</u>	-	<u>State</u>	<u>Premium</u>
Alabama	\$9,497,854		Nebraska	979,942
Alaska	311,338		Nevada	3,213,301
Arizona	5,748,197		New Hampshire	4,301,237
Arkansas	4,833,978		New Jersey	24,049,596
California	61,330,287		New Mexico	1,154,332
Colorado	8,542,214		New York	20,407,402
Connecticut	3,178,873		North Carolina	8,151,462
Delaware	7,516		North Dakota	1,298,888
District of Columbia	1,222,637		Ohio	3,834,415
Florida	55,697,160		Oklahoma	7,796,200
Georgia	19,128,716		Oregon	3,304,071
Hawaii	2,527,121		Pennsylvania	11,266,976
Idaho	1,168,579		Rhode Island	1,916,395
Illinois	28,489,327		South Carolina	10,115,944
Indiana	4,737,777		South Dakota	330,905
Iowa	1,819,245		Tennessee	7,273,571
Kansas	2,033,453		Texas	91,038,861
Kentucky	2,710,310		Utah	2,149,131
Louisiana	10,378,072		Vermont	396,372
Maine	1,009,688		Virginia	6,581,016
Maryland	4,816,598		Washington	6,189,213
Massachusetts	15,192,931		West Virginia	4,513,304
Michigan	4,833,767		Wisconsin	5,070,810
Minnesota	2,431,329		Wyoming	817,447
Mississippi	4,751,030		Guam	-
Missouri	5,676,929		Puerto Rico	-
Montana	1,011,364		U.S. Virgin Islands	-
			<b>TOTAL</b>	<b>\$ 489,237,081</b>

The Company's total direct written premium by lines of business consists of the following:

<u>Line of Business</u>	<u>Amount</u>
Fire	\$ 34,295,782
Allied lines	24,058,718
Homeowners multiple peril	16,559,398
Commercial multiple peril	108,498,166
Ocean marine	5,383,181
Inland marine	47,500,574
Medical professional liability - occurrence	3,600
Medical professional liability - claims-made	7,568,185
Earthquake	16,338,057
Other accident and health	3,508,688
Other liability - occurrence	201,931,155
Other liability - claims-made	17,164,339
Products liability - occurrence	1,936,177
Products liability - claims-made	1,900,342
Auto physical damage	1,202,912
Fidelity	463,715
Commercial auto liability	401,844
Boiler and machinery	393,339
Burglary and theft	122,304
Credit	6,603
	<u>\$ 489,237,078</u>

The Company's net premiums are as follows:

Direct business	\$ 489,237,078
Reinsurance assumed from affiliates	2,771,077
Reinsurance assumed from non affiliates	2,142,757
Ceded to affiliates	(259,473)
Ceded to non affiliates	<u>(52,866,141)</u>
Net	<u>\$ 441,025,298</u>

**REINSURANCE**

The largest net aggregate amount insured in any one risk excluding Worker’s Compensation at December 31, 2015 was \$7,800,000 for the Casualty line of business. The following reinsurance agreements were in-force at December 31, 2015.

Assumed Reinsurance – Affiliated Companies

Type of Agreement	Business Covered	Ceding Company	Liability Assumed
Miscellaneous Property & Casualty business 100% Quota Share	Business previously reinsured by Specialty Surplus Insurance Company	Markel American Insurance Company	100% of all business written under an Assignment and Assumption Agreement – 2/25/2011

Assumed Reinsurance – Unaffiliated Companies

For the year ended December 31, 2015, the Company assumed premiums in the amount of \$2,142,757 from unaffiliated companies, which represented approximately 43.6% of total assumed premiums. Assumed premiums in the amount of \$1,289,000 provide Excess Liability coverage for voluntary pools of public insurance risk entities and \$854,000 of premiums were assumed from other voluntary pools.

Reinsurance Ceded – Affiliates

The Company reported no ceded premiums to affiliates at year end December 31, 2015.

Reinsurance Ceded – Non Affiliates

*Combined Casualty Quota Share Agreements*

Business Covered: Umbrella Liability, Excess Transportation, Excess Liability, Environmental Liability, Professional Liability (but only as respects Specified Medical, Architects and Engineers, Agents and Brokers, Lawyers, Accountants Professional Liability, Miscellaneous Errors and Omissions, Information Technology, and Data Breach sub- segments),



Products Liability, Specialty Primary Liability, Management Liability, Specialty Umbrella and Specialty Excess.

Type of Agreement	Policy Limits	Company Retention	Reinsurers' Limits
(All Policies)	\$-0- to \$3,000,000	100%	None
(Specialty Excess & Specialty Umbrella)	\$3,000,001 to \$5,000,000	61.30% Quota Share	38.70% Quota Share
(All Other)	\$3,000,001 to \$5,000,000	67.75% Quota Share	32.25% Quota Share
(Specialty Excess & Specialty Umbrella)	\$5,000,001 to \$10,000,000	48.40% Quota Share	51.60% Quota Share
(All Other)	\$5,000,001 to \$10,000,000	57% Quota Share	43% Quota Share
(Specialty Excess & Specialty Umbrella)	\$10,000,001 to \$15,000,000	36.962% Quota Share	63.038% Quota Share
(All Other)	\$10,000,001 to \$15,000,000	42.638% Quota Share	57.362% Quota Share
Umbrella and Excess liability, Environmental, Medical Professional Liability	\$15,000,001 to \$20,000,000	35.5% Quota Share	64.5% Quota Share
Umbrella and Excess liability, Environmental, Medical Professional Liability	\$20,000,001 to \$25,000,000	31.20% Quota Share	68.80% Quota Share

### *Property*

The Company's has both quota share and excess of loss agreements in place to cover various layers of its property business. The table below lists the various agreements in place, the type of coverage along with the Company's retention and reinsurer limits:

Type of Agreement	Business Covered	Company Retention	Reinsurers' Limits
2015 Combined Property Quota Share	All policies written by the Brokerage Property Product Line Division and classified	49% of policy limits	51% Quota Share (Maximum limit \$10M)

	as Property		
Property per Risk Excess of Loss	<p><u>Coverage A</u> Policies written by the Railroad, Contract Binding Property, or Markel Specialty Product Line Divisions excluding Inland Marine</p> <p><u>Coverage B</u> Policies written by the Contract Binding Property Division and classified by the Company as Property excluding Inland Marine</p>	<p>\$2.5 M each loss, each risk</p> <p>\$2.5M each loss occurrence</p>	<p>\$7.5M excess \$2.5M each loss, each risk</p> <p>\$7.5M excess \$2.5M each loss occurrence</p>
Property per Risk Excess of Loss	Business classified by the Company as Property business excluding Inland Marine	Retention of underlying reinsurance	\$15M excess \$10M each loss, each risk
Property per Risk Excess of Loss	Business classified by the Company as Property business excluding Inland Marine	Retention of underlying reinsurance	\$25M excess \$25M each loss, each risk
Inland Marine Excess of Loss	Policies written by the Global Insurance Marine Division and classified as Inland Marine	\$3M per occurrence with \$2M annual aggregate deductible	\$62M excess \$3M each and every occurrence
Guy Carpenter Marine Excess of Loss	All policies written by the Personal Lines and Wholesale Divisions classified as Marine	\$5M per loss occurrence	\$20M excess of \$5M per loss occurrence
Equipment Breakdown Specialty Quota Share	Equipment Breakdown policies or endorsement classified as Markel Specialty written on Commercial, Personal, or Farm-owners Lines	None	100% Quota Share of limits of liability up to \$100,000 MPL and \$100M Markel Specialty on any one risk
Equipment Breakdown Wholesale Quota Share	Policies or endorsements classified as Wholesale and Global Insurance, as defined under: Equipment Breakdown to Commercial Policies	None	100% Quota Share of limits of liability up to \$100M on any one risk
Cat. Covers: 2015-2016 2015-2017	Losses arising from perils under all Policies written on behalf of Markel Wholesale, Markel Specialty Global Insurance, Hagerty Insurance	First \$75M per loss occurrence: 50% of \$50M Xs \$75M	50% of \$50M Xs \$75M 50% of \$75M Xs

	Agency, LLC and Hagerty classic Marine Insurance Agency LLC, classified by the Company as Property and/or Marine	50% of \$75M Xs \$125M 30% of \$100M Xs \$200M 25% of \$200M Xs \$300M per loss occurrence	\$125M 70% of \$100M Xs \$200M 75% of \$200M Xs \$300M per loss occurrence
Burns & Wilcox Quota Share	Policies with limits up to \$3M produce by Burns & Wilcox classified as: Umbrella Liability and Excess Liability	80% of loss exposure	20% of loss exposure
Personal Lines Quota Share	Policies underwritten by Markel Personal Lines Division and classified as Excess and Surplus Lines including Homeowners and Dwelling business: Maximum policy limits of \$5M	50% of loss exposure	50% of loss exposure
Liquor Liability Quota Share	Liquor Liability policies: Maximum limits of \$1M	50% of loss exposure	50% of loss exposure
Public Entity Liability Quota Share: Sections: A – 100% of 25% B – 100% of 50%	Business underwritten by the Public Entity Product Line Division and classified as Public Entity business	Sect. A: Limits up to \$6M – 75% QS Sect. B: Limits >\$6M up to \$10M – 50% QS	Sect. A: Limits up to \$6M – 25% QS Sect. B: Limits >\$6M up to \$10M – 50% QS
Workers Compensation and Employers Liability Excess of Loss per occurrence	Workers Compensation & Employers Liability business and Texas Non-Subscriber Occupation Accident & Employers Liability business produced by Midlands Management Corp; Max. any one life \$10M	\$2M per occurrence	\$58M excess \$2M per occurrence
Workers Compensation and Employers Liability Excess of Loss per occurrence	Workers Compensation & Employers Liability business and Texas Non-Subscriber Occupation Accident & Employers Liability business produced by Midlands Management Corp;	50% of \$5M excess \$10M per person	50% of \$5M excess \$10M per person
ProSurance Fidelity Excess of Loss	All policies produced by ProSurance Group, Inc. and classified as Fidelity and	<u>Section A:</u> \$1M each loss, each policy	<u>Section A:</u> \$1M excess \$1M each loss, each policy

	Crime	Section B: \$2M each loss, each policy	Section B: \$3M excess \$2M each loss, each policy
Employment Practices Liability Quota Share	The Company's liability for losses occurring under an EPL Coverage Form on policies underwritten by the Market Specialty Division and classified as HSB Employment Practices Liability	None	100% Quota Share not to exceed \$1M each wrongful employment act

**FINANCIAL STATEMENTS**

The following statements show the assets, liabilities, surplus and other funds of the Company, as determined by this examination, as of December 31, 2015:

- Statement of Assets and Liabilities
- Statement of Income
- Reconciliation of Capital and Surplus

Statement of Assets and Liabilities  
December 31, 2015

	Ledger <u>Assets</u>	Assets Not <u>Admitted</u>	Net Admitted <u>Assets</u>
Bonds	\$671,420,210	\$ 0	\$671,420,210
Common Stock	436,048,341	0	436,048,341
Cash and Short-Term Investments	142,009,954	0	142,009,954
Investment Income Due and Accrued	8,439,406	0	8,439,406
Uncollected Premiums and Agents' Balances in			
Course of Collection	42,324,503	7,162,812	35,161,691
Deferred Premiums	1,105,284	0	1,105,284
Reinsurance Recoverables from Reinsurers	8,747,983	0	8,747,983
Funds held by or Deposited with Reinsured Companies	3,741,613	0	3,741,613
Other amounts receivable under reinsurance contracts	8,342		8,342
Aggregate Write-ins for Other Than Invested Assets	<u>12,100,210</u>	<u>0</u>	<u>12,100,210</u>
Total Assets	<u>\$1,325,945,846</u>	<u>\$7,162,812</u>	<u>\$1,318,783,034</u>

Essex Insurance Company

Losses	\$403,208,460
Reinsurance payable on paid losses and loss adjustment expenses	\$2,964,530
Loss adjustment expenses	228,583,363
Commissions payable, contingent commissions and other similar charges	510,513
Other expenses	3,149,684
Taxes, licenses and fees	313,924
Current federal and foreign income taxes	41,049,259
Net deferred tax liability	67,382,505
Unearned premiums	174,118,284
Ceded reinsurance premiums payable	2,658,950
Funds held by company under reinsurance treaties	2,052,361
Amounts withheld or retained by company of others	747,748
Provision for reinsurance	87,006
Payable to parent, subsidiaries and affiliates	12,830,545
Aggregate write-ins for liabilities	<u>173,924</u>
 Total liabilities	 \$939,831,056
 Common capital stock	 4,500,000
Gross paid in and contributed surplus	108,577,322
Unassigned funds	<u>265,874,656</u>
 Surplus as regards policyholders	 \$378,951,978
 Total liabilities, surplus and other funds	 <u>\$1,318,783,034</u>

Statement of Income  
December 31, 2015

UNDERWRITING INCOME

Premiums earned	\$	438,756,005
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DEDUCTIONS

Losses incurred	\$	146,022,485
Loss adjustment expenses incurred		52,196,367
Other underwriting expenses incurred		162,977,205
Total Underwriting Deductions	\$	361,196,057
Net Underwriting Gain or (Loss)	\$	77,559,948

INVESTMENT INCOME

Net investment income earned	\$	29,255,923
Net realized capital gains (losses) less capital gains tax		16,257,271
Net Investment Gain or (Loss)	\$	45,513,194

OTHER INCOME

Aggregate write-ins for miscellaneous income	\$	166,957
Net income after dividends to policyholders and before federal income taxes		123,240,100
Federal and foreign income taxes incurred		26,949,957
Net Income (Loss)	\$	96,290,143

Reconciliation of Capital and Surplus  
December 31, 2010 to December 31, 2015

Capital and Surplus, December 31, 2010	\$	<u>339,635,237</u>
Net Income	\$	325,118,485
Change in net unrealized capital gains (losses)	\$	120,277,277
Change in non-admitted assets and related items		(3,336,588)
Change in net deferred income tax		(2,520,123)
Dividends to stockholders		(400,222,310)
		<hr/>
Capital and Surplus, December 31, 2015	\$	<u><u>378,951,978</u></u>



**SUBSEQUENT EVENTS**

Effective June 30, 2016, the Company merged with and into its affiliate, Evanston Insurance Company.

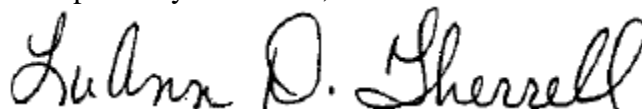
**SUMMARY OF RECOMMENDATIONS**

There are no recommendations that warrant disclosure in the report.

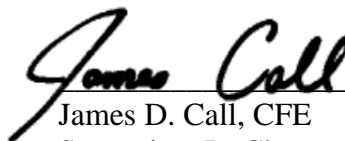
**CONCLUSION**

The assistance and cooperation of the Company's outside audit firm, KPMG LLP and the Company's management and staff were appreciated and are acknowledged.

Respectfully submitted,



Lu Ann D. Therrell, CFE  
Examiner In-Charge  
Delaware Department of Insurance



James D. Call, CFE  
Supervisor In-Charge  
Delaware Department of Insurance