

EXAMINATION REPORT
OF
GENERAL STAR INDEMNITY COMPANY
AS OF
DECEMBER 31, 2016

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, 2016 of

GENERAL STAR INDEMNITY COMPANY

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

Attest By: Rafael Brown

Date: June 5, 2018



In Witness Whereof, I have hereunto set my hand and affixed the official seal of this Department at the City of Dover, this 13 day of June, 2018.

Trinidad Navarro
Trinidad Navarro
Insurance Commissioner

Trinidad Navarro
Commissioner



Delaware Department of Insurance

REPORT ON EXAMINATION
OF
GENERAL STAR INDEMNITY COMPANY
AS OF
DECEMBER 31, 2016

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 blue ink, appearing to read "Trinidad Navarro".

Trinidad Navarro
Insurance Commissioner

Dated this 13 day of June, 2018

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SALUTATION

May 31, 2018

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

Commissioner:

In compliance with instructions and pursuant to statutory provisions contained in Exam Authority No. 17.020, dated April 25, 2017, an examination has been made of the affairs, financial condition and management of

GENERAL STAR INDEMNITY COMPANY

with its statutory home office located at 1209 Orange Street, Wilmington, Delaware 19801 and its administrative home office located at 120 Long Ridge Road, Stamford, Connecticut 06902-1843. The report of examination thereon is respectfully submitted.

SCOPE OF EXAMINATION

We have performed our multi-state examination of General Star Indemnity Company (the “Company”). The last examination of the Company covered the period of January 1, 2010 through December 31, 2012. This examination of the Company covers the period of January 1, 2013 through December 31, 2016. Our examination was conducted concurrently with our examination of the Company’s direct parent, General Reinsurance Corporation (“GRC”), and affiliates General Star National Insurance Company (“GSNIC”) and Genesis Insurance Company (“GIC”).

We conducted our examination in accordance with the *National Association of Insurance Commissioners* (“NAIC”) *Financial Condition Examiners Handbook* (“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 Laws 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 the examination, consideration was given to work performed by the Company’s external accounting firm, Deloitte & Touche LLP. Certain auditor work papers have been incorporated into the examination work papers.

SUMMARY OF SIGNIFICANT FINDINGS

There were no significant findings or changes to the Company's financial statements as a result of the examination.

COMPANY HISTORY

General

The Company was originally founded as General Reinsurance Corporation of Connecticut on June 21, 1967, under the laws of the State of Connecticut, and commenced business on May 11, 1979, under the name North Star Excess Insurance Corporation. The Company's name was changed to Genstar Indemnity Company in 1984 and to General Star Indemnity Company in 1986.

In 1997, the Company founded General Star International Indemnity Limited ("GSIL"), a wholly owned United Kingdom subsidiary. GSIL ceased writing new business in December 2000. On September 15, 2010, the Company divested of GSIL via an extraordinary dividend consisting of all issued and outstanding shares of GSIL paid to GRC. On September 22, 2011, Genesis Indemnity Insurance Company ("GIIC"), a North Dakota domestic company, was merged into the Company. Effective December 31, 2012, the Company changed its statutory domicile from Connecticut to Delaware.

The Company was founded by and has remained a direct subsidiary of GRC since its inception. On October 31, 1980, GRC reorganized as a wholly owned subsidiary of General Re Corporation ("General Re"), which was a newly formed holding company. On November 3, 1980, shares of General Re were listed on the New York Stock Exchange. Effective December 21, 1998, General Re was acquired by Berkshire Hathaway Inc. ("Berkshire").

Capitalization

The Company’s Certificate of Incorporation authorizes the issue of two hundred thousand (200,000) shares of common stock with a \$25 par value per share. As of December 31, 2016, all authorized common shares were issued and outstanding. All outstanding common shares of the Company are owned by GRC. As of December 31, 2016, the Company reported gross paid-in and contributed surplus of \$85.0 million, which was unchanged over the examination period. The following chart summarizes the Company’s reported capital stock and gross paid-in and contributed surplus from the prior examination date to December 31, 2016.

	<u>Capital Stock</u>	<u>Gross Paid-in & Contributed Surplus</u>	<u>Total Capital Stock, Gross Paid-in & Contributed Surplus</u>
December 31, 2012	\$ 5,000,000	\$ 85,000,000	\$ 90,000,000
Activity	<u>-</u>	<u>-</u>	<u>-</u>
December 31, 2016	<u>\$ 5,000,000</u>	<u>\$ 85,000,000</u>	<u>\$ 90,000,000</u>

Dividends

The Company paid ordinary dividends in the amount of \$64.0 million and \$61.0 million for the calendar years ended 2014 and 2015, respectively. The dividends for each year were approved by the Delaware Department of Insurance (“Department”).

MANAGEMENT AND CONTROL

Directors

Pursuant to the General Corporation Laws of the State of Delaware, the Company’s Certificate of Incorporation and bylaws require the business and affairs of the Company to be exercised by, or under the authority of, its Board of Directors (“Board”). The Company’s bylaws mandate that the Board consist of not less than three members to be elected annually by the stockholders. The bylaws require the Board elect a Chairman of the Board (“Chairman”). The Board members duly appointed/elected and serving as of December 31, 2016, were as follows:

<u>Name</u>	<u>Business Affiliation</u>
Martin George Hacala	Chairman, Chief Executive Officer and President General Star Indemnity Company General Star National Insurance Company Genesis Insurance Company
Andrew Randall Gifford	General Counsel and Secretary General Re Corporation
Edward Michael Nosenzo	North America Chief Financial Officer General Reinsurance Corporation

Officers

Officers were appointed in accordance with the Company's bylaws during the period under examination. The bylaws require that the following officers be elected by the Board: a Chairman, a President, a Treasurer and a Secretary. The Chairman and the President shall be directors, but the other officers need not be directors. The Board may appoint and assign duties to one or more Vice Presidents, one of whom may be designated as Executive Vice President and one or more of whom may be designated Senior Vice President. The Board may also appoint and assign duties to a Comptroller. The Chief Executive Officer may appoint, assign duties to and terminate other officers at discretion. One person may hold more than one office except the office of Chairman and Secretary or President and Secretary may not be held by the same person. The primary officers of the Company serving as of December 31, 2016, were as follows:

<u>Name</u>	<u>Title</u>
Martin George Hacala	Chairman, Chief Executive Officer and President
Solan Bernhard Schwab	Secretary
Edward Michael Nosenzo	Treasurer

Corporate Records

The recorded minutes of the stockholder and Board meetings were reviewed for the period under examination. The minutes during the examination period adequately documented the approval of the Company's material transactions and events, including the Board approval of investment transactions in accordance with 18 *Del. C.* § 1304.

Insurance Holding Company System

The Company is a member of an insurance holding company system as defined under 18 *Del. C.* §5001 of the Delaware Insurance Code. General Re indirectly owns 100% of the Company. General Re is a wholly owned subsidiary of Berkshire, which is a publicly traded conglomerate controlled by Warren E. Buffett. In addition to General Re, Berkshire owns numerous other domestic and foreign-based insurance entities. Berkshire's insurance businesses provide insurance and reinsurance of property and casualty risks worldwide and also reinsure life, accident, and health risks worldwide. The following is an organizational chart of General Re as of December 31, 2016:

General Star Indemnity Company

<u>Name of Corporation</u>	<u>Domicile</u>	<u>Principal Activity</u>	<u>% Ownership</u>	<u>Incorporated/ Acquired by Group</u>
Berkshire Hathaway Inc.	Delaware	Holding Company	None	
General Re Corporation	Delaware	Holding Company	100	1998/1980
General Reinsurance Corporation	Delaware	Reinsurer	100	1970
Elm Street Corporation	Delaware	Real Estate	100	1981
General Star Indemnity Company	Delaware	Insurer	100	1967
General Star National Insurance Company	Delaware	Insurer	100	1864/1985
General Star Management Company	Delaware	Management	100	1979
Genesis Management and Insurance Services Corporation	Delaware	Management	100	1988
Genesis Insurance Company	Delaware	Insurer	100	1976/1989
GRC Realty Corporation	Connecticut	Real Estate	100	1972
General Reinsurance Australia Ltd	Australia	Reinsurer	100	1961
General Re Compania de Reaseguros, S.A.	Uruguay	Reinsurer	100	1990
General Reinsurance AG	Germany	Reinsurer	100	1846/1994
General Reinsurance México S.A.	Mexico	Agent	100	1976/1994
Gen Re Support Services Mumbai Private Limited	India	Service Company	99.99 (3)	2014
General Reinsurance Africa Ltd.	South Africa	Reinsurer	100 (1)	1966/1994
General Reinsurance AG Escritório de Representação no Brasil Ltda.	Brazil	Management	99.99 (2)	1997
General Reinsurance Life Australia Ltd.	Australia	Reinsurer	100	1981/1994
Gen Re Beirut s.a.l. offshore	Lebanon	General Business Corp.	100 (1)	1996
General Re Life Corporation	Connecticut	Reinsurer	100	1967/1994
Idealife Insurance Company	Connecticut	Insurer	100	1981/1994
Railsplitter Holdings Corporation	Delaware	Holding Company	100	2008/2008
New England Asset Management, Inc.	Delaware	Investment Adviser	100	1984/1995
New England Asset Management Limited	Ireland	Investment Adviser	100	2008
United States Aviation Underwriters, Incorporated	New York	Manager	100	1928/1982
Canadian Aviation Insurance Managers Ltd.	Canada	Manager	100	1937
Gen Re Intermediaries Corporation	New York	Intermediary	100	1926/1928
Faraday Holdings Limited	UK	Holding Company	100	1991/1998
GRF Services Limited	UK	General Business Corp.	100	1993/1998
Faraday Underwriting Limited	UK	Manager	100	1982/1998
Faraday Capital Limited	UK	Lloyd's Corporate Vehicle	100	1994/1998
GRD Holdings Corporation	Delaware	Holding Company	100	2001
General Re Financial Products Corporation	Delaware	Former Swap Dealer	100	1990
Gen Re Long Ridge, LLC	Connecticut	Real Estate	100	2008

(1) Warren E. Buffett owns 295,161 shares of Class A common stock and 79,345 shares of Class B common stock, which is approximately 32.28% of the voting interest and 17.93% of the economic interest of Berkshire Hathaway Inc.

(2) Percentages include any qualifying shares.

(3) General Reinsurance AG owns 3,574,417 shares of General Reinsurance AG Escritório de Representação no Brasil Ltda. One share is owned by Luis E.C. Rayes, a Brazilian citizen.

(4) General Reinsurance AG owns 99.99% of Gen Re Support Services Mumbai Private Limited. One share is owned by Suzie Foo (on behalf of GRAG).

Through its directly and indirectly owned subsidiaries, General Re has global insurance, reinsurance and financial service operations with business activities in over forty-five cities throughout the world and provides property/casualty and life/health reinsurance coverage worldwide. General Re's principal reinsurance operations are based in North America and

Germany, with other major operations in Asia, Australia, Europe (primarily London) and South America. General Re's principal financial service operations are the New England Asset Management, Inc. ("NEAM") operations located in the United States (Farmington, Connecticut) and Dublin, Ireland.

Affiliated Agreements

- Domestic Management and Cost Sharing Agreements
 - Effective as of August 1, 2014, General Re and its subsidiaries, including the Company, entered into a Master Services Agreement wherein the entities provide various services and reporting to each other. The Master Services Agreement superseded the various individual service agreements that existed between and among the entities. Fees and expenses are settled based on actual charges and/or allocated in accordance with methods prescribed in the agreement.

- Tax Allocation Agreement
 - Effective for tax years beginning December 31, 2015, the Company entered an Amended and Restated Tax Allocation Agreement with General Re and Berkshire affiliates. In accordance with the amended agreement, the Company joins with a group of approximately eight hundred affiliated companies in the filing of a consolidated federal income tax return by Berkshire. The consolidated tax liability is allocated among affiliates in the ratio that each affiliate's separate return tax liability bears to the sum of the separate return tax liabilities of all affiliates that are members of the consolidated group. In addition, a complementary method is used which results in reimbursement by profitable affiliates to loss affiliates for tax benefits generated by loss affiliates.

- Cash Management Agreements

- Effective as of January 1, 1989, and amended February 1, 2007, October 1, 2008 and July 1, 2009, the Company entered a Joint Asset Agreement with several of its affiliates. In accordance with the agreement, a pool fund was established whereby each participant contributes cash in excess of general working capital in order to improve the investment returns on the contributed funds. Each participant jointly owns a percentage of the assets in the pool and the investment income derived from the pool. Reinvestments of the pool are made in proportion to each participant's contributed assets, and each participant jointly shares the same proportion in the profits or losses, if any, of the pool fund. The agreement appoints GRC as the manager of the pool fund, and any participant may cancel its participation and liquidate or withdraw its contributions on notice to the manager.
- Effective as of March 1, 1993, and amended February 1, 2007, October 1, 2008 and July 1, 2009, the Company and several affiliates entered a Master Loan Agreement. In accordance with the agreement, an intercompany short-term loan program was established to reduce each participant's level of short-term investments yet allow the participants to retain sufficient liquidity to pay current obligations by borrowing funds as needed. GRC acts as the manager of the short-term loan facility. It is authorized to make loans by affiliates to affiliates requesting such a loan. Material loans require the lending affiliate's specific approval. Loans are repayable on demand but are anticipated to be outstanding for six months or less. Borrowing affiliates may repay the loans at any time without penalty.

- Investment Management Agreement
 - Effective as of January 1, 2009, and amended December 20, 2012, the Company and its affiliate, NEAM, entered into an Investment Management Agreement. In accordance with the agreement, NEAM performs certain investment management services for the Company in return for an annual fee as specified in the agreement.
- Other – From time to time, the Company participates in various affiliated agreements and transactions with entities owned or controlled by Berkshire. The principal agreements in place during the examination period include affiliated reinsurance agreements whereby the Company cedes insurance risk to Berkshire entities and affiliated investment contracts whereby the Company invests in lending agreements and/or securities issued by Berkshire entities.

TERRITORY AND PLAN OF OPERATION

The Company's direct parent, GRC, is the principal subsidiary of General Re and directly or indirectly owns the majority of General Re's domestic and international insurance operating entities. General Re operates in four principal business segments: North American property/casualty insurance and reinsurance, international property/casualty reinsurance, global life/health reinsurance and financial services. GRC's standalone operations constitute the North American property/casualty reinsurance segment. The Company and its affiliates, GSNIC and GIC, as standalone operations constitute the North American property/casualty insurance segment of General Re.

The Company is an eligible excess and surplus lines insurer in all fifty states, the District of Columbia, Puerto Rico and the U.S. Virgin Islands. The Company provides commercial

property and casualty insurance on a primary and excess basis, primarily for small and mid-sized commercial entities. Business is written through licensed surplus lines brokers operating as wholesale brokers, program administrators and managing general underwriters.

The Company receives administrative services from affiliates General Star Management Company (“GSM”) and Genesis Management and Insurance Services Corporation (“GMIS”). GSM and GMIS are licensed insurance agencies that provide services to the Company in accordance with an affiliated Master Services Agreement. Services provided may include: business services, business development, claims administration, underwriting services and enterprise risk management. The Company has branch offices in Atlanta, Georgia; Chicago, Illinois; Los Angeles, California; and New York, New York.

REINSURANCE

The Company utilizes reinsurance agreements to reduce its exposure to large losses. The Company’s ceded reinsurance program is primarily concentrated with two Berkshire affiliates as further described as follows. Effective January 1, 2005, the Company (and affiliates: GRC, GSNIC and GIC) entered into a loss portfolio transfer reinsurance contract (the “loss portfolio”) and a quota share reinsurance contract (the “quota share”) with two other Berkshire affiliates, National Indemnity Company and Columbia Insurance Company. Both agreements cover the majority of the North American property/casualty business. The loss portfolio provides for a 50% reinsurance cover on existing net losses as of December 31, 2004, subject to an overall aggregate limit of \$11,155 million. The quota share provides 50% reinsurance cover on net losses occurring after January 1, 2005.

The following is a summary of the Company’s gross written and assumed premium, ceded premium and net written and assumed premium for the year ended December 31, 2016:

General Star Indemnity Company

	Premium Written and Ceded	% of Written and Assumed Premium
Direct premium written	\$ 145,601,655	100.0%
Ceded to affiliates	71,471,284	49.1%
Ceded to non-affiliates	<u>6,413,078</u>	<u>4.4%</u>
Total ceded	<u>\$ 77,884,362</u>	<u>53.5%</u>
Net written premium	<u>\$ 67,717,293</u>	<u>46.5%</u>

As of December 31, 2016, the Company's ceded reinsurance in-force consists primarily of affiliated reinsurance as demonstrated by the following summary of reported credits for reinsurance:

(In Thousands)

	Affiliated Reinsurers	Unaffiliated Reinsurers	Total as of 12/31/2016
Paid losses and loss adjustment expenses	\$ 10,572	\$ 205	\$ 10,777
Known case loss and loss adjustment expenses	43,487	2,362	45,849
Incurred but not reported	103,519	1,966	105,485
Unearned premiums and Contingent commissions	<u>35,031</u>	<u>1,077</u>	<u>36,108</u>
Total Reinsurance Recoverables	<u>\$ 192,609</u>	<u>\$ 5,610</u>	<u>\$ 198,219</u>
 <u>Authorized Reinsurers</u>			
Paid losses and loss adjustment expenses	\$ -	\$ -	\$ -
Known case loss and loss adjustment expenses	-	-	-
Incurred but not reported	-	-	-
Unearned premiums	<u>-</u>	<u>-</u>	<u>-</u>
Total Reinsurance Recoverables - Authorized	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>
 Total Reinsurance Recoverables - All	 <u>\$ 192,609</u>	 <u>\$ 5,610</u>	 <u>\$ 198,219</u>

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, 2016:

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

Statement of Assets
As of December 31, 2016

	<u>Ledger Assets</u>	<u>Assets Not Admitted</u>	<u>Net Admitted Assets</u>	<u>Notes</u>
Bonds	\$ 22,967,598	\$ -	\$ 22,967,598	1
Preferred stocks	28,800,000	-	28,800,000	
Common stocks	310,787,114	-	310,787,114	2
Cash - Schedule E - Part 1	945	-	945	
Cash equivalent - Schedule E - Part 2	36,244,912	-	36,244,912	1
Short-term investments - Schedule DA	413,592,789	-	413,592,789	1
Receivable for securities	113,713	-	113,713	
Investment income due and accrued	1,448,458	-	1,448,458	
Uncollected premiums and agents' balances	15,745,780	455,572	15,290,208	
Deferred premiums, agents' balances and installments	752,216	-	752,216	
Amounts recoverable from reinsurers	10,776,996	-	10,776,996	
Aggregate write-ins for other than invested assets	<u>317,797</u>	<u>106,031</u>	<u>211,766</u>	
 Total assets	 <u>\$ 841,548,318</u>	 <u>\$ 561,603</u>	 <u>\$ 840,986,715</u>	

Statement of Liabilities, Capital and Surplus
As of December 31, 2016

		<u>Notes</u>
Losses	\$ 103,953,475	3
Loss adjustment expenses	33,497,251	3
Commissions payable, contingent commissions and other similar charges	2,050,000	
Current federal and foreign income taxes	2,406,494	
Net deferred tax liability	51,025,330	
Unearned premiums	33,137,190	
Ceded reinsurance premiums payable	12,004,225	
Funds held by company under reinsurance treaties	15,046	
Remittances and items not allocated	38,701	
Provision for reinsurance	283,595	
Payable to parent, subsidiaries and affiliates	6,382,431	
Aggregate write-ins for liabilities	<u>1,020,247</u>	
 Total liabilities	 <u>\$ 245,813,985</u>	
 Common capital stock	 \$ 5,000,000	
Gross paid in and contributed surplus	85,000,000	
Unassigned funds (surplus)	<u>505,172,730</u>	
 Total capital and surplus	 <u>\$ 595,172,730</u>	
 Total liabilities, capital and surplus	 <u>\$ 840,986,715</u>	

Statement of Income
For the Year Ended December 31, 2016

UNDERWRITING INCOME	
Premiums earned	\$ 65,333,867
Losses incurred	\$ 26,542,304
Loss adjustment expenses incurred	3,903,633
Other underwriting expenses incurred	31,861,411
Aggregate write-ins for underwriting deductions	<u>(100,000)</u>
Total underwriting deductions	<u>\$ 62,207,348</u>
Net underwriting gain (loss)	<u>\$ 3,126,519</u>
 INVESTMENT INCOME	
Net investment income	\$ 11,178,004
Net realized capital gains (losses)	<u>4,328,206</u>
Total net investment gain (loss)	<u>\$ 15,506,210</u>
 OTHER INCOME	
Net gain (loss) from agents' or premium balances charged off	\$ (68,799)
Aggregate write-ins for miscellaneous income	<u>130,796</u>
Total other income	<u>\$ 61,997</u>
Net gain from operations before federal income tax	<u>\$ 18,694,726</u>
Federal and foreign income taxes incurred (benefit)	<u>2,895,700</u>
Net income (loss)	<u><u>\$ 15,799,026</u></u>

Reconciliation of Capital and Surplus
for the Period from the Prior Examination
December 31, 2012 to December 31, 2016

	Common Capital Stock	Gross Paid-in & Contributed Surplus	Unassigned Funds Surplus	Total
Balance at December 31, 2012	\$ 5,000,000	\$ 85,000,000	\$ 476,370,366	\$ 566,370,366
2013 Net income	-	-	47,627,950	47,627,950
2013 Changes in unassigned funds - other (1)	-	-	31,806,744	31,806,744
2013 Dividends to stockholders	-	-	-	-
Balance at December 31, 2013	<u>\$ 5,000,000</u>	<u>\$ 85,000,000</u>	<u>\$ 555,805,060</u>	<u>\$ 645,805,060</u>
2014 Net income	-	-	10,431,323	10,431,323
2014 Changes in unassigned funds - other (1)	-	-	23,748,551	23,748,551
2014 Dividends to stockholders	-	-	(64,000,000)	(64,000,000)
Balance at December 31, 2014	<u>\$ 5,000,000</u>	<u>\$ 85,000,000</u>	<u>\$ 525,984,934</u>	<u>\$ 615,984,934</u>
2015 Net income	-	-	7,881,890	7,881,890
2015 Changes in unassigned funds - other (1)	-	-	(19,594,476)	(19,594,476)
2015 Dividends to stockholders	-	-	(61,000,000)	(61,000,000)
Balance at December 31, 2015	<u>\$ 5,000,000</u>	<u>\$ 85,000,000</u>	<u>\$ 453,272,348</u>	<u>\$ 543,272,348</u>
2016 Net income	-	-	15,799,026	15,799,026
2016 Changes in unassigned funds - other (1)	-	-	36,101,356	36,101,356
2016 Dividends to stockholders	-	-	-	-
Balance at December 31, 2016	<u>\$ 5,000,000</u>	<u>\$ 85,000,000</u>	<u>\$ 505,172,730</u>	<u>\$ 595,172,730</u>

(1): Changes in unassigned funds - other for each year include: change in net unrealized capital gain/loss, change in net deferred income tax, changes in non-admitted assets and change in provision for reinsurance.

ANALYSIS OF CHANGES IN FINANCIAL STATEMENTS RESULTING FROM THE EXAMINATION

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

COMMENTS ON FINANCIAL STATEMENT ITEMS

Note 1:

Schedule D – Part 1 - Bonds	\$ 22,967,598
Schedule DA – Part 1 – Short-term Investments	413,592,789
Schedule E – Part 2 – Cash equivalents	36,244,912

As of December 31, 2016, total bonds were comprised of the following based on NAIC

Annual Statement classification:

	<u>Book Value</u>	<u>% of Total Bond Book Value</u>	<u>Fair Value</u>
<u>Schedule DA - Short-term Investments:</u>			
United States - Treasury Bills	\$ 413,592,789	87.5%	\$ 413,592,789
<u>Schedule E - Part 2 - Cash Equivalents:</u>			
General Re - Affiliated Cash Pool*	\$ 36,244,912	7.7%	\$ 36,244,912
<u>Schedule D - Bonds:</u>			
U.S. Government Bonds - Issuer Obligations	\$ 8,678,872	1.8%	\$ 8,645,706
Industrial and Miscellaneous - Issuer Obligations	8,279,324	1.7%	10,562,979
U.S. Special Revenue & Assessment - Issuer Obligations	5,728,680	1.2%	6,059,820
Residential MBS	<u>280,722</u>	<u>0.1%</u>	<u>327,029</u>
Sub-total Schedule D - Bonds	\$ <u>22,967,598</u>	<u>4.8%</u>	\$ <u>25,595,534</u>
Total Bonds	\$ <u>472,805,299</u>	<u>100%</u>	\$ <u>475,433,235</u>

Of the Company's total bond holdings, \$469.5 million or 99.3% were categorized as Class 1 with respect to NAIC credit quality standards. The remaining holdings were NAIC Class 2 bonds totaling \$3.3 million and accounted for 0.7% of total bonds. As of December 31, 2016, bond maturities were structured with 95.9%, 2.3%, and 1.8% maturing in less than one year, one

to five years and five to ten years, respectively. Of the total bond holdings, all were publicly traded securities.

Note 2:

Schedule D – Part 2 – Section 2 – Common Stock **\$ 310,787,114**

As of December 31, 2016, the Company reported total unaffiliated common stock investments on Schedule D – Part 2 – Section 2 with book/fair market values in the amount of \$310.8 million and actual cost of \$158.8 million. The following is a summary of the Company's common stock holdings as of December 31, 2016.

	<u>Book/Fair Value</u>	<u>Actual Cost</u>
Wells Fargo & Company	\$ 78,917,520	\$ 45,408,720
US Bancorp	71,918,000	37,758,000
Bank of America Corp - Warrant	69,098,400	7,200,000
Goldman Sachs Group Inc.	62,556,552	42,946,791
Apple, Inc	20,963,420	19,913,475
General Electric Co	7,333,222	5,608,987
Total Common Stocks	<u>\$ 310,787,114</u>	<u>\$ 158,835,973</u>

Note: 3

Losses **\$ 103,953,475**
Loss Adjustment Expense **33,497,251**

INS Consultants, Inc. (“Consulting Actuary”) assisted in review of the inherent risks, management oversight and other mitigating controls over the Company's actuarial processes and procedures. The Consulting Actuary's review included detail testing and an independent calculation of selected segments of the Company's gross and net loss and loss adjustment expense reserves as of December 31, 2016.

SUBSEQUENT EVENTS

There were no significant events subsequent to the examination date of December 31, 2016.

COMPLIANCE WITH PRIOR EXAMINATION RECOMMENDATIONS

There were no findings or recommendations issued by the prior examination report.

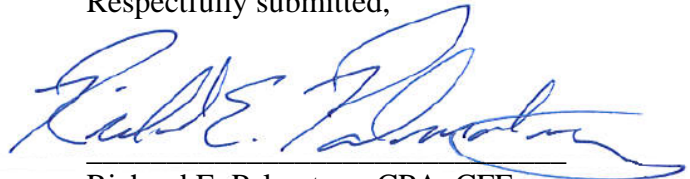
SUMMARY OF RECOMMENDATIONS

There were no examination findings or recommendations as a result of the examination.

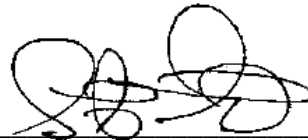
CONCLUSION

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

Respectfully submitted,



Richard E. Palmatary, CPA, CFE
Examiner-In-Charge
Delaware Department of Insurance



Steve Guest, CFE, CPA, ACI
Supervisory Examiner
Delaware Department of Insurance