REPORT ON EXAMINATION

OF

LEXINGTON INSURANCE COMPANY

AS OF

DECEMBER 31, 2015

Trinidad Navarro
Commissioner

Delaware Department of Insurance

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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.

Trinidad Navarro
Insurance Commissioner

Dated this 27th day of June, 2017

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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

LEXINGTON INSURANCE COMPANY

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

Attest By:

Date: June 27, 2017

In Witness Whereof, I have hereunto set my hand and affixed the official seal of this Department at the City of Dover, this 27th day of June, 2017.

Trinidad Navarro
Insurance Commissioner

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SALUTATION

May 19, 2017

Honorable Trinidad Navarro
Delaware Insurance Commissioner
Delaware Department of Insurance
Rodney Building
841 Silver Lake Blvd.
Dover, Delaware 19904

Dear Commissioner;

In compliance with instructions and pursuant to statutory provisions contained in Certificate of Authority No. 16.001, dated July 27, 2015, an examination has been made of the affairs, financial condition and management of

LEXINGTON INSURANCE COMPANY

hereinafter referred to as the "Company" or "Lexington" and incorporated under the laws of the State of Delaware as a stock company. The examination was conducted at the statutory home office of the Company, located at 80 Pine Street, 10th Floor, New York, New York 10038.

This examination was conducted concurrently as part of the coordinated examination of the AIG Combined Property and Casualty Pool (the Combined Pool). The State of New York was the assigned lead state by the National Association of Insurance Commissioners (NAIC). Separate reports of examination were filed for each company within the Combined Pool. The report for this examination thereon is respectfully submitted.

SCOPE OF EXAMINATION

We have performed our multi-state examination of the Company. The last examination covered the period of January 1, 2006, 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* (Handbook). The 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 and 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, PricewaterhouseCoopers LLC (PwC). Certain auditor work papers have been incorporated into the work papers of the examination.

SUMMARY OF SIGNIFICANT FINDINGS

There were no significant material adverse findings or financial adjustments as a result of this examination. Please refer to the Summary of Recommendations section for non-adverse findings.

COMPANY HISTORY

General

The Company was incorporated on March 31, 1965, under the laws of the State of Delaware and began operations on April 1, 1965. The Company commenced business by assuming substantially all of the in-force business of the First State Insurance Company, a Delaware corporation. At the time of incorporation, the Company was a 100%-owned subsidiary of AIG, a Delaware holding company.

On December 31, 1985, AIG transferred its ownership of the Company as follows: 70% to National Union Fire Insurance Company of Pittsburgh, Pa., (NUFIC); 20% to The Insurance Company of the State of Pennsylvania (ISOP); 10% to AIG Property Casualty Company (AIGPCC).

Effective January 1, 2012, Landmark was merged into NUFIC and Chartis Select was merged into the Company with approvals from the Pennsylvania and Delaware Departments of Insurance. As a result of these mergers, NUFIC's ownership of the Company increased from

70% to 77.7%, ISOP's ownership of the Company decreased from 20% to 14.9%, and AIGPCC's ownership of the Company decreased from 10% to 4.4%.

On March 31, 2012, the Company shares and Chartis Specialty shares owned by AIGPCC and ISOP were distributed to Chartis U.S., Inc. and subsequently contributed to NUFIC. As a result of this transaction, NUFIC then owned 100% of the Company and Chartis Specialty.

On April 1, 2013, the U.S. property and casualty group ownership structure was simplified and re-organized. As a result, ownership of the Company was transferred from NUFIC to AIG Property Casualty U.S., Inc. (AIG PC US), a Delaware corporation.

Capitalization

The Company is authorized to issue 5,000,000 shares of common capital stock capital with a par value of $5 per share. Currently, 1,343,864 shares of the common stock are issued and held by AIG PC US.

The following table reflects the Company's capitalization activity since the prior examination:

	Common Stock	Gross Paid-in & Contributed Surplus
December 31, 2010	$5,000,000	$895,840,240
Activity in 2011	0	17,140,480
Activity in 2012	1,719,320	485,672,685
Activity in 2015	0	1,150,380,334
December 31, 2015	$6,719,320	$2,549,033,739

All contributions made during the examination period were reconciled without exception.

Dividends

According to Company records for the years indicated, and as reflected in minutes to the Board of Directors' meetings, the following dividends were paid to the stockholder of record:

Stock	Type	Form	Amount	Declared Date	Paid Date
Common	Ordinary	Cash	$720,000,000	September 25, 2012	October 19, 2012
Common	Extraordinary	Cash	$500,000,000	January 31, 2013	March 26, 2013
Common	Extraordinary	Cash	375,346,046	January 31, 2013	May 1, 2013
Common	Extraordinary	Cash	1,000,000,000	November 20, 2013	December 17, 2013
2013 Total			$1,875,346,046		
Common	Ordinary	Cash	$60,284	January 17, 2014	January 30, 2014
Common	Ordinary	Securities	499,939,716	January 17, 2014	January 30, 2014
Common	Extraordinary	Cash	200,906,803	August 24, 2014	September 26, 2014
Common	Extraordinary	Securities	399,093,197	August 24, 2014	September 26, 2014
Common	Extraordinary	Cash	339,506,032	October 29, 2014	December 12, 2014
Common	Extraordinary	Securities	260,493,968	October 29, 2014	December 12, 2014
2014 Total			$1,700,000,000		
Common	Extraordinary	Cash	$300,000,000	March 6, 2015	March 31, 2015
Common	Extraordinary	Cash	635,244	May 21, 2015	June 29, 2015
Common	Extraordinary	Securities	299,364,756	May 21, 2015	June 29, 2015
Common	Extraordinary	Cash	300,000,000	August 17, 2015	September 28, 2015
Common	Extraordinary	Cash	100,000,000	November 16, 2015	December 28, 2015
2015 Total			$1,000,000,000		
Total Exam Period			$5,295,346,046		

The Company notified the Delaware Department of Insurance of all ordinary dividends and obtained the required approval for any extraordinary dividends prior to distribution. All of the dividends paid during the examination period were in compliance with Delaware laws and regulations.

MANAGEMENT AND CONTROL

Board of Directors

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

Directors shall be elected annually by the sole shareholder and the number of directors, which shall be fixed from time to time by the shareholder or by the Board, shall consist of no less than one (1) member. The directors shall hold office until the next Annual Shareholders Meeting or until their successors are elected or appointed. The Board, duly elected in accordance with its bylaws and serving at December 31, 2015, is as follows:

Individual	Principal Business Affiliation
Alexander R. Baugh	President, Liability & Financial Lines American International Group, Inc.
James Bracken	Commercial Chief Financial Officer American International Group, Inc.
Joseph D. Cook	Deputy Chief Financial Officer AIG Property & Casualty American International Group, Inc.
Jeremy D. Edgecliffe-Johnson	President U.S. Commercial Insurance American International Group, Inc.
Stephen J. Grabek	Head of Broker and Client Engagement American International Group, Inc.
Kevin T. Hogan	Executive Vice President and Chief Executive Officer of Consumer American International Group, Inc.
Robert S. H. Schimek	Chairman, Executive Vice President and Chief Executive Officer of Commercial American International Group, Inc.

Committees of the Board

Although allowed by authority of its bylaws, the Board had not constituted any committees during the period under review. During the examination period, the Audit Committee of the Board of Directors of AIG Property Casualty Inc., an indirect holding company of the Company, served as the statutory audit committee of the Company.

Officers

In accordance with its bylaws, the Board may elect a Chairman of the Board, a President, one or more Vice Presidents, a Secretary, one or more Assistant Secretaries, a Treasurer, one or more Assistant Treasurers, and any other such officers as the Board deems necessary from time to time. Only the Chairman is required to be a director. The most senior officers, duly elected in accordance with the bylaws and serving at December 31, 2015, are as follows:

Individual	Officer
Robert S. H. Schimek	Chairman and Executive Vice President
Jeremy D. Edgecliffe-Johnson	President and Chief Executive Officer
Alexander R. Baugh	Executive Vice President
James Bracken	Executive Vice President
Stephen J. Grabek	Executive Vice President
Kevin T. Hogan	Executive Vice President
Joseph D. Cook	Chief Financial Officer and Senior Vice President
Lawrence J. Moloney	Statutory Controller and Vice President
Tanya E. Kent	Secretary

Corporate Records

The recorded minutes of the shareholders and the Board, and any written consents in lieu of meetings, were reviewed for the period under examination. The recorded minutes of the stockholders and of the Board and the written consents in lieu of meetings adequately documented the approval of Company transactions and events, including the quarterly approval of investment transactions in accordance with 18 Del. C. §1304.

Inspection of Company files indicated that an ethics statement/conflict of interest statement was completed by all directors and employees for the examination period.

A review was performed for compliance with Code 18 Del. C. § 4919 that "Every domestic stock or mutual insurer shall promptly notify the Commissioner in writing of any change of personnel among its directors or principal officers" and the Company is in compliance.

Insurance Holding Company System

The Company is a member of an insurance holding company system as defined in 18 Del. C. §5001(4). 18 Del. C. §5001(3) states that "control shall be presumed to exist if any person, directly or indirectly, owns, controls, holds with the power to vote, or holds proxies representing 10% or more of the voting securities of any other person." American International Group, Inc. (AIG), a Delaware holding company, is the ultimate controlling entity, since it collectively owned or controlled 10% or more of the voting shares of the Company as of the examination date.

AIG, through its subsidiaries, is engaged in a broad range of insurance, insurance-related, financial, and other non-insurance activities both in the United States and abroad. AIG's primary activities include both general insurance, life insurance, and retirement services. Other significant activities include financial services and asset management. As of December 31, 2015, AIG had consolidated assets of $496.9 billion and shareholders' equity of $89.7 billion.

A partial organizational chart of AIG as of December 31, 2015, with domicile in brackets along with the control percentages of each upstream affiliate's control of the downstream affiliate is presented below:

	Economic Control	Voting Control
American International Group, Inc. (DE) {1}	100.00%	100.00%
AIUH, LLC (DE)	100.00%	100.00%
AIG Property Casualty Inc. (DE)	100.00%	100.00%
AIG Global Claims Services, Inc. (DE)	100.00%	100.00%
AIG PC Global Services, Inc. (DE)	100.00%	100.00%
AIG Property Casualty International, LLC (DE)	100.00%	100.00%
AIG Property Casualty U.S., Inc. (DE)	100.00%	100.00%
AIG Assurance Company (PA) *		
AIG Property Casualty Company (PA)		
AIG Specialty Insurance Company (IL)		
AIU Insurance Company (NY)		
American Home Assurance Company (NY)		
Commerce and Industry Insurance Company (NY)		

Eaglestone Reinsurance Company (PA)
Granite State Insurance Company (IL)
Illinois National Insurance Co. (IL)
Lexington Insurance Company (DE)
National Union Fire Insurance Company of Pittsburgh, Pa. (PA)
New Hampshire Insurance Company (IL)
The Insurance Company of the State of Pennsylvania (PA)*

*-Effective December 31, 2016, the companies were re-domesticated to Illinois.

{1} No entity or individual owns or controls greater than 10% of AIG as of December 31, 2015

Affiliated Agreements

The Company has properly filed the required Form D for each of the below referenced related party agreements and obtained the requisite Department approval prior to entering into the agreements.

Service and Expense Agreement

Effective December 30, 1998, the Company entered into a Service and Expense Agreement with AIG and its affiliates by amendment to the original agreement which was effective February 1, 1974. This agreement has been amended January 1, 2002, and subsequently as necessary. AIG and its subsidiaries have agreed to provide at cost, services and facilities as required to the named parties to this agreement, which include legal, investment, electronic data processing, internal audit, actuarial, claims, underwriting, accounting, tax, and employee benefits. Additional affiliates have been added to this agreement by amendments over the years.

Operating Expense Reimbursement Agreement

Effective December 1, 2004, the Company and NUFIC entered into an Operating Expense Reimbursement Agreement. Under the terms of the Agreement, NUFIC reimburses

Lexington for operating expenses incurred in relation to certain underwriting, claims, accounting, and administrative services.

Administrative Services Agreement

Effective May 7, 2007, the Company, along with other AIG subsidiaries, entered into an Administrative Services Agreement ("ASA") with AIG Shared Services - Business Processing, Inc. (then known as AIG Business Processing Services, Inc. and Integra Business Processing Solutions, Inc. (AIGSS-BPI)). Effective June 16, 2008, the ASA was amended to add certain entities as additional parties thereto. The ASA was terminated effective July 1, 2010, with respect to the parties added June 16, 2008, as a result of the sale of the parties to a non-affiliate. Effective December 1, 2009, the ASA was assigned by AIGSS-BPI to an affiliate, AIG Shared Services Corporation (Philippines) (formerly known as Chartis Technology and Operations Management Corporation (Philippines) and AIU Technology and Operations Management Corporation). The Company consented to the assignment. There was no change to the terms and conditions of the ASA.

On September 30, 2013, AIG PC Global Services, Inc. (AIG PC GS) entered into Master Agreements for Professional Services with AIGSS-BPI, AIG Shared Services Corporation, and AIG Shared Services (M) Sdn Bhd, which effectively replaced the 2007 agreement in that services provided by such entities to AIG PC GS under the 2013 agreements may be passed on to U.S.-based AIG PC insurance companies by AIG PC GS (pursuant to the 1974 AIG Service and Expense Agreement).

Investment Advisory Agreement

Effective March 26, 2010, the Company entered into an Investment Advisory Agreement with AIG Asset Management (U.S.), LLC (AAM) whereby AAM acts as the Company's investment manager, in accordance with the investment objectives and guidelines as communicated in writing to AAM by the Company’s Board of Directors, and subject to investment guidelines in compliance with the investment limitation statutes of the State of Delaware. As compensation, the Company pays AAM a specified fee based on assets under management. AAM bills the Company quarterly in advance, plus a prorated share of the AIG Services related fees.

The original agreement was terminated and replaced with a similar Amended and Restated Investment Advisory Agreement with AAM effective July 1, 2011.

Tax Sharing Agreement

Effective January 1, 2012, the Company, along with other pool members, entered into a Tax Sharing Agreement with AIG (individually the Tax Sharing Agreement or collectively the Tax Sharing Agreements). The Company and AIG, along with its U.S. affiliates, file a consolidated U.S. federal income tax return in accordance with Section 1501 of the U.S. Internal Revenue Code of 1986 (as amended). Under the Tax Sharing agreements, the Company continues to cash settle on a separate return liability theory and utilize separate company attributes to reduce its tax liability to AIG. The Tax Sharing Agreement provides one specific exception from separate return tax liability relating to transactions involving investment assets of the Company. With respect to any sale or exchange of investment assets within the consolidated U.S. federal income tax group that gives rise to a deferred intercompany transaction (DIT), the Company is required to book the related deferred tax asset or liability on a separate company basis and remain liable for any cash tax if such DIT is triggered in the future. Further, AIG is not required to cash settle for any attributes used in the consolidated U.S. federal income tax return until such attributes can be utilized by the specific insurance company. Finally, in contrast to the agreement in place previously, the current Tax Sharing Agreements do not contain a claw back provision for tax attributes generated by the Company in transactions deemed outside the "ordinary course" of business and FIN 48 reserves remain on the books of the Company. These 2012 Tax Sharing Agreements replaced earlier Tax Sharing Agreements effective January 1, 2010.

Claims Services Agreement

Effective July 15, 2012, the Company, along with other pool members and other AIG affiliates, entered into a Claims Services Agreement with AIG Claims, Inc. (AIG Claims) (formerly Chartis Claims) for AIG Claims to provide claims administration services on behalf of such companies. This agreement was amended effective April 4, 2014, to reflect AIG Claims as a third-party administrator for accident and health business and to make certain Michigan and New Jersey state law-required modifications.

Capital Maintenance Agreements

During the examination period, the Company entered into various one year Capital Maintenance Agreements (CMAs) with its ultimate parent, AIG. Effective February 19, 2015, the 2014 CMAs then in effect expired and/or were terminated with proper notice to the various state insurance departments. As of the examination date, there were no amounts owed or outstanding under prior CMA's due or payable to parties under the expired agreements. AIG PC insurance subsidiaries capital requirements are now managed through AIG and AIG PC US internal Board approved policies and guidelines.

Loan Agreement

Effective December 18, 2014, the Company, along with other pool members and Eaglestone Reinsurance Company (Eaglestone), became a borrower under a Loan Agreement with AIG, as lender, pursuant to which a borrower may borrow funds from AIG from time to time. The aggregate principal amount of loans that may be outstanding to each of the borrowers under the Loan Agreement at any given time is capped as follows: NUFIC limit of $500 million, the Company’s limit of $500 million, American Home Assurance Company (American Home) limit of $500 million, Eaglestone limit of $150 million, AIGPCC limit of $100 million, Commerce and Industry Insurance Company (C&I) limit of $100 million. There is also an aggregate limit for outstanding principal for all loans to all borrowers at any given time under the Loan Agreement of $500 million.

Master Reinsurance Allocation Agreement

The Company and other AIG subsidiaries entered into a Master Reinsurance Allocation Agreement (the “Allocation Agreement”) effective February 29, 2008. The Allocation Agreement was entered into to satisfy the requirement of Statements of Statutory Accounting Principles (“SSAP”) No. 62 that reinsurance agreements with multiple cedants be subject to written allocation agreements. The Allocation Agreement, which applies to new and renewal reinsurance agreements incepting on or after January 1, 2007, describes the methods by which the parties allocate and report premium and losses under multiple cedant reinsurance contracts.

The Allocation Agreement does not amend any existing pool agreement and does not affect the rights of the parties to the agreement or any of their affiliates under any reinsurance contract. The parties simultaneously entered Amendment One to the Allocation Agreement that removed a party that should not have been included in the Allocation Agreement. The 2008 Agreement was superseded by a Master Reinsurance Allocation Agreement, effective April 1, 2016, which sets forth the method for allocating premium and losses under multiple cedant reinsurance agreements incepting on or after April 1, 2016.

Unaffiliated Agreements

Custody Agreement

The Company entered into a Second Amended and Restated Custody Agreement with Mellon Bank, N.A. (Mellon) effective July 27, 2007. This agreement replaced similar earlier agreements with Mellon effective November 9, 1998, and June 2, 2006. Pursuant to the agreement, Mellon acts as the custodian for the Company's portfolio of investment securities. A review of the terms of the custodian agreement indicates that the agreement contains the minimum standards required under the NAIC Handbook.

The Company is also a party to other unaffiliated agreements in effect at December 31, 2015, such as program administrator (PA) agreements, third party administrator (TPA) agreements, broker agreements and other vendor contracts, all of which were not considered significant for description herein.

TERRITORY AND PLAN OF OPERATION

Territory

At December 31, 2015, the Company holds a certificate of authority to write business in Delaware only. However, the Company is an eligible excess and surplus lines insurer in the remaining 49 U.S. states, the District of Columbia, Puerto Rico, and the U.S. Virgin Islands.

For 2015, the Company wrote 48.5% of its $3.785 billion in direct business in the following five states: California ($494.991 million, 13.1%), Florida ($444.319 million, 11.7%), Texas ($350.885 million, 9.3%), New York ($316.938 million, 8.4%), and Illinois ($228.825 million, 6.0%).

Plan of Operation

The Company is the largest excess and surplus lines carrier in the U.S. As a surplus lines insurer, the Company provides flexibility in capacity, rate, and form that allows it to meet its customers' unique risk coverages. The Company provides surplus lines coverage in all eligible jurisdictions for various lines and classes of business. The Company accepts business from surplus licensed brokers. Licensed surplus lines brokers are able to submit business to the Company, but such brokers usually have no authority to commit the Company to accept the risk. The Company utilizes the services of licensed surplus lines brokers and certain program administrators for underwriting policy issuance and administration. Third party administrators are contracted to provide claims adjustment services. The Company also assumes reinsurance from other carriers and AIG affiliates.

From January 1, 2011, to December 31, 2012, the Company had been a member of the Surplus Lines Pool with three other affiliates through an amended intercompany pooling agreement effective January 1, 2010. The Company's participation in the Surplus Lines pool was 70%, Chartis Select Insurance Company (Chartis Select) [DE domestic] was an 18% participant, AIG Specialty Insurance Company (AIG Specialty) (formerly Chartis Specialty Insurance Company) [IL domestic] was a 10% participant, and Landmark Insurance Company (Landmark) [CA domestic] was a 2% participant. Under the Surplus Lines Pooling agreement, each participant ceded 100% of its existing policyholder assets and liabilities to Lexington. In turn, each participant then assumes its share of the pooled policyholder assets and liabilities for financial reporting purposes.

Effective January 1, 2012, Landmark was merged into NUFIC and Chartis Select was merged into the Company with approvals from the California, Pennsylvania and Delaware Departments of Insurance. As a result of these mergers, Chartis Select and Landmark were deleted as members of the Surplus Lines Pool. Consequently, the fixed percentage pooling participation for the remaining members of the Surplus Lines Pool were revised retroactively as 90% to the Company and 10% to AIG Specialty.

Effective January 1, 2014, with approval from the Pennsylvania, New York, Delaware, and Illinois Departments of Insurance, the Surplus Lines Pool was combined with the Commercial Pool into a Combined Pool. Under the Combined Pooling Agreement, each participant cedes 100% of its existing policyholder assets and liabilities to NUFIC. In turn, each participant then assumes its share of the pooled policyholder assets and liabilities for financial reporting purposes.

The Combined Pool members and participation percentages at December 31, 2015, are as follows:

Company	Domicile	Participation
NUFIC	PA	30%
American Home	NY	30%
Lexington Insurance Company	DE	30%
AIGPCC	PA	5%
C&I	NY	5%
ISOP	#PA	0%
New Hampshire Insurance Company (New Hampshire)	*IL	0%
AIG Specialty	IL	0%
AIG Assurance Company (AIG Assurance)	#PA	0%
Granite State Insurance Company (Granite State)	*IL	0%
Illinois National Insurance Co. (Illinois National)	IL	0%
AIU Insurance Company (AIU)	NY	0%

*Companies re-domesticated to Illinois in 2014 from Pennsylvania in 2013.

#-Effective December 31, 2016, the companies re-domesticated to Illinois.

Net written premiums in 2015 by line of business (top 5) were as follows:

Lines of Business		**Premiums**	**Percentage of Total**
Other Liability - Claims Made	$	925,427,323	16.6%
Other Liability - Occurrence	$	790,336,699	14.2%
Workers' Compensation	$	703,722,140	12.6%
Fire	$	588,089,160	10.6%
Group Accident and Health	$	321,046,449	5.8%
All Others	$	2,235,781,738	40.2%
Total	$	5,564,403,509	100.0%

REINSURANCE

General

The Company reported the following distribution of net premiums written for 2015:

Direct	$3,784,889,101
Reinsurance assumed from affiliates	$7,472,888,089
Reinsurance assumed from non-affiliates	308,147,126
Total assumed	$7,781,035,215
Total gross (direct and assumed)	$11,565,924,316
Reinsurance ceded to affiliates	$4,484,746,098
Reinsurance ceded to non-affiliates	1,516,774,709
Total ceded	$6,001,520,807
Net premiums written	$5,564,403,509

The Company retained 48.11% of its gross business in 2015.

Assumed

Affiliated

The Company participates in the Combined Pooling Agreement described in the "Affiliated Agreements" section of this report. Under the Combined Pooling Agreement, the Combined Pool members share in the underwriting results of the participating insurers on a pre-determined basis. Although the Combined Pool member that issues an insurance policy retains its direct liability to the policyholders, the other Combined Pool members are liable (directly or indirectly) to the issuing Combined Pool member as reinsurer for their respective share of such issuing Combined Pool member's obligations under such policy. Under the Combined Pool, NUFIC acts as the lead pool company, assuming all direct and assumed business from the other Combined Pool members and combines premiums, assets, and liabilities, including the provision for reinsurance, along with its own direct and assumed business. NUFIC retains its pool share of such Combined Pool business and reinsures or retrocedes the remainder of the Combined Pool business to the other Combined Pool members in accordance with their participating share.

The Company's assumed premiums written of $7.473 billion from affiliates in 2015 is primarily a result of the Combined Pooling Agreement described earlier in this report:

Source	Premiums (in 000s)	Percent of Total
NUFIC for the Combined Pool	$7,197,412	96.3%
American International Reinsurance Co. LTD	132,426	1.8%
AIG Europe Limited	82,431	1.1%
AIG Insurance Company China LTD	55,244	0.7%
Aggregate of all other affiliates	5,375	0.1%
Total	$7,472,888	100.0%

Unaffiliated

The Company's assumed premiums written of $0.308 billion from non-affiliates in 2015 is detailed by cedent (and domicile in parentheses) as follows:

Cedent	Premiums (in 000s)	Percent of Total
Public Entity Property Insurance Program (CA)	$43,183	14.1%
CSAC Excess Insurance Authority (CA)	28,110	9.1%
Schools Association for Excess Risk (CA)	25,902	8.4%
Harel Insurance Company (IL)	18,261	5.9%
Aggregate of all others (no cedent > $13 million)	192,691	62.5%
Total	$308,147	100.0%

Ceded

Affiliated

The Company's ceded premiums written of $4.485 billion to affiliates in 2015 is primarily a result of the Combined Pooling Agreement described earlier in this report:

Source	Premiums (in 000s)	Percent of Total
NUFIC for the Combined Pool	$4,424,447	98.7%
Eaglestone Reinsurance Company	11,789	0.3%
Aggregate of all other affiliates	48,510	1.0%
Total	$4,484,746	100.0%

Unaffiliated

External treaty reinsurance is placed by the Global Reinsurance Division (GRD). Reinsurance officers within GRD are aligned with specific Profit Centers and are responsible for:

- Optimizing structure and placement of external treaty reinsurance for Product Lines and Corporate Reinsurance (e.g., corporate catastrophe program)
- Reinsurance Credit, through the Reinsurance Credit Department, which monitors the financial condition of reinsurers and sets limits on the exposure AIG is willing to take with prospective reinsurers; GRD also manages the third-party collateral process
- Managing all reinsurance broker and reinsurance market relationships
- Collaboration with Internal Reinsurance

Treaty reinsurance is placed as necessary to support AIG's risk appetite, both on an individual occurrence and aggregate basis including catastrophic exposure. An exception to using reinsurance to manage risk appetite is reinsurance ceded through certain captive programs.

AIG PC US maintains extensive reinsurance programs placed with U.S. domestic, international and offshore reinsurers. Reinsurance strategies have been established to support management initiatives. During 2015, AIG established an internal limit for natural catastrophe Probable Maximum Loss ("PML") at $3.5 billion for a 1 in 10-year event, $7.5 billion for a 1 in 100-year event and $10 billion for a 1 in 250-year event.

For 2015, AIG purchased catastrophe protection for its commercial and personal lines both on an individual occurrence and aggregate basis that included traditional reinsurance and non-traditional reinsurance ("CAT bonds") covering windstorm and earthquake for U.S., Canada, Caribbean, and Mexico. For a catastrophic event AIG retained the first $3 billion and had $2.5 billion of reinsurance protection and $1 billion of additional coverage through a worldwide aggregate treaty providing second event coverage. The reinsurance did not contain a reinstatement provision. AIG's maximum retention under the Global Property Risk Excess Program on a per risk basis at 12/31/15 was $450 Million.

Lines of Business Protected by Reinsurance

1. Corporate Property Catastrophe
2. Global Property
3. Commercial Casualty
4. Specialty
5. Global Marine
6. Financial Lines
7. Consumer
8. Other Personal Lines
9. International Life – Health

The Company's ceded premiums written of $1.517 billion to non-affiliates in 2015 is detailed by assuming company (and domicile in parentheses) as follows:

Assuming Company	Premiums (in 000s)	Percent of Total
Jupiter Insurance Ltd. (GG)	$279,142	18.4%
Swiss Reinsurance Company Ltd (CH)	67,072	4.4%
Upinsco Inc. (VI)	59,610	4.0%
Esecuritel Re Ltd. (BM)	56,333	3.7%
Hartford Steam Boiler Inspection and Insurance Co. (CT)	47,499	3.1%
Swiss Reinsurance America Corp. (NY)	46,231	3.0%
Solen Versicherungen AS (CH)	39,448	2.6%
Munich Reinsurance Company (DE)	37,970	2.5%
PS Insurance Co., Ltd (HI)	32,513	2.1%
Columbus Insurance Ltd. (KY)	31,562	2.1%
Evolution Insurance Company (KY)	31,115	2.1%
Aggregate of all others (no entity > $30 million)	788,280	52.0%
Total	$1,516,775	100.0%

General

The Schedule F data contained in the Company's annual statements filed for the years within the examination period were found to accurately reflect its reinsurance transactions.

All significant reinsurance contracts reviewed by the exam team appear to contain the appropriate insolvency and arbitration clauses. All significant reinsurers reviewed by the exam team are licensed or authorized to conduct business in Delaware.

All significant reinsurance contracts reviewed by the exam team appear to meet the required transfer of risk provisions as noted in Statements of Statutory Accounting Principles ("SSAP") No. 62R.

FINANCIAL STATEMENTS

The following financial statements are based on the statutory financial statements filed by the Company with the Delaware Department of Insurance and present the financial condition of the Company for the period ending December 31, 2015. As previously noted, there are no financial adjustments as a result of this examination. Financial statements, as reported and filed by the Company with the Delaware Department of Insurance, are reflected in the following:

- Statement of assets
- Statement of liabilities, surplus and other funds
- Statement of income
- Reconciliation of surplus for the period since the last examination

LEXINGTON INSURANCE COMPANY
STATEMENT OF ASSETS
DECEMBER 31, 2015

Assets	Assets	Nonadmitted Assets	Net Admitted Assets	Note
Bonds	$17,601,084,244		$17,601,084,244	1
Preferred stocks	25,900,000		25,900,000	
Common stocks	732,029,380	298,810	731,730,570	2
Mortgage loans - first liens	163,550,715		163,550,715	
Cash, cash equivalents and short-term investments	(13,891,520)		(13,891,520)	
Derivatives	15,400,757		15,400,757	
Other invested assets	2,422,317,104	802,911	2,421,514,193	3
Receivables for securities	15,440,286		15,440,286	
Investment income due and accrued	163,577,032		163,577,032	
Premiums and considerations:				
Uncollected premiums and agents balances	825,254,881	68,993,923	756,260,958	
Deferred premiums	289,497,678	382,083	289,115,595	
Accrued retrospective premium	600,244,024	13,880,459	586,363,565	
Reinsurance:				
Amounts recoverable from reinsurers	303,454,363		303,454,363	
Funds held by or deposited with reinsured companies	183,889,240		183,889,240	
Current federal and foreign income tax recoverable	387,808,678	18,656,882	369,151,796	
Net deferred tax asset	405,823,992		405,823,992	
Guaranty funds receivable	6,785,382		6,785,382	
EDP equipment and software	9,123,166	9,123,166	0	
Receivable from affiliates	1,392,899,369	582,992	1,392,316,377	
Aggregate write-ins for other than invested assets	123,176,158	35,983,582	87,192,576	
Total Assets	**$25,653,364,929**	**$148,704,808**	**$25,504,660,121**	

LEXINGTON INSURANCE COMPANY
STATEMENT OF LIABILITES, SURPLUS AND OTHER FUNDS
DECEMBER 31, 2015

		Note
Losses	$10,446,874,680	4
Reinsurance payable on paid lossesand LAE	204,820,561	
Loss adjustment expenses	2,412,526,490	4
Commissions payable	(1,723,986)	
Other expenses	24,740,754	
Taxes, licenses and fees	250,745,711	
Current federal and foreign income taxes	12,637,873	
Borrowed money	70,000,000	5
Unearned premiums	3,127,122,301	
Ceded reinsurance premiums payable	279,039,415	
Funds held by company under reinsurance treaties	1,362,165,996	
Amounts withheld by company for others	2,933,501	
Remittances and items not allocated	7,460,119	
Provision for reinsurance	32,523,017	
Payable to affiliates	33,612,134	
Payable for securities	4,373,885	
Aggregate write-ins for liabilities	641,778,668	
Total Liabilities	$18,911,631,120	
Aggregate write-ins for special surplus funds	$2,198,608	
Common capital stock	6,719,320	
Gross paid in and contributed surplus	2,549,033,739	6
Unassigned funds (surplus)	4,035,077,334	
Surplus as regards policyholders	$6,593,029,001	
Total liabilities, surplus and other funds	**$25,504,660,121**	

LEXINGTON INSURANCE COMPANY
STATEMENT OF INCOME
DECEMBER 31, 2015

UNDERWRITING INCOME

Premiums earned	$ 5,365,443,761
Deductions	
Losses incurred	$ 3,733,840,901
Loss adjustment expenses incurred	1,030,404,611
Other underwriting expenses incurred	1,647,784,409
Total underwriting deductions	6,412,029,921
Net underwriting gain or (loss)	$(1,046,586,160)

Investment Income

Net investment income earned	$ 908,000,779
Net realized capital gains or (losses)	26,101,511
Net investment gain (loss)	$ 934,102,290

Other Income

Net gain or (loss)	$ (18,653,131)
Finance and service charges not included in premiums	18,178
Aggregate write-ins for miscellaneous income	(14,216,970)
Total other income	$ (32,851,923)
Net income after dividends to policyholders but before federal income taxes	$ (145,335,793)
Federal and foreign income taxes incurred	(151,291,676)
Net income	$ 5,955,883

LEXINGTON INSURANCE COMPANY
RECONCILIATION OF SURPLUS FOR THE PERIOD
SINCE THE LAST EXAMINATION
DECEMBER 31, 2015

Description	Aggregate Write-ins for Special Surplus Funds	Common Capital Stock	Gross Paid In and Contributed Surplus	Unassigned Funds (Surplus)	Total Surplus
Balance as of January 1, 2011	$ 143,862,405	$ 5,000,000	$ 895,840,240	$ 4,496,681,012	$ 5,541,383,657
2011 Operations (1)	97,301,695	-	-	166,913,161	264,214,856
2011 Capital Contribution (2)	-	-	17,140,480	-	17,140,480
2012 Operations (1)	(240,979,908)	-	-	1,856,423,723	1,615,443,815
2012 Capital Contributions (2)	-	1,719,320	485,672,685	-	487,392,005
2013 Operations (1)	(147,314)	-	-	(701,296,139)	(701,443,453)
2014 Operations (1)	2,623,316	-	-	(692,681,121)	(690,057,805)
2015 Operations (1)	(461,586)	-	-	(1,090,963,302)	(1,091,424,888)
2015 Capital Contribution (2)	-	-	1,150,380,334	-	1,150,380,334
Balance as of December 31, 2015	$ 2,198,608	$ 6,719,320	$ 2,549,033,739	$ 4,035,077,334	$ 6,593,029,001

(1) Operations is defined as net income, change in net unrealized capital gains or (losses), change in net deferred income tax, change in non-admitted assets, change in provision for reinsurance, aggregate write-ins for gains and losses to surplus, and change in aggregate write-ins for special surplus funds

(2) Capital Contributions is defined as change in common capital stock and change in gross paid in and contributed surplus.

ANALYSIS OF CHANGES IN THE FINANCIAL STATEMENTS RESULTING FROM EXAMINATION

There were no financial adjustments to the Company’s financial statements as a result of this examination.

COMMENTS ON FINANCIAL STATEMENT ITEMS

(Note 1) Bonds **$17,601,084,244**

The Company's bonds represent 84.0% of the $20.961 billion in invested assets at year-end 2015. 93.2% of the Company's bonds are rated as Class 1 ($14.022 billion, 79.7%) or Class 2 ($2.381 billion, 13.5%) by the NAIC. 67.1% of the bond portfolio is comprised of investments maturing in one to ten years.

(Note 2) Common Stocks **$731,730,570**

The common stocks represented 3.5% of the $20.961 billion in invested assets at year-end 2015. The Company's affiliated common stock admitted value of $70.462 million at year-end 2015 represents 9.6% of the Company's total common stock portfolio admitted value.

(Note 3) Other Invested Assets **$2,421,514,193**

The Company's other invested assets represent 11.6% of the $20.961 billion in invested assets at year-end 2015 and consists of the following joint venture interests:

Description	Year-end Book Value	Potential Additional Capital Investment
Unaffiliated		
Common Stock	$1,096,762,284	$84,026,019
Other	1,004,027,434	161,332,028
Real Estate	29,307,715	28,089,379
Collateral Loans	14,018,896	0
Subtotal Unaffiliated	$2,144,116,329	$273,447,426
Affiliated		
Real Estate	$265,874,614	$58,438,127
Other	12,326,160	9,386,535
Subtotal Affiliated	$278,200,774	$67,824,662
Less: Assets non-admitted	(802,911)	0
Total	$2,421,514,193	$341,272,088

Of the $341.272 million of potential additional capital investment, the Company expects approximately $220.875 million to be called during 2016.

(Note 4) Losses $10,446,874,680
Loss Adjustment Expenses $2,412,526,490

The Combined Pool's loss reserves and loss adjustment expenses increased materially during the 4th quarter of 2015 resulting from the completion of a prior year reserve substantiation study, an increase in Incurred But Not Reported related to asbestos business, a correction of an error in the calculation of the insolvent and commute estimate, and an increase in unpaid loss reserves. The following chart estimates this prior year development by accident year grouping and segment (in millions):

Accident Year Grouping	U.S. Excess Casualty	U.S. Financial Lines	Bulk and SCI	Defense Base Act	Int'l Casualty	All Other	Total Q4 2015	Total Q1-Q3 2015	Total 2015
2005 & Prior	$568	$79	$57	$(9)	$28	$11	$733	$353	$1,086
2006-2011	244	261	179	(80)	(34)	(57)	513	145	659
2012-2014	359	(165)	89	190	117	72	664	91	755
Total	$1,172	$175	$326	$101	$111	$26	$1,910	$590	$2,500

The Company's participating share of this prior year reserve strengthening is 30% at December 31, 2015.

Richard A. Brassington, ACAS, MAAA, Senior Vice President and Actuary of the Company, has been the appointed actuary for the Company since July 28, 2014. David Gelline, FCAS, MAAA, Company officer served as the appointed actuary for years-ending 2013 and 2012. Mark Scully, FCAS, MAAA, Company officer served as the appointed actuary for year-ending 2011. Such changes in the appointed actuary were made due to actuaries terminating their employment with AIG.

For each year in the examination period, the appointed actuary issued a Statement of Actuarial Opinion concluding that the Company's reserves made a reasonable provision for all unpaid losses and LAE obligations of the Company

In order for the examination team to get a comfort level with the Company's reserving processes and estimates, the Departments retained the actuarial services of both INS Consultants, Inc. and Oliver Wyman to review the pricing and reserving activities on this risk focused examination. INS's scope focused on risk identification and effectiveness of risk mitigating strategies employed by the Company. Oliver Wyman was retained to complete an independent reserve analysis and conduct substantive procedures to support the residual risk assessments for the Company's reserving activities.

Oliver Wyman tested the AIG reporting segments of the Combined Pool that presented the most volatility and found that the reserves carried by the Company as of December 31, 2015, were inadequate. This was substantiated by AIG's announcement on February 3, 2017, that the total amount of the 2016 year-to-date adverse development charge for its non-life business was $5.8 billion, with approximately $4.9 billion of this charge relating to reporting segments within the Combined Pool. Given the amount of material reserve strengthening taken by the Company in 2016, the Departments decided no financial statement adjustments would be required.

Other than changes to the Pooling Agreement as previously discussed, there have been no significant changes to the Company's reserving methodology since the last examination.

(Note 5) Borrowed Money **$70,000,000**

The borrowed money is pursuant to the Loan Agreement described earlier in this report, which was effective December 18, 2014, with the borrowed amount occurring during the 4^{th} quarter of 2015.

(Note 6) Gross Paid In and Contributed Surplus **$2,549,033,739**

As a result of the reserve strengthening that occurred during the 4^{th} quarter of 2015 as described at Note 4 above, the Company's balance in this account increased $1,150,380,334 as a result of a contribution from the Company's parent.

SUBSEQUENT EVENTS

Second Amended and Restated Inter-Company Pooling Agreement

Subsequent to December 31, 2015, the Combined Pool members received approval from the various state insurance departments for the Second Amended and Restated Inter-Company Pooling Agreement (with an effective date of January 1, 2016), which reduced the Combined Pool percentage of C&I from 5% to 0% and increased the Combined Pool percentage of American Home from 30% to 35%. As such, Combined Pool percentages changed as follows:

Company	December 31, 2015	January 1, 2016
National Union Fire Insurance Company of Pittsburgh, Pa. (PA)	30%	30%
Lexington Insurance Company (DE)	30%	30%
American Home Assurance Company (NY)	30%	35%
Commerce and Industry Insurance Company (NY)	5%	0%
AIG Property Casualty Company (PA)	5%	5%
The Insurance Company of the State of Pennsylvania (PA)	0%	0%
New Hampshire Insurance Company (IL)	0%	0%
AIG Specialty Insurance Company (IL)	0%	0%
AIG Assurance Company (PA)	0%	0%
Granite State Insurance Company (IL)	0%	0%
Illinois National Insurance Co. (IL)	0%	0%
AIU Insurance Company (NY)	0%	0%

2017 Pooling Restructure Transaction

Effective January 1, 2017, the Combined Pooling Agreement was amended and restated to reflect new pool participation percentages amongst certain pool members. The Company's participation in the pool remained at 30%.

Cession to Swiss Reinsurance Company

Effective January 1, 2016, AIG companies entered into a two-year reinsurance arrangement with Swiss Reinsurance Company Ltd, under which a share of AIG's new and renewal U.S. casualty portfolio was ceded to the reinsurer.

Adverse Development Cover

On January 20, 2017, the Combined Pool entered into an adverse development reinsurance agreement with National Indemnity Company ("NICO"), a subsidiary of Berkshire Hathaway Inc., under which the Combined Pool ceded to NICO eighty percent of its reserve risk above an attachment point on substantially all of its U.S. Commercial long tail exposures for accident years 2015 and prior. Under this agreement, the Combined Pool ceded to NICO eighty percent of net paid losses and net allocated loss adjustment expenses on subject business on or after January 1, 2016, in excess of $25 billion of net paid losses, up to an aggregate limit of $25 billion. NICO's limit of liability under the contract is $20 billion. The Company applied a permitted practice to record this transaction in 2016, instead of 2017, resulting in a gain to the Company of $277 million.

Return of Capital

During 2016, AIG announced and/or completed a series of transactions, (some still pending regulatory approval), aimed at increasing AIG's focus on core operation. A portion of the proceeds from these transactions has also been used to fund the shareholder capital return announced by AIG on January 26, 2016. AIG's efforts included but were not limited to the sale of its Advisor Group, the sale of United Guaranty Corp., the sale of AIG Taiwan Insurance Company, Ltd., and the sale of its interest in Ascot Underwriting Holdings Ltd. AIG entered into several agreements with Fairfax Financial Holdings Limited, to sell its local commercial and consumer insurance operations in Argentina, Chile, Colombia, Uruguay, Venezuela, and Turkey. Under the agreements, Fairfax will also acquire renewal rights for the portfolio of local business written by AIG's Central and Eastern European ("CEE") operations in Bulgaria, Czech Republic, Hungary, Poland, Romania, and Slovakia, and assume AIG's CEE operation assets and employees. In addition, AIG entered into an agreement with FWD Group, which is the insurance arm of Pacific Century Group, to sell AIG Fuji Life Insurance Company, Limited. As of May 4, 2017, AIG had returned approximately $18.1 billion to its shareholders.

2016 Capital Contributions

As mentioned above, the Combined Pool members strengthened their reserves during the 4th Quarter of 2015 and, as a result, received the following capital contributions from their respective stockholders during the 1st Quarter of 2016:

Company	Date	Securities	Cash	Total
NUFIC	January 25, 2016	$799,779,808	$220,192	$800,000,000
Lexington	January 25, 2016	1,149,909,012	90,988	1,150,000,000
American Home	January 25, 2016	649,922,387	77,613	650,000,000
American Home	February 29, 2016	699,522,284	477,716	700,000,000
C&I	January 25, 2016	49,816,970	183,030	50,000,000
AIG PCC	January 25, 2016	99,730,245	269,755	100,000,000
Total		$3,448,680,706	$1,319,294	$3,450,000,000

2016 Reserve Strengthening

On February 3, 2017, AIG announced that the total amount of the 2016 year-to-date adverse development charge for its non-life business to be $5.8 billion. Approximately $4.9 billion of this reserve charge relates to reporting segments within the Combined Pool.

Dividends to Stockholders

The Company's Board of Directors declared and paid dividends to its stockholder, which were approved by the Delaware Department of Insurance:

Company	Date Paid	Type	Securities	Cash	Total
Lexington	June 28, 2016	Ordinary	$328,635,959	$1,015,491	$329,651,450
Lexington	September 22, 2016	Ordinary	157,901,338	2,098,662	160,000,000
Total			$486,537,297	$3,114,153	$489,651,450

CEO Resignation and New CEO Appointed

On March 9, 2017, AIG announced that Mr. Peter Hancock, President and Chief Executive Officer ("CEO"), informed the Board of Directors of his intention to resign. As part of the transition plan, Mr. Hancock remained as CEO until a successor was named. On May 15, 2017, AIG announced that Brian Duperreault has been appointed its new President, CEO and Director effective May 14, 2017.

John Paulson To Leave AIG Board of Directors

Mr. John Paulson is not being nominated for re-election to the AIG Board. Mr. Paulson's one-year term will end at the AIG Annual Meeting to be held on June 28, 2017.

SUMMARY OF RECOMMENDATIONS

Compliance With Prior Exam Recommendations

There were no recommendations in the prior examination report.

Current Exam Recommendations

There were no recommendations as a result of this examination.

CONCLUSION

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

Description	December 31, 2010	December 31, 2015	(Decrease)
Assets	$ 18,658,006,058	$ 25,504,660,121	$ 6,846,654,063
Liabilities	$ 13,116,622,401	$ 18,911,631,120	$ 5,795,008,719
Special Surplus Fund	$ 143,862,405	$ 2,198,608	$ (141,663,797)
Common Capital Stock	5,000,000	6,719,320	1,719,320
Gross Paid In and Contributed Surplus	895,840,240	2,459,033,739	1,563,193,499
Unassigned Funds (Surplus)	4,496,681,012	4,035,077,334	(461,603,678)
Total Surplus	$ 5,541,383,657	$ 6,503,029,001	$ 961,645,344
Totals	$ 18,658,006,058	$ 25,414,660,121	$ 6,756,654,063

In addition to the undersigned, Steven Guest, CPA, CFE, (Examination Supervisor), Andrew Chiodini, CFE, and Olsjon Goxhaj, participated in the examination.

Respectfully submitted,

Douglas E. Bey

Douglas Bey, CPA, CFE
Examiner-In-Charge
State of Delaware