REPORT ON EXAMINATION

OF

THE PRINCETON EXCESS AND SURPLUS LINES INSURANCE 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

THE PRINCETON EXCESS AND SURPLUS LINES INSURANCE COMPANY

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

Attest By: Rufynn Brown

Date: May 31, 2018

In Witness Whereof, I have hereunto set my hand and affixed the official seal of this Department at the City of Dover, this 6th day of June, 2018.

Trinidad Navarro
Insurance Commissioner

841 Silver Lake Blvd., Dover, DE 19904-2465 • www.delawareinsurance.gov
(302) 674-7300 Dover • (302) 739-5280 fax • (302) 577-5280 Wilmington

Trinidad Navarro
Commissioner

Delaware Department of Insurance

REPORT ON EXAMINATION

OF

THE PRINCETON EXCESS AND SURPLUS LINES INSURANCE 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.

Trinidad Navarro
Insurance Commissioner

Dated this 6th day of June, 2018

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SALUTATION

April 30, 2018

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 Exam Authority No. 17.014, dated April 24, 2017, an examination has been made of the affairs, financial condition and management of the

THE PRINCETON EXCESS AND SURPLUS LINES INSURANCE COMPANY

hereinafter referred to as the "Company" or "PESLIC" and incorporated under the laws of the state of Delaware. The examination was conducted at the administrative offices of the Company, located at 555 College Road East, Princeton, New Jersey 08543. The report of examination thereon is respectfully submitted.

SCOPE OF EXAMINATION

The Delaware Department of Insurance (Department) performed a risk-focused financial examination of the Company. The Company's registered office in the State of Delaware is at 2711 Centerville Road, Suite 400, Wilmington, Delaware 19808. The last examination covered the period of January 1, 2009 through December 31, 2012. This examination covers the period of January 1, 2013 through December 31, 2016 and encompassed a general review of transactions during the period, the Company's business policies and practices, as well as

management and relevant corporate matters, with a determination of the financial condition of the Company as of December 31, 2016. Transactions after the examination date were reviewed where deemed necessary.

The examination of the Company was performed as part of the examination of the Munich Re America Corporation (MRAC) insurance group of companies as of December 31, 2016. The examination was conducted concurrently with that of its Delaware domiciled affiliate companies, Munich Reinsurance America, Inc. (MRAm) and American Alternative Insurance Corporation (AAIC).

We conducted the examination in accordance with the *National Association of Insurance Commissioners* (NAIC) *Financial Condition Examiners Handbook* (Handbook) and generally accepted statutory insurance examination standards consistent with the Insurance Code and Regulations of the State of Delaware. The NAIC Handbook requires that the Department 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, 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 (KPMG), New York, NY. Certain auditor work papers have been incorporated into the work papers of the examination.

SUMMARY OF SIGNIFICANT FINDINGS

This examination had no material adverse findings, significant non-compliance findings, material changes in financial statements, or updates on other significant regulatory information disclosed in the previous examination.

COMPANY HISTORY

General

The Company was incorporated on June 14, 1995, as The Princeton Excess and Surplus Lines Insurance Corporation and commenced writing business on January 2, 1997. The current Company name was adopted on December 19, 1995.

On August 13, 1996, MRAC, the Company's immediate parent, entered into an Agreement and Plan of Merger with Munchener Ruckversicherungs-Gesellschaft Aktiengesellschaft (MRG) and Puma Acquisition Corporation (Puma), a Delaware corporation and a wholly owned subsidiary of MRG. Pursuant to terms of the Merger Agreement, on November 25, 1996, following approval of the merger by MRAC's stockholders and applicable

regulatory authorities, Puma was merged with MRAC with the latter being the surviving company.

There have been no ownership changes since September 2000.

Capitalization

The Company is authorized to issue 10,000 shares of common capital stock with a par value of $500 per share. As of December 31, 2016, 10,000 common stock shares are issued, outstanding and owned by MRAC. The Company has one Surplus debenture outstanding. The debenture was issued October 1, 2000 at the amount noted below, with an interest rate of 5%. The Surplus note and associated interest payments have been approved and authorized by the Department.

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

	Common Stock	Surplus Notes	Gross Paid-in & Contributed Surplus
December 31, 2012	$5,000,000	$20,100,000	$10,000,000
Activity During the Exam Period	0	0	0
December 31, 2016	$5,000,000	$20,100,000	$10,000,000

Dividends

According to Company records for the years indicated, as reflected in the Board of Directors (Board) meeting minutes, dividends were paid to the sole stockholder and approved by the Department:

Declared Date	Paid Date	Paid Amount	Type	Form
December 11, 2013	December 27, 2013	$9,012,253	Ordinary	Cash
December 17, 2014	December 29, 2014	$7,259,777	Ordinary	Cash
January 5, 2016	January 19, 2016	$7,661,189	Ordinary	Cash

MANAGEMENT AND CONTROL

Pursuant to the General Corporation Laws 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. The Board shall consist of at least three members and subject to a maximum of eleven members.

The Board as of December 31, 2016 was comprised of nine members, each elected or appointed in accordance with Company bylaws. Each Director shall hold office until his successor is elected and qualified, or until earlier resignation or removal.

Directors

The Board, duly elected in accordance with the Company's bylaws and serving as of December 31, 2016, was as follows:

Directors Name	Principal Business Affiliation
Charles A. Bryan	Independent Director
James J. Butler	Independent Director
Anthony J. Kuczinski	Munich Reinsurance America, Inc.
M. Steven Levy	Munich Reinsurance America, Inc.
Stephen J. Morello	Munich Reinsurance America, Inc.
Richard A. Olsen	Munich Reinsurance America, Inc.
William A. Robbie	Independent Director
John P. Vasturia	AAIC and PESLIC
Robin H. Willcox	Munich Reinsurance America, Inc.

Committees

The standing Board of Director committees as of December 31, 2016, were constituted as follows:

Audit Committee
Hermann Pohlchristoph, Chair
Charles A. Bryan
James J. Butler
William A. Robbie

Investment Committee
Richard A. Olsen, Chair
Michael Bös
René Gobonya
Peter Richter
Paul Wolfe

Officers

The bylaws of the Company state the principal officers shall be a President, a Chairman, and Vice Chairman, a President, and any other Vice-Presidents, a Secretary, one or more Assistant Vice Presidents, one or more Assistant Secretaries, and such other officers, assistant officers or agents as the Board from time to time may determine.

As of December 31, 2016, the Company's principal officers and their respective titles were as follows:

Officer Name	Title
John P. Vasturia	President
Robin H. Willcox	Senior Vice President, General Counsel & Secretary
Richard A. Olsen	Senior Vice President & Chief Financial Officer
Jennifer L. Ughetta	Senior Vice President & Head of Human Resources
Melissa A. Salton	Senior Vice President & Chief Risk Officer

The minutes of the meetings of the Stockholder and Board, which were held during the period of examination, were read and noted. Attendance at meetings, election of directors and officers and approval of investment transactions were also noted.

Inspection of Company files indicated that an ethics statement/conflict of interest statement was completed by all employees for the examination period. A review of the Company’s bylaws revealed that no changes were made during the examination period.

During our review for compliance with 18 *Del. C.* § 4919, it was noted that the Company properly reported changes in directors and principal officers.

Corporate Records

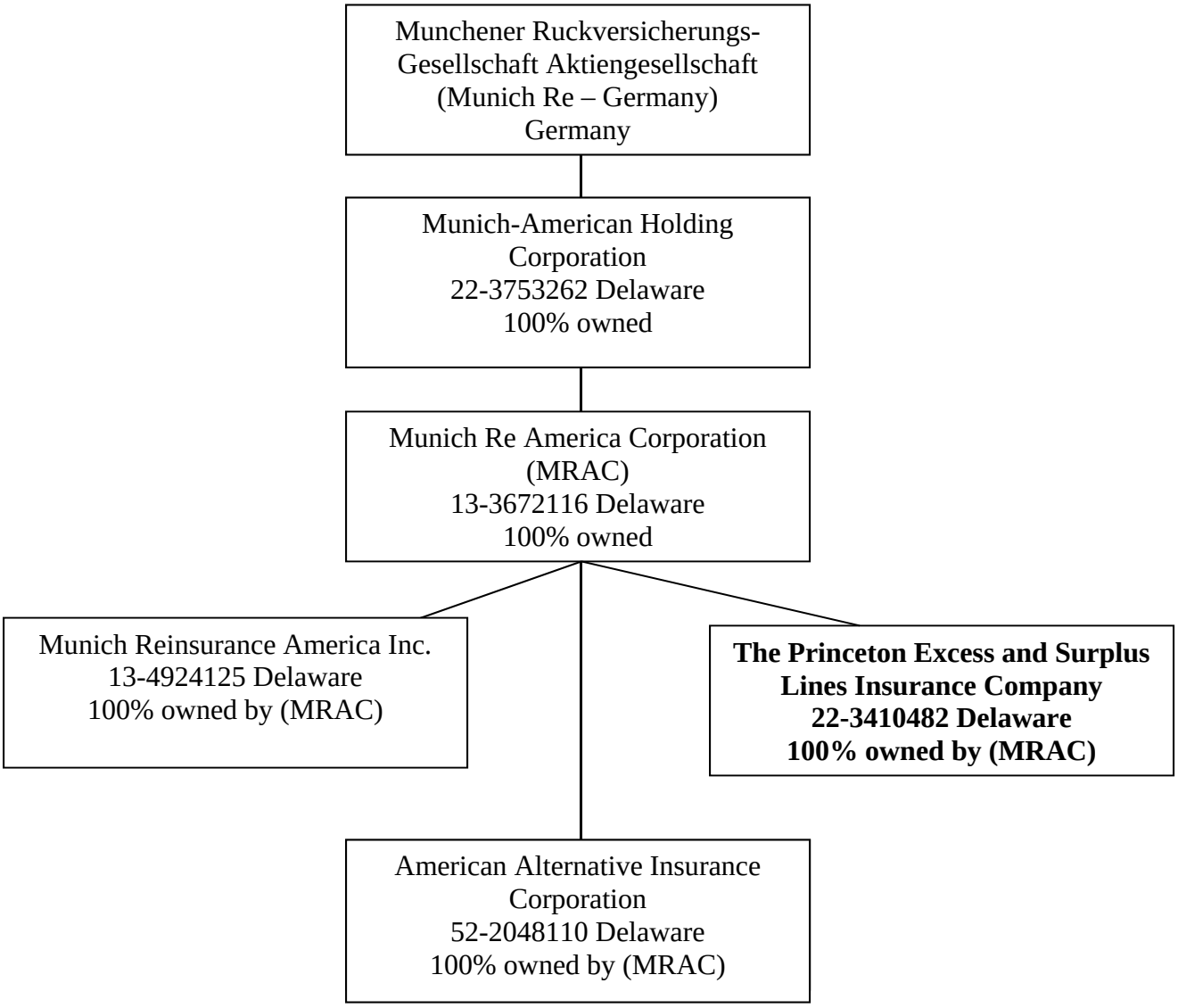
The recorded minutes of the Board were reviewed for the period under examination. The recorded minutes of the Board adequately documented its meetings and approval of Company transactions and events, including the approval of investment transactions in accordance with 18 *Del. C.* § 1304.

Insurance Holding Company System

The Company is a member of an Insurance Holding Company System as defined under Chapter 50 of the Delaware Insurance Code. As previously noted, the immediate parent of the Company as of December 31, 2016, was MRAC and the Ultimate Parent is MRG. The Munich Re Group, led by MRG, maintains liaison offices in over 60 locations serving clients worldwide. The 2016 amounts below were reported in the most recent MRG annual report based on International Financial Reporting Standards (IFRS), converted from Euros to U.S. dollars as of December 31, 2016 (conversion rate of 0.95034 Euro/$1.00 U.S.).

Assets	U.S. $	281.8 Billion
Equity	U.S. $	33.5 Billion
Gross Premium Written	U.S. $	51.5 Billion
Gain from Operations (pre-tax)	U.S. $	4.2 Billion

The following holding company system, as of December 31, 2016, reflects only identities and interrelationships between the Company and its direct parent, its intermediate parent, and its ultimate parent and affiliates concurrently examined.



A review of the Annual Form B and Form C filings made by PESLIC for all years under examination revealed that the Company had complied with the requirements of 18 *Del. C.* §5004 and 18 *Del. Admin. C.* § 1801.

Affiliated Agreements

The Company was a party to the following significant intercompany agreements and arrangements in effect as of December 31, 2016:

Consolidated Income Tax Allocation Agreement

Effective March 2, 2012, the Company entered into an Amended and Restated Tax Allocation Agreement with Munich-American Holding Corporation (MAHC) and all of its subsidiaries including MRAm and AAIC, for tax years ending December 31, 2011 and later. Under this agreement, income tax expenses are computed on a separate company basis as if each affiliate filed a separate tax return. Intercompany balances are settled on a quarterly basis. The tax allocation agreement was approved by the Department on January 30, 2012. The agreement was subsequently non-materially amended on August 9, 2012 and January 7, 2014 to add and remove certain affiliated companies. These amendments did not require prior approval but were filed with the Department on an informational basis.

General Service and Administrative Agreements

Effective September 1, 2009, the Company entered into a General Services and Cost Allocation Agreement with MAHC and numerous affiliates. Parties to the agreement may provide the following services to each other: accounting, tax, auditing, underwriting, claims, actuarial, information technology, legal, payroll, human resources, corporate finance, public relations, executive, engineering, loss mitigation and inspection, intellectual property and other services. The agreement requires that charges and expenses incurred be allocated according to Delaware Insurance Laws and Statement of Statutory Accounting Principles (SSAP) 70. Charges are settled within thirty days of the end of each calendar quarter. The terms of this agreement are considered fair and equitable. This agreement was approved by the Department on July 1, 2009. The agreement has been amended eight times subsequent to inception, the most recent amendment effective as of October 4, 2016. The amendments have been filed with and

approved by the Department. The Company reported $8 million in incurred expenses in 2016 under this agreement.

Investment Management Agreement

Effective March 1, 2006, the Company entered into an Investment Management Agreement with affiliate MEAG New York Corporation (MEAG-NY). The agreement provides that MEAG-NY will manage the investment portfolio of invested assets held by State Street Bank, the Company's most significant custodian. MEAG-NY is required to adhere to strict Investment Guidelines attached to the agreement and amended periodically whenever the Company amends its investment policy. The Company retains the sole authority to modify Investment Guidelines and MEAG-NY is not permitted to trade assets that are designated by the Company as regulatory or trust deposits. MEAG-NY does not act as custodian and does not physically hold any of the Company's invested assets. Regular reviews of the performance and actions of MEAG-NY are performed and the terms of the agreement were considered fair and equitable. Charges are settled within thirty days of the end of each calendar quarter. This agreement was approved by the Department on April 6, 2006. This agreement was most recently amended effective March 20, 2012, and was approved by the Department on April 20, 2012. The Company reported $77 thousand in incurred expenses in 2016 under this agreement.

Letter of Credit Facility

Effective October 13, 2009, the Company entered into an Amended and Restated Letter of Credit (LOC) Facility Fee Reimbursement Agreement with MRG, MRAm and AAIC. MRG shall from time to time provide collateral for reinsurance in the form of letters of credit to MRAm, AAIC and PESLIC from MRG's existing LOC facilities to support unaffiliated unauthorized liabilities. MRAm, AAIC and PESLIC shall pay MRG a fee of fifty basis points

for any issuances of LOCs made by the Company under any of MRG's LOC facilities. This agreement was approved by the Department on October 23, 2009. The Company reported $0 in incurred expenses in 2016 under this agreement.

Unaffiliated Agreements

Custodial Agreements

Effective May 27, 1999, the Company entered into a custodial agreement with State Street Bank and Trust Company (State Street), which provides for the safekeeping of the Company's invested assets. The custodial agreement, which was most recently amended effective June 2, 2003, contains the required protective language specified by NAIC guidelines. The most recent SSAE16 Report for State Street was obtained and reviewed without exception.

Agency Agreements

The Company is a party to various managing general agency agreements and general agency agreements which write business on behalf of the Company. Where premiums were considered material, the underlying agreements were reviewed without exception.

TERRITORY AND PLAN OF OPERATION

Territory

The Company is currently licensed in the State of Delaware only and received its certificate of authority on January 2, 1997, to transact business as a multi-line property and casualty insurance company. PESLIC began its underwriting operations in 1999 and is recognized as an "eligible carrier" in all fifty U.S. States and the District of Columbia to conduct business as an excess and surplus lines carrier.

Plan of Operation

Business is produced via licensed retail and wholesale surplus lines brokerage firms who typically are retained by and represent insureds and risk managers of large Fortune 2000 companies, municipalities, pools, associations and other similar entities.

The Company provides primary and excess specialty coverage as well as other difficult-to-place risks to its clients. Targeted insured clients are predominately large commercial enterprises, public entity pools, self-insured funds and other similar entities with generally high hazard exposures. For these entities, the Company provides general and excess liability, umbrella, auto liability and physical damage and property coverage. The Company offers insurance coverage on a first-dollar basis or with deductibles.

The Company utilizes several Third Party Administrators (TPA) for the solicitation and acquisition of business. However, only NBIS Construction Transport Insurance Services, Inc. (NBIS) meets the definition of a Managing General Agent (MGA) as defined in 18 *Del.C.* § 1802(3).

During 2016, the five largest TPAs authorized by the Company produced approximately $75 million, or 42.4%, of the $177 million in direct written premium as follows:

MGA/TPA		Premiums	Percent
International Excess Program Managers (IEPM)	$	18,314,945	10.34%
Arrowhead general Insruacne Agency, Inc. (AGIA)		16,053,762	9.06%
RMS Hospitality Group (RMS)		15,747,514	8.89%
PSI Program Managers (PSI)		12,811,747	7.23%
AmRisc Inc. (AmRisc)		12,182,555	6.88%
Total	$	75,110,523	42.40%

The applicable TPA agreements, state licenses, audit schedules and selected audit reports were reviewed. Proper licensing was noted and the selected audit reports indicated no conflicts

with the Company's underwriting guidelines. All of the TPAs noted above have been granted underwriting and binding authority along with the authority to collect premiums. None of the TPAs noted above had claims adjustment or claims payment authority. None of the TPAs are permitted to bind the Company to ceded reinsurance.

The five largest lines of direct written premiums represent 80.7% of the 2016 total of $177 million as follows:

Line	Premiums	Percent
Other Liability - Occurrence	$ 44,763,441	25.27%
Commercial Multiple Peril	33,179,184	18.73%
Commercial Auto Liability	23,637,351	13.34%
Other Liability - Claims made	23,537,627	13.29%
Fire	17,809,207	10.05%
Total	$ 142,926,810	80.69%

PESLIC has appointed a Chief Risk Officer and heightened its awareness of risks assumed as a whole. With regards to Underwriting Risk Management, the Company has centralized the direction of underwriting guidelines. The Chief Risk Officer is closely aligned with the Integrated Risk Management Division of MRG in Germany. MRAC intends to continue to integrate itself into MRG's operations. MRAC underwriting goals and limitations are developed, reviewed and approved subsequently by MRG. MRG has an international (or group wide) Business Plan of which MRAC is a significant part.

A.M. Best Rating:

Based on A.M. Best's current opinion of the consolidated financial condition and operating performance of the Company, PESLIC was assigned an A.M. Best rating of A+ (Superior) for the year ended 2016. A.M. Best notes that the rating reflects the Company’s solid returns and substantial improvement in risk adjusted capitalization.

REINSURANCE

PESLIC reported the following distribution of written premiums in 2016:

Direct	$ 177,129,264
Gross Premiums Written	$ 177,129,264
Ceded to Affiliates	$ 171,061,567
Ceded to Non-affiliates	6,067,697
Total Ceded Premiums	$ 177,129,264
Net Premiums Written	$ -

Ceded to Affiliates

Ceded to MRAm

Through June 30, 2009, all of PESLIC's business, net of the specific cessions noted below, were ceded to MRAm under the following reinsurance program:

Quota Share	80% of most lines of business
Accident Year Stop Loss	100% cession in excess of a 60% loss ratio

Effective July 1, 2009, the Company commuted all of its prior reinsurance contracts with MRAm under a Commutation and Release Agreement as a first step in the establishment of a Reinsurance Pooling Agreement (Pooling Agreement) which covers 100% of the Company's net liabilities (defined as gross liability net of specific cessions to other reinsurers). The previously ceded business, along with the Company's retained business at June 30, 2009, is subject to the Pooling Agreement.

The Company is a participant in the above stated Pooling Agreement with MRAm and AAIC. The Reinsurance Pooling Agreement, effective July 1, 2009, covers all direct and assumed current and prior policies and contracts issued by AAIC and PESLIC. Under the pooling agreement, each of the companies cedes 100% of its net liabilities to the pool, MRAm is the lead company for the Pooling Agreement and has a 100% participation in the pooled business

and AAIC and PESLIC each have a 0% participation in the pooled business. A provisional ceding commission of 24.5%, adjusted quarterly for actual acquisition expenses allocable to the net business subject to the agreement, is paid to AAIC and PESLIC. In addition, an override commission of 5.5% is paid to AAIC and PESLIC under the agreement. The override commission is in excess of the acquisition costs, and therefore, in accordance with SSAP 62R – paragraph 54, a deferred ceding commission liability equal to the difference between the reinsurance commission received and the acquisition costs was recorded as of December 31, 2016. The deferred ceding commission liability is amortized pro-rata over the effective period of the agreement in proportion to the amount of coverage provided. The Commutation and Release Agreement and Reinsurance Pooling Agreement were approved by the Department on September 29, 2009.

Total premium ceded by PESLIC to MRAm in 2016 under the Pooling Agreement was $169 million. As of December 31, 2016, PESLIC reported net reinsurance recoverable from MRAm of $378 million.

Ceded to other affiliates

The remaining business ceded to affiliates totaled $4 million in 2016. The Company ceded just under $4 million to Hartford Steam Boiler Inspection and Insurance Company, domiciled in Connecticut and $142 thousand to Princeton Eagle West Insurance Co., Ltd., domiciled in Bermuda, under miscellaneous reinsurance agreements.

Ceded to Non-affiliates

As noted above, premiums ceded to non-affiliates totaled $6 million in 2016. $4 million was ceded to the Housing Authorities Risk Retention Pool in the State of Washington and the remaining $2 million was ceded to non-affiliates involving situations where the reinsurer has a

relationship with the agent producing the business for PESLIC. In 2016 PESLIC ceded premiums of $2 million to Hannover Rueckversicherungs AG for a portion of the reinsurance covering two programs produced for PESLIC by Arthur J. Gallagher Ltd., and $722 thousand was ceded to Lancer Insurance Company.

FINANCIAL STATEMENTS

The following pages contain the Company's Financial Statements for the year ended December 31, 2016, as determined by this examination, with supporting exhibits as detailed below:

Analysis of Assets
Statement of Liabilities, Surplus and Other Funds
Underwriting and Investment Exhibit - Statement of Income
Reconciliation of Surplus since last Examination
Schedule of Examination Adjustments

Analysis of Assets
As of December 31, 2016

	Assets	Nonadmitted Assets	Net Admitted Assets	Notes
Bonds	$ 81,325,568	$ -	$ 81,325,568	1
Cash	(2,768,837)		(2,768,837)	
Cash Equivalents	27,746,264		27,746,264	
Short-term investments	8,861,860		8,861,860	
Receivables for securities	3,500		3,500	
Investment income due and accrued	549,577		549,577	
Uncollected premiums and agents' balances in the course of collection	2,960,828		2,960,828	
Deferred premiums; agents' balances and installments booked but deferred and not yet due	2,460,483		2,460,483	
Amounts recoverable from reinsurers	13,322,545		13,322,545	
Current federal and foreign income tax recoverable and interest thereon	341,364		341,364	
Net deferred tax asset	1,231,300	2,474	1,228,826	
Aggregate write-ins for other than invested assets	19,177,990	-	19,177,990	
Totals	$ 155,212,442	$ 2,474	$ 155,209,968	

Statement of Liabilities, Surplus and Other Funds
As of December 31, 2016

			Note
Losses	$	-	2
Loss Adjustment Expenses		0	2
Commissions payable, contingent commissions & other similar charges		1,937,097	
Other expenses (excluding taxes; licenses and fees)		759,101	
Ceded reinsurance premiums payable		76,103,563	3
Funds held by company under reinsurance treaties		5,944,045	
Payable to parent,subsidiaries and affiliates		1,157,763	
Aggregate write-ins for liabilities		3,785,270	
Total liabilities	$	89,686,839	
Common capital stock	$	5,000,000	
Surplus notes		20,100,000	
Gross paid in and contributed surplus		10,000,000	
Unassigned funds (surplus)		30,423,129	
Surplus as regards policyholders	$	65,523,129	
Total Liabilities, Capital and Surplus	$	155,209,968	

Underwriting and Investment Exhibit - Statement of Income
For the Year Ended
December 31, 2016

UNDERWRITING INCOME		
Premiums earned	$	-
DEDUCTIONS		
Other underwriting expenses incurred	$	(9,862,518)
Total underwriting deductions		(9,862,518)
Net underwriting gain or (loss)	$	9,862,518
INVESTMENT INCOME		
Net investment income earned	$	2,165,527
Net realized capital gains or (losses) less capital gains tax of $64,174		119,179
Net investment gain or (loss)	$	2,284,706
OTHER INCOME		
Net gain (loss) from agents or premium balances charged off	$	144
Aggregate write-ins for miscellaneous income		(980,702)
Total other income	$	(980,558)
Net income before dividends to policyholders; after capital gains tax and before all other federal and foreign income taxes	$	11,166,666
Net income; after dividends to policyholders; after capital gains tax and before all other federal and foreign income taxes	$	11,166,666
Federal and foreign income taxes incurred		3,809,272
Net Income	$	7,357,394

Reconciliation of Surplus since Last Examination
As of December 31, 2016

		Capital Stock	Surplus Notes	Gross Paid in and Contributed Capital	Unassigned Surplus	Total
Beginnng Balance (2012)		$ 5,000,000	$ 20,100,000	$ 10,000,000	$ 22,707,807	$ 57,807,807
2013	1				7,942,630	7,942,630
2013	2				(9,012,253)	(9,012,253)
2013	3				-	-
2014	1				8,591,962	8,591,962
2014	2				(7,259,777)	(7,259,777)
2014	3				-	-
2015	1				7,681,205	7,681,205
2015	2				-	-
2015	3				-	-
2016	1				7,432,744	7,432,744
2016	2				(7,661,189)	(7,661,189)
2016	3	-		-	-	-
Ending Balance (2016)		$ 5,000,000	$ 20,100,000	$ 10,000,000	$ 30,423,129	$ 65,523,129

1. Represents net income, change in unrealized capital gains(losses), change in unrealized foreign exchange gain(losses), change in net deferred income tax, change in non-admitted assets, change in reinsurance for unauthorized reinsurers
2. Dividends were approved by the Board.
3. Represents Aggregate Write-ins for gains and losses in 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 **$81,325,568**

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

held for statutory purposes, investments are held by State Street Bank and Trust, under a custodial agreement. A review of corporate records indicates that the Board has approved the Company's investment transactions made during the examination period in accordance with 18 *Del. C.* § 1304. Bonds rated by the NAIC are as follows:

Designation	Percentage of Portfolio
NAIC 1	77.1%
NAIC 2	20.1 %

The bond portfolio as of the December 31, 2016 examination date consisted of the following classes:

Description	Book/Adjusted Carrying Value	Percentage Total
US Government Bonds	$ 29,219,832	35.93%
Canadian Giverment Bonds	604,460	0.74%
Foreign Government Bonds	6,415,449	7.89%
US Special Revenue	8,002,567	9.84%
US Industrial and Miscelaneous	32,560,091	40.04%
Canadian Industrial and Miscelaneous	1,036,905	1.28%
Foreign Industrial and Miscelaneous	3,486,264	4.29%
Total	$ 81,325,568	100.00%

Note 2 - Losses **$ 0**
Loss Adjustment Expenses **$ 0**

The above-captioned amounts, which are the same as those reported by the Company in its Annual Statement, have been accepted for purposes of this report. As part of a reinsurance pooling agreement noted in the Reinsurance section above, the Company is a party to a Pooling Agreement in which all losses, net of third party reinsurance, are ceded to MRAm.

Note 3 – Ceded Reinsurance Premiums Payable **$76,103,563**

The above-captioned amount, which is the same as that reported by the Company in its Annual Statement, has been accepted for purposes of this report. Of the $76 million reported in

2016, $75 million, or 99.11%, was due to MRAm under the terms of the Pooling Agreement. The remaining balance is due to unaffiliated third parties.

SUBSEQUENT EVENTS

On March 1, 2017, the Company's Board approved an ordinary cash dividend payment of $7 million to the Company's shareholder, which was paid on March 20, 2017.

SUMMARY OF RECOMMENDATIONS

There were no recommendations as a result of this examination.

CONCLUSION

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

Respectfully submitted,

Albert M. Piccoli, Sr., CFE, ACI
Examiner-In-Charge
Delaware Department of Insurance

Anthony Cardone, CFE
Administrative Supervisor
Delaware Department of Insurance