

EXAMINATION REPORT
OF THE
ADMIRAL INSURANCE COMPANY
AS OF
DECEMBER 31, 2013

Karen Weldin Stewart, CIR-ML
Commissioner



Delaware Department of Insurance

I, Karen Weldin Stewart, Insurance Commissioner of the State of Delaware, do hereby certify that the attached REPORT OF EXAMINATION, made as of December 31, 2013 of the

ADMIRAL INSURANCE COMPANY

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

Attest By:

Date: May 13, 2015



In Witness Whereof, I have hereunto set my hand and affixed the official seal of this Department at the City of Dover, this 13th day of May, 2015.

Karen Weldin Stewart, CIR-ML
Insurance Commissioner



REPORT OF EXAMINATION
OF THE
ADMIRAL INSURANCE COMPANY
AS OF
DECEMBER 31, 2013

The above-captioned report was completed by examiners of the Delaware Department of Insurance.

Consideration has been duly given to the comments, conclusions and recommendations of the examiners regarding the status of the company as reflected in the report.

This report is hereby accepted, adopted and filed as an official record of this Department.

A handwritten signature in black ink, appearing to read "Karen Weldin Stewart".

Karen Weldin Stewart, CIR-ML
Insurance Commissioner

Dated this 13th day of May, 2015

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SALUTATION

March 17, 2015

Honorable Karen Weldin Stewart, CIR-ML
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 Certificate of Authority No. 14.004, dated December 9, 2013, an examination has been made of the affairs, financial condition and management of the

ADMIRAL INSURANCE COMPANY

hereinafter referred to as "Company" at the main administrative offices of the Company located at 475 Steamboat Road, Greenwich, CT 06830. The examination was a coordinated examination and was conducted concurrently with other insurance entities in the W.R. Berkley Corporation Group. The State of Delaware was the assigned lead state by the National Association of Insurance Commissioners. Separate reports of examination were filed for each company. The report of examination thereon is respectfully submitted.

SCOPE OF EXAMINATION

The last examination of the Company was conducted by the Delaware Department of Insurance as of December 31, 2009, and covered the three (3) year period from January 1, 2007 to December 31, 2009. This examination covers the four (4) year period from January 1, 2010

ADMIRAL INSURANCE COMPANY

through December 31, 2013, and encompasses a general review of transactions during the period, the Company's business policies and practices, as well as management and relevant corporate matters, with a determination of the financial condition of the Company as of December 31, 2013. Transactions subsequent to the examination date were reviewed where deemed necessary.

We conducted our examination in accordance with the *National Association of Insurance Commissioners ("NAIC") Financial Condition Examiners Handbook* ("NAIC Handbook") and generally accepted statutory insurance examination standards consistent with the insurance laws and regulations of the State of Delaware. The NAIC Handbook requires that we plan and perform the examination to evaluate the financial condition and identify prospective risks of the Company by obtaining information about the Company including corporate governance, identifying and assessing inherent risk within the Company and evaluating its system controls and procedures used to mitigate those risks. The examination also includes an assessment of the principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation, management's compliance with Statutory Accounting Principles and annual statement instructions when applicable to Delaware state regulations.

All accounts and activities of the Company were considered in accordance with the NAIC Handbook risk focused examination process. The examination report only addresses regulatory information revealed by the examination process.

During the course of this examination, consideration was given to work performed by the Company's external accounting firm, KPMG, LLP ("KPMG"). Certain auditor work papers have been incorporated into the examination work papers and have been utilized in determining the scope and areas of emphasis in conducting the examination. In addition, the Company was

ADMIRAL INSURANCE COMPANY

Sarbanes Oxley (“SOX”) Section 404 compliant as of the examination date. The examination reviewed and relied on the Company’s SOX work where deemed appropriate.

The Company is an indirect subsidiary of the W.R. Berkley Corporation (“WRBC”) and member of NAIC Group Number 98, W.R. Berkley Corporation Group (“Group”). The Company’s direct parent is the Berkley Insurance Company (“BIC”). BIC is the direct or indirect owner of all companies in the Group, with the exception of Union Standard Lloyds. Including the Company, the Group consists of twenty-four property and casualty insurance companies and one life and health insurance company. The companies in the Group and the state of domicile are summarized as follows:

ADMIRAL INSURANCE COMPANY

<u>Company Name</u>	<u>NAIC Number</u>	<u>State of Domicile</u>
Acadia Insurance Company	31325	NH
Admiral Indemnity Company	44318	DE
Admiral Insurance Company	24856	DE
American Mining Insurance Company	15911	IA
Berkley Insurance Company	32603	DE
Berkley Assurance Company	39462	IA
Berkley Life and Health Insurance Company	64890	IA
Berkley National Insurance Company	38911	IA
Berkley Regional Insurance Company	29580	DE
Berkley Regional Specialty Insurance Comp	31295	DE
Carolina Casualty Insurance Company	10510	IA
Clermont Insurance Company	33480	IA
Continental Western Insurance Company	10804	IA
Firemen's Insurance Company of Wash, D.C.	21784	DE
Gemini Insurance Company	10833	DE
Great Divide Insurance Company	25224	ND
Key Risk Insurance Company	10885	NC
Midwest Employers Casualty Company	23612	DE
Nautilus Insurance Company	17370	AZ
Preferred Employers Insurance Company	10900	CA
Riverport Insurance Company	36684	MN
StarNet Insurance Company	40045	DE
Tri-State Insurance Company	31003	MN
Union Insurance Company	25844	IA

In addition to items noted in this report, the topics below were reviewed without material exception and are included in the work papers of this examination:

Fidelity Bonds and Other Insurance

Pensions, Stock Ownership and Insurance Plans

Statutory Deposits

Loss Experience

SUMMARY OF SIGNIFICANT FINDINGS

None.

SUBSEQUENT EVENTS

None.

COMPANY HISTORY

The Company was incorporated on December 5, 1978, under the temporary title of Admiral Insurance Company of Delaware under the laws of the State of Delaware to act as the vehicle to effect a change in corporate domicile of the Admiral Insurance Company from Austin, Texas to Wilmington, Delaware. The Texas insurer was incorporated and began operations on November 26, 1952. Since October 1, 1979, financial control of the Company has been held by the W.R. Berkley Corporation of Greenwich, Connecticut.

CORPORATE RECORDS

The minutes of the Stockholder and Board of Directors were reviewed for the period under examination. The recorded minutes documented activities and transactions of the Company.

The Bylaws require the Board of Directors to meet annually immediately after the annual stockholder meeting. Other meetings may be held as determined by Board of Director resolution and special meetings may be called by the President or by any two Directors. The minutes of the meetings verified annual meetings took place in each year of the examination period.

All applicable agreements were filed with, and approved by, the Delaware Department of Insurance in accordance with 18 *Del. C.* § 5005 (a)(2) of the Delaware Insurance Code.

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, the property, business and affairs of the Company shall be managed by a Board of Directors. The Bylaws require the Board of Directors consist of not less than five Directors and thereafter may consist of any number determined by resolution of the Board of Directors.

The Directors are elected annually by the stockholder and hold office until the next annual election and until their successors are elected and qualify. Directors duly elected and serving as of December 31, 2013, were as follows:

<u>Name</u>	<u>Business Affiliation</u>
W. Robert Berkley, Jr.	President & Chief Operating Officer W.R. Berkley Corporation
Eugene George Ballard	Senior Vice President & Chief Financial Officer W.R. Berkley Corporation
Scott Richard Barraclough	Executive Vice President Primary Operations Admiral Insurance Company
James Stephen Carey	President & Chief Executive Officer Admiral Insurance Company
Robert Carruthers Hewitt	Senior Vice President of Excess and Surplus Lines W.R. Berkley Corporation
Ira Seth Lederman	Senior Vice President, General Counsel & Secretary W.R. Berkley Corporation
Daniel Adair MacDonald	Senior Vice President Claims & Secretary Admiral Insurance Company

Officers were elected in accordance with the Bylaws during the period under examination. The Bylaws require election of a Chairman of the Board, a President, an Executive

ADMIRAL INSURANCE COMPANY

Vice President, one or more Senior Vice Presidents, a Secretary, a Treasurer and a Controller.

The Board of Directors may also elect such other officers as considered necessary for the proper conduct of the business of the Company. The primary officers serving as of December 31, 2013 were as follows:

<u>Name</u>	<u>Title</u>
James Stephen Carey	President & Chief Executive Officer
Thomas Guy Grilli, Jr.	Senior Vice President & Treasurer
Daniel Adair MacDonald	Secretary

Holding Company System

The Company is a member of an Insurance Holding Company System as defined under Chapter 50 of the Delaware Insurance Code. The Company and its upstream parent companies are ultimately controlled by WRBC. WRBC is a publically traded insurance holding company that trades on the New York Stock Exchange.

The following is an abbreviated organizational chart that reflects the identities and interrelationships between the Company, its parents and subsidiaries and other affiliates with direct business relationships with the Company as of December 31, 2013:

ADMIRAL INSURANCE COMPANY

W.R. Berkley Corporation

All American Agency Facilities, Inc.
Berkley Dean & Company, Inc.
Berkley Holdings Corp. Two
 Berkley Holdings, LLC
Berkley Insurance Services, LLC
Berkley International, LLC
Greenwich Knight Insurance Company
LD Realty Advisors LLC
LDPG Realty Investors L.P.
MADA Reciprocal Services, Inc.

Queen's Island Insurance Company, Ltd.

Signet Star Holdings, Inc.

Berkley Insurance Company

Admiral Insurance Company

Admiral Indemnity Company
Admiral Risk Insurance Services, Inc.
Armada Insurance Services, Inc.
Carolina Casualty Insurance Company
Clermont Insurance Company
Jersey International Brokerage Corporation
Nautilus Insurance Company

ARS Investors II 2012-1 HVB, LLC (99% Ownership)

Berkley Alternative Markets Insurance Services, LLC

Berkley Administrators of Connecticut, Inc.
Berkley Medical Excess Underwriters, LLC
Berkley Risk Administrators Company, LLC
 All Claims of Nevada, Inc.
 Berkley Risk Administrators of Texas, Inc.
 Berkley Risk Services of Vermont, Inc.
 Independent Plan Administrators, LLC
 Rasmussen Agency, Inc.

Key Care, LLC

Key Risk Management Services, LLC

Key Risk Underwriting Managers, LLC

Midwest Employers Casualty Group, LLC

Midwest Employers Services, LLC

Preferred Employers Group, LLC

Riverport Insurance Services, LLC

Berkley Assurance Company

Berkley Canada Inc.

Berkley Capital Investors, LP

CC Investors, LLC

GRG Investment Holdings, Ltd.

Insurance Agency Holdings, LLC

Berkley Capital, LLC

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Berkley Capital Administrative LLC
Berkley Design Professional Underwriters, LLC
Berkley Insurance Company – Escritorio de Representacao no Brasil Ltda.
Berkley Life and Health Insurance Company
Berkley London Holdings, Inc.
 W.R. Berkley London Finance, Limited
 W.R. Berkley London Holdings, Limited
 W.R. Berkley Insurance (Europe), Limited
 W.R. Berkley London Staff, Limited
Berkley National Insurance Company
Berkley Regional Insurance Company
 Acadia Insurance Company
 Maine Compensation Services, Inc.
 American Mining Insurance Company
 Berkley Regional Specialty Insurance Company
 CGH Insurance Group, LLC
 American Mining Claims Service, Inc.
 CGH Claims Service, Inc.
 Mining Insurance Markets, Inc.
 Continental Western Insurance Company
 Firemen's Insurance Company of Washington, D.C.
 Tri-State Insurance Company of Minnesota
 Union Insurance Company
 Union Standard Management Company, Inc.
Berkley Regional Insurance Services, LLC
 Acadia Insurance Group, LLC
 American Mining Insurance Group, LLC
 Berkley Mid-Atlantic Group, LLC
 Berkley North Pacific Group, LLC
 Berkley Regional Specialty, LLC
 Berkley Surety Group, LLC
 Continental Western Group, LLC
 Regional Excess Underwriters, LLC
 Union Standard Insurance Group, LLC
 ZES Insurance Agency, LLC
Berkley Specialty Insurance Services, LLC
 Admiral Insurance Group, LLC
 Berkley Custom Insurance Managers, LLC
 Berkley Professional Liability, LLC
 Berkley Select, LLC
 Berkley Specialty Underwriting Managers, LLC
 Carolina Casualty Insurance Group, LLC
 Clermont Specialty Managers, Ltd.
 Monitor Liability Managers, LLC
 Nautilus Excess Insurance Agency, LLC
 Nautilus Insurance Group, LLC

ADMIRAL INSURANCE COMPANY

Southwest International Underwriting Managers, Inc.
Vela Insurance Services, LLC
Verus Underwriting Managers, LLC
Berkley Southeast Insurance Group, LLC
CC Equity Holdings, LLC
Center Place Holdings LLC (93% owned by CC Equity Holdings)
Franchise Credit LLC
Gemini Insurance Company
Great Divide Insurance Company
Greenwich AeroGroup, Inc.
Key Risk Insurance Company
Middle Patent Capital, LLC
Loan Opportunity Fund I, LLC
Loan Opportunity Fund II, LLC
Loan Opportunity Fund III, LLC
Midwest Employers Casualty Company
Preferred Employers Insurance Company
Select Marketing Insurance Services, LLC
Reinserco, Inc.
Merrill Management Corporation
Riverport Insurance Company
SilverCap Greenwich, LLC (98.04% Ownership)
StarNet Insurance Company
Starnet Insurance Services, LLC
Berkley Accident and Health, LLC
Berkley Asset Protection Underwriters, LLC
Berkley Aviation, LLC
Berkley Facultative Reinsurance Services, LLC
Berkley Global Underwriters, LLC
Berkley Latin American and Caribbean Managers, LLC
Berkley International Puerto Rico, LLC
Berkley Life Sciences, LLC
Berkley LS Insurance Solutions, LLC
Berkley Net Underwriters, LLC
Berkley Program Specialists, LLC
Berkley Public Entity Managers, LLC
Berkley Offshore Underwriting Managers, LLC
Berkley Oil & Gas Specialty Services, LLC
Berkley Re America, LLC
Berkley Re Direct, LLC
Berkley Risk Solutions, LLC
Berkley Technology Services, LLC
Berkley Technology Underwriters, LLC
BIL Advisors, LLC
Facultative ReSources, Inc.
FinSecure, LLC

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Gemini Transportation Underwriters, LLC
WRBC Support Services, LLC
Surety-Pro Services, Inc.
W.R. Berkley Syndicate Holdings Limited
WRBC Corporate Member Limited
W.R. Berkley Syndicate Limited
W.R. Berkley Syndicate Management Limited
860 Development Co LLC
860 Washington Street LLC (75% Ownership)
Commodore Re Management Corporation
East Isles Reinsurance, Ltd.
Northwest International Underwriting Manager, Inc.
Steamboat Asset Management, LLC
WRBC Transportation, Inc.
Interlaken Capital Aviation Holdings, Inc.
Interlaken Capital Aviation Services, Inc.
WRBC Aviation Leasing, LLC
W.R. Berkley Capital Trust II
W.R. Berkley Capital Trust III
33 GP LLC
33 Grosvenor Place Limited
34 Leadenhall Street Limited
27 Leadenhall Street Properties Limited
120dB Films Capital, LLC
120 Films Lending, LLC

Management Contract and/or Lending Relationship (Non-owned)
MADA Insurance Exchange
States Self-Insurers Trust
States Self Insurers Risk Retention Group
Union Standard Lloyds

Management, Service, and Other Agreements

Below is a summary of significant affiliated agreements (excluding reinsurance agreements) in effect as of December 31, 2013. All affiliated agreements and amendments were properly filed and approved by the Delaware Department of Insurance.

Affiliated Agreements

As of December 31, 2013, the Company had the following significant service and other agreements in effect with affiliates:

ADMIRAL INSURANCE COMPANY

- Tax Allocation Agreement – Effective April 1, 1980, and amended September 20, 1989, the Company and WRBC entered into an affiliated Tax Allocation Agreement. In accordance with the agreement, the Company will participate in WRBC’s election to file a consolidated federal income tax return as long as the Company is a member of WRBC. For years where a consolidated federal tax return is filed, WRBC will pay or discharge, or cause to be paid or discharged, the consolidated federal tax liability of WRBC. Taxes are calculated on a separate return basis, and the Company will pay WRBC an amount equal to the federal income tax liability it would have incurred if it had filed on a separate return. Conversely, if the Company’s separate return calculation results in a net operating loss, capital losses, deductions, tax credits or similar items, WRBC shall compensate the Company an amount equal to its federal income tax liability calculated on a separate return basis. In accordance with the contract, WRBC and the Company shall each pay its own state and local taxes. As of December 31, 2013, the agreement remained in effect for all years prior to December 31, 2012. Effective January 1, 2013, the agreement was replaced by the tax provisions stipulated in the affiliated Reinsurance Pooling Agreement.
- Investment Advisory Agreement – Effective April 1, 1996, the Company entered into an Investment Advisory Agreement with Berkley Dean and Company, Inc. (“Berkley Dean”). In accordance with the agreement, Berkley Dean provides certain investment advisory and management services based upon criteria, standards and guidelines established by the Company. The Company has ultimate and final authority over decisions and policies on purchases and sales of securities.

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- Investment Management Agreement – Effective January 1, 2005, the Company entered into an Investment Management Agreement with Steamboat Asset Management, LLC (“SAM”). In accordance with the agreement, SAM acts as manager for a specified portion of the Company’s investment portfolio subject to the direction, control and supervision of the Company.
- Computer Services Agreement – Effective January 1, 2002, the Company entered a Computer Services Agreement with Berkley Technology Services, LLC (“BTS”). In accordance with the agreement, BTS provides computer and data processing services to the Company including: programming, network management, operations and consulting services. The agreement authorizes BTS to contract with other service providers to satisfy the needs of the Company at its discretion. Per the agreement, BTS agrees all information disclosed by the Company shall be confidential and shall not be disclosed to any individual, corporation, other business organization or governmental agency unless required by law in conformity with the Company’s privacy policy. In addition, BTS agrees to use information only for the purpose for which the Company provided it.

TERRITORY AND PLAN OF OPERATION

The Company is a licensed insurer in the states of Delaware and New Jersey. In addition, the Company writes business on a surplus or non-admitted basis in all other states, the District of Columbia, Guam, Puerto Rico, the U.S. Virgin Islands and Canada. For the year ended December 31, 2013, the majority of the Company’s gross premium written was derived from direct business produced primarily by the following Profit Centers: Admiral Insurance Group; Berkley Custom Insurance Managers; Monitor Liability Managers and Berkley Medical Excess

ADMIRAL INSURANCE COMPANY

Underwriting Managers. The following further describes the business written by each Profit Center:

- Admiral Insurance Group provides excess and surplus lines coverage for commercial risks that generally consist of hard-to place, specialized risks that involve moderate to high degrees of hazard. Its lines of business include general liability, professional liability, property, and excess and umbrella coverage. Admiral Insurance Group's expanding professional liability and program operations include special coverages for technology, ambulatory surgery centers, chiropractors and concierge physicians. Its products are distributed exclusively by wholesale brokers.
- Berkley Custom Insurance Managers focuses on the excess casualty insurance market and offers umbrella liability, pollution liability, excess liability, construction wrap-ups and completed operations coverages to wholesalers, retailers, manufacturers, insurance companies, financial institutions and construction companies.
- Monitor Liability Managers provides executive and professional liability insurance to small to middle-market risks on a nationwide basis. Its primary professional liability products are directors and officers, employment practices and fiduciary coverages for public and private companies and nonprofit organizations, and errors and omissions policies for accounting and law firms.
- Berkley Medical Excess Underwriting Managers insures healthcare organizations such as hospitals and clinics that retain a portion of their risk exposure through a self-funded mechanism and seek to maximize the effectiveness and efficiency of their excess risk financing program

ADMIRAL INSURANCE COMPANY

GROWTH OF THE COMPANY

The following information reflects the admitted assets, surplus as regards policyholders, gross premiums written and net income of the Company since the prior examination:

<u>Year</u>	<u>Admitted Assets</u>	<u>Surplus as Regards Policyholders</u>	<u>Gross Premiums Written</u>	<u>Net Income</u>
2013	\$ 667,368,557	\$ 597,620,620	\$ 298,945,556	\$ 826,229,299
2012	3,142,106,841	1,688,369,263	548,316,841	150,721,403
2011	3,018,205,018	1,480,986,023	521,937,475	170,137,073
2010	3,155,251,602	1,488,986,266	494,310,596	218,936,738
2009	3,308,366,547	1,340,248,609	601,607,428	56,245,026

For the year ended December 31, 2013, the Company's financial position and operating results were heavily skewed by the transfer of assets and liabilities and the first year of operations under the Reinsurance Pooling Agreement and the two Assignment, Novation and Amendment of Reinsurance Contracts. For the 2013 Annual Statement, the prior year financial statement presentation was not restated to reflect pooling agreement and related changes in affiliated reinsurance agreements. Excluding these events, the Company reported relatively stable gross premium written, surplus as regards to policyholders and total admitted assets over the examination period.

ADMIRAL INSURANCE COMPANY**REINSURANCE**

The Company reported the following distribution of premiums written for the year ended December 31, 2013:

	<u>2013</u>	<u>% GPW</u>	<u>2009</u>	<u>% GPW</u>
Direct business	\$ 405,495,670	135.6%	\$ 354,789,858	59.0%
Reinsurance assumed from affiliates	(106,532,114)	-35.6%	246,108,570	40.9%
Reinsurance assumed from non-affiliates	<u>(18,000)</u>	<u>0.0%</u>	<u>709,000</u>	<u>0.1%</u>
Gross premiums written (“GPW”)	<u>\$ 298,945,556</u>	<u>100%</u>	<u>\$ 601,607,428</u>	<u>100%</u>
Reinsurance ceded to affiliates	\$ 567,835,715	189.9%	\$ 5,143,055	0.9%
Reinsurance ceded to non-affiliates	<u>(13,203,862)</u>	<u>-4.4%</u>	<u>33,493,131</u>	<u>5.6%</u>
Total ceded	<u>\$ 554,631,853</u>	<u>185.5%</u>	<u>\$ 38,636,186</u>	<u>6.4%</u>
Net premiums written	<u>\$ (255,686,297)</u>	<u>-85.5%</u>	<u>\$ 562,971,242</u>	<u>93.6%</u>

Assumed Reinsurance – Affiliated

Historically, the Group had various reinsurance agreements between BIC and its subsidiaries and affiliates and among various subsidiaries and affiliates in the Group. Effective January 1, 2013, all of the historical reinsurance agreements of the Group were commuted, assigned and novated, or otherwise amended binding BIC to assume 100% of all direct and assumed liability of all property and casualty companies in the Group. For 2013, the Company reported negative reinsurance assumed from affiliates due to two separate Assignment, Novation & Amendment of Reinsurance Contracts (“Assignment and Novation”) effective January 1, 2013, between (1) the Company, Clermont Insurance Company and BIC and (2) the Company, Admiral Indemnity Insurance Company and BIC. In accordance with the Assignment and Novation, BIC replaced the Company as the reinsurer in the original 100% Quota Share Reinsurance Agreement (1) dated April 5, 1983, between the Company and Clermont Insurance Company and (2) dated April 5, 1983, between the Company, Admiral Indemnity Insurance Company and BIC.

ADMIRAL INSURANCE COMPANY

Ceded Reinsurance – Affiliated

Effective January 1, 2013, the Company entered into a Reinsurance Pooling Agreement (“Pooling Agreement”) with BIC and eighteen of its twenty-three property and casualty insurance company subsidiaries. The Company and the other eighteen participants to the agreement are referred to as “Pool Affiliates.” The Pooling Agreement commutes all prior reinsurance agreements between BIC and Pool Affiliates and agreements among Pool Affiliates. Per the agreement, the Pool Affiliates cede and transfer 100% of (1) their respective liabilities on all direct insurance policies and all reinsurance contracts in force or that had expired or had been terminated or non-renewed as of January 1, 2013 and (2) those direct and assumed liabilities on policies issued subsequent to January 1, 2013. The Pooling Agreement appoints BIC to act as manager to do all things necessary and incidental to conduct the business of the Pool Affiliates, and provides BIC the right to subcontract any of the duties and obligations to various Profit Centers, other affiliates or unrelated third parties. Settlements required under the contract are made on a daily basis. The agreement also stipulates the Pool Affiliates be included in any consolidated federal income tax return of BIC. The Pool Affiliates pay BIC an amount of tax liability as if it had filed a separate federal income tax return, and full benefit is received for any net operating losses, capital losses, deductions, tax credits or similar items on a separate return basis. Tax payments are made to the Company quarterly. The Pooling Agreement was amended effective April 17, 2013 to add clarifying language in Article II of the contract regarding the Administration/Management provision.

Simultaneous to the Reinsurance Pooling Agreement BIC entered into an affiliated Management Agreement with forty-eight affiliated companies referred to as “Managers.” The Managers are also referred to as “Profit Centers” by the Group’s management, and specialize in

ADMIRAL INSURANCE COMPANY

property and casualty insurance underwriting, claims adjustment and payment and other management services. BIC also has similar agreements with other affiliated Profit Centers. In accordance with the agreements, BIC appointed the Profit Centers to act on its behalf and do all things necessary and incidental to conduct the business of BIC and its insurance subsidiaries. The agreements authorize the Profit Centers to subcontract any of the services furnished under the agreements to any subsidiary, affiliate or unrelated third party subject to BIC's approval.

Ceded Reinsurance - Unaffiliated

In accordance with the affiliated Reinsurance Pooling Agreement effective January 1, 2013, BIC received a settlement value plus any future reinsurance recoveries received by the Company as consideration. Accordingly, BIC now reports the NAIC Annual Statement *Schedule F – Part 3 Ceded Reinsurance* schedules as if it replaced the Company (original cedant) in all ceded reinsurance contracts issued by the Company prior to the agreement. After January 1, 2013, all aggregate and facultative reinsurance purchased to cover business underwritten by the Company is acquired in the name of BIC.

ACCOUNTS AND RECORDS

Effective January 1, 2013, the Company's accounts and records and information technology processes and applications are maintained by BIC, or its designee, in accordance with the Reinsurance Pooling Agreement.

The accounts and records review included an assessment of the Company's risk management process for identifying and controlling risks in key operational areas. In making the assessment for each key area, processes were reviewed, risks were identified and controls were

ADMIRAL INSURANCE COMPANY

identified and tested. The Company's methodology for assessing the effectiveness of the established mitigation factors was also evaluated.

The Company's information technology ("IT") platforms, applications and services are decentralized and managed locally at each Profit Center by local IT management and/or centralized by WRBC under an affiliated computer services agreement with Berkley Technology Services, LLC (BTS). BTS manages WRBC corporate IT applications and services that are provided to all Profit Centers. These applications include the PeopleSoft general ledger, the PAM investment software and the Freedom Reinsurance System.

The Delaware Department of Insurance engaged INS Services, Inc. to perform a review and assessment of the Company's information systems and the related control environment. There were no reportable examination findings with respect to the Company's information technology systems and controls.

FINANCIAL STATEMENTS

The following statements show the assets, liabilities, surplus as regards policyholders of the Company, as determined by this examination, as of and for the period ended December 31, 2013:

- Assets
- Liabilities, Surplus and Other Funds
- Statement of Income
- Capital and Surplus Account
- Reconciliation of Capital and Surplus From the Prior Examination

ADMIRAL INSURANCE COMPANY

Assets
As of December 31, 2013

	Ledger <u>Assets</u>	Assets Not <u>Admitted</u>	Net Admitted <u>Assets</u>	<u>Notes</u>
Bonds	\$ 277,899,327	\$ -	\$ 277,899,327	1
Common stocks	306,391,017	-	306,391,017	2
Mortgage loans on real estate	3,510,000	1,353,750	2,156,250	
Real estate - Properties occupied by the company	35,911	-	35,911	
Cash and short-term investments	8,461,202	-	8,461,202	
Other invested assets	8,260	-	8,260	
Investment income due and accrued	3,075,311	-	3,075,311	
Uncollected premiums and agent balances	49,471,676	1,741,080	47,730,596	
Deferred premiums	7,144,386	714,439	6,429,947	
Current federal and foreign income tax recoverable	12,646,145	-	12,646,145	
Net deferred tax asset	1,431,434	-	1,431,434	
Guaranty funds receivable or on deposit	8,496	-	8,496	
Receivables from parent, subsidiaries and affiliates	179,590	-	179,590	
Aggregate write-ins for other than invested assets	<u>1,501,182</u>	<u>586,111</u>	<u>915,071</u>	
Total assets	<u>\$ 671,763,937</u>	<u>\$ 4,395,380</u>	<u>\$ 667,368,557</u>	

ADMIRAL INSURANCE COMPANY

Liabilities, Surplus and Other Funds
December 31, 2013

		<u>Notes</u>
Losses	\$ -	3
Reinsurance payable on paid loss and loss adjustment expenses	-	
Loss adjustment expenses	-	3
Reinsurance payable on paid loss and loss adjustment expenses	64,814	
Commission payable, contingent commissions and other similar charges	642,151	
Other expenses	2,232,766	
Taxes, licenses and fees	103,128	
Ceded reinsurance premiums payable	53,126,970	
Amount withheld or retained by company for account of others	174,316	
Remittances and items not allocated	3,109,215	
Payable to parent, subsidiaries and affiliate	8,515,734	
Aggregate write-ins for liabilities	<u>1,778,843</u>	
 Total liabilities	 <u>\$ 69,747,937</u>	
 Common capital stock	 \$ 4,600,000	
Gross paid in and contributed surplus	364,536,044	
Unassigned funds (surplus)	<u>228,484,576</u>	
 Total surplus as regards policyholders	 <u>\$ 597,620,620</u>	
 Total liabilities, capital and surplus	 <u>\$ 667,368,557</u>	

ADMIRAL INSURANCE COMPANY

Statement of Income
For the Period Ended December 31, 2013
and
Capital and Surplus Account
From December 31, 2012 to December 31, 2013

		<i>Notes</i>
Income:		
Premiums earned	\$ -	
Net investment income earned	625,969,882	4
Net realized capital gains	139,636,987	
Other income	<u>340,798</u>	
Total income	<u>\$ 765,947,667</u>	
Expenses:		
Losses incurred	\$ -	
Loss adjustment expenses incurred	-	
Other underwriting expenses	-	
Net loss from agents' or premium balances charged off	362,958	
Federal and foreign income taxes incurred	<u>(60,644,590)</u>	
Total expenses	<u>\$ (60,281,632)</u>	
Net income:	<u>\$ 826,229,299</u>	
Surplus as regards to policyholders, December 31, 2012	\$ 1,688,369,263	
Net income	826,229,299	
<u>Additions:</u>		
Change in nonadmitted assets	\$ 58,370	
Change in provision for reinsurance	394,322	
Paid in surplus	<u>17,000,000</u>	
Total additions	17,452,692	
<u>Deductions:</u>		
Change in unrealized capital gains (losses)	(684,965,930)	
Change in foreign exchange capital gains (losses)	(1,684,502)	
Change in net deferred income tax	(71,785,434)	
Transferred to surplus	(2,000,000)	
Dividends	(1,172,215,931)	
Aggregate write-ins for gains and losses in surplus	<u>(1,778,837)</u>	
Total deductions	(1,934,430,634)	
Surplus as regards to policyholders, December 31, 2013	<u>\$ 597,620,620</u>	

ADMIRAL INSURANCE COMPANY

Reconciliation of Capital and Surplus From Prior Examination
December 31, 2009 to December 31, 2013

		Aggregate Write-ins Surplus Funds	Common Capital Stock	Preferred Capital Stock	Gross Paid-in & Contributed Surplus	Unassigned Funds (Surplus)	Total
December 31, 2009		\$22,755,495	\$ 4,600,000	\$2,000,000	\$ 346,784,328	\$ 964,108,786	\$1,340,248,609
2010 Operations	(1)	-	-	-	-	285,567,493	285,567,493
2010 Special Surplus		(2,829,837)	-	-	-	-	(2,829,837)
2010 Dividends	(3)	-	-	-	-	(134,000,000)	(134,000,000)
2011 Operations	(1)	-	-	-	-	199,289,860	199,289,860
2011 Special Surplus		(2,912,603)	-	-	-	-	(2,912,603)
2011 Dividends	(3)	-	-	-	-	(204,377,500)	(204,377,500)
2012 Operations	(1)	-	-	-	751,716	232,399,580	233,151,296
2012 Special Surplus		(17,013,056)	-	-	-	-	(17,013,056)
2012 Dividends		-	-	-	-	(8,755,000)	(8,755,000)
2013 Operations	(1)	-	-	-	-	66,467,288	66,467,288
2013 Special Surplus		-	-	(2,000,000)	17,000,000	-	15,000,000
2013 Dividends	(3)	-	-	-	-	(1,172,215,931)	(1,172,215,931)
December 31, 2013		<u>\$ -</u>	<u>\$4,600,000</u>	<u>\$ -</u>	<u>\$ 364,536,044</u>	<u>\$ 228,484,576</u>	<u>\$ 597,620,620</u>

(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, and aggregate write-ins for gains and losses to surplus.

(2): See discussion of common capital stock and paid-in surplus below.

(3): See discussion of dividends below.

Common Capital Stock and Paid-in Surplus

As amended, the Certificate of Incorporation authorizes the Company to issue 2,000 shares of common stock with a \$2,300 par value and 1,000 shares of preferred stock with a \$1,000 par value. As of December 31, 2013, the Company had 2,000 common shares totaling \$4,600,000. The Company had no preferred shares issued and outstanding. All outstanding common shares of the Company are owned by Berkley Insurance Company.

As of December 31, 2013, the Company reported gross paid in and contributed surplus of \$364.5 million. During the examination period, the Company received approximately \$751.7 thousand and \$17.0 million of gross paid in and contributed surplus from its parent for the years

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ended 2012 and 2013, respectively.

Dividends

The Company paid extraordinary dividends to BIC during 2013 in the amount of \$1.05 billion and \$118.6 million, totaling \$1.17 billion. Prior approval from the Delaware Department of Insurance was obtained before payment of each. In addition, the Company paid ordinary dividends during the examination period in the amounts of \$134.0 million, \$202.2 million and \$6.6 million for the years ended 2010, 2011 and 2012, respectively. The dividends were paid in the form of cash or transfer of invested assets, including ownership of several wholly owned subsidiaries valued at book adjusted carrying value on the date of transfer.

SCHEDULE OF EXAMINATION ADJUSTMENTS

None.

NOTES TO THE FINANCIAL STATEMENTS

Note 1: Bonds

\$ 277,899,327

As of December 31, 2013, the Company reported total bond investments on Schedule D – Part 1 with book adjusted carrying values in the amount of \$277.9 million and fair market values of \$287.3 million. Bonds were comprised of the following classes:

	<u>Statement Value</u>	<u>% of Total</u>
U.S. Governments	\$ 7,451,379	2.7%
U.S. States, Territories & Possessions	53,161,140	19.1%
U.S. Political Subdivisions of States, Territories & Possessions	4,469,839	1.6%
U.S. Special Revenues	145,980,469	52.5%
Industrial and Miscellaneous	66,836,500	24.1%
Total	<u>\$ 277,899,327</u>	<u>100.0%</u>

The Company reported an additional \$8.4 million in bonds at book adjusted carrying value as short-term investments for total bond holdings of \$286.3 million. Of the Company's

ADMIRAL INSURANCE COMPANY

total bond holdings, \$276.5 million or 96.5% were categorized as Class 1 with respect to NAIC credit quality standards. The remaining holdings were NAIC Class 2 bonds. The bond holdings were 96.1% publically traded and 3.9% private placement securities. Bond maturities were diversified relative to maturity with 22.3%, 40.2%, 26.8% and 10.8% maturing in less than one year, one to five years, five to ten years, and ten to twenty years, respectively. The examination verified the existence, ratings and reported values for the bond securities as of December 31, 2013.

Note 2:

Common Stock

\$306,391,017

As of December 31, 2013, the Company reported total common stock investments with book adjusted carrying values in the amount of \$306.4 million and fair market values of \$405.2 million. The Company's common stock holdings consist of common stock shares in its insurance subsidiaries and publically traded shares of WRBC. As of December 31, 2013, common stocks consisted of the following:

<u>Description</u>	<u>Book Value</u>	<u>Fair Value</u>	<u>Actual Cost</u>	<u>Amount Received During Year Dividends</u>	<u>Date Acquired</u>
<u>Domestic Insurance Subsidiaries</u>					
Nautilus Insurance Company	\$ 150,486,826	\$ 150,486,826	\$ 71,317,940	\$ 515,277,726	12/1/1987
Carolina Casualty Company	95,920,700	95,920,700	201,792,060	101,389,725	9/29/2009
Admiral Indemnity Company	38,596,172	38,596,172	20,159,290	-	11/1/2004
Clermont Insurance Company	21,387,319	21,387,319	23,481,620	-	12/18/2007
Subtotal	\$ 306,391,017	\$ 306,391,017	\$ 316,750,910	\$ 616,667,451	
<u>Investment in Ulitimate Controlling Party</u>					
WR Berkley Corporation Common Shares	\$ -	\$ 98,847,844	\$ 20,679,000	\$ 888,469	5/13/1998
Grand Total	\$ 306,391,017	\$ 405,238,861	\$ 337,429,910	\$ 617,555,920	

ADMIRAL INSURANCE COMPANY

The examination verified the existence and reported values for the common stock securities as of December 31, 2013, without material exception. Investments in affiliates were reviewed for proper reporting in accordance with *Statement of Statutory Accounting Principles No. 97 – Investments in Subsidiary, Controlled and Affiliated Entities, A Replacement of SSAP No. 88* without exception.

Note 3:

Losses	\$ 0
Loss Adjustment Expenses	\$ 0

INS Consultants, Inc. (“Consulting Actuary”) performed a 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 the Company’s loss and loss adjustment expense reserves as of December 31, 2013. The Company’s actuarial staff provided the Consulting Actuary its Statement of Actuarial Opinion and the supporting actuarial data, documents and calculations. The Consulting Actuary determined the Company’s loss and loss adjustment expenses reserves were sufficient on both a gross and net basis as of December 31, 2013.

Note 4:

Net Investment Income Earned	\$625,969,882
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For the year ended December 31, 2013, the Company reported total net investment income earned of \$626.0 million versus, \$149.6 million, \$144.3 million, \$171.8 million and \$113.9 million for 2012, 2011, 2010 and 2009, respectively. The change in 2013 versus other years under examination is primarily attributed to \$617.6 million in dividends from affiliated common stock holdings and the decrease in invested assets related to the Reinsurance Pooling Agreement. Excluding these items, estimated investment yields on invested assets were relatively consistent over the examination period.

COMPLIANCE WITH PRIOR EXAMINATION RECOMMENDATIONS

The following is a summary of the recommendations contained in the prior examination report as of December 31, 2009, and comments regarding the Company's compliance during the current examination period.

1. It was recommended the Company comply with its Bylaws, Article II Sections 7 and 8 and Article III Section 1, with regard to election of Committee and Board members.

The Company has complied with this recommendation.

SUMMARY OF RECOMMENDATIONS

None.

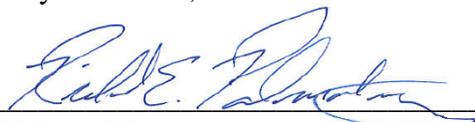
CONCLUSION

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

<u>Description</u>	<u>December 31, 2013</u>	<u>December 31, 2009</u>	<u>(Decrease)</u>
Assets	\$ 667,368,557	\$ 3,308,366,547	\$ (2,640,997,990)
Liabilities	\$ 69,747,937	\$ 1,968,117,938	\$ (1,898,370,001)
Capital and Surplus	\$ 597,620,620	\$ 1,340,248,609	\$ (742,627,989)

The assistance of Delaware's consulting actuarial firm, INS Consultants, Inc. and the consulting information technology specialist with INS Services, Inc. is acknowledged.

Respectfully submitted,



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