

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

Karen Weldin Stewart, CIR-ML
Commissioner



Delaware Department of Insurance

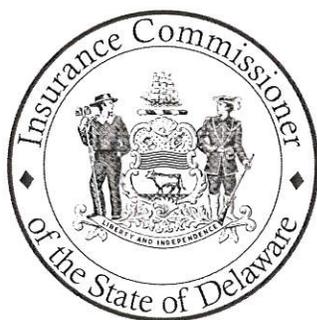
I, Karen Weldin Stewart, Insurance Commissioner of the State of Delaware, do hereby certify that the attached REPORT OF EXAMINATION, made as of December 31, 2013 of the

BERKLEY INSURANCE COMPANY

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

Attest By:

Date: May 19, 2015



In Witness Whereof, I have hereunto set my hand and affixed the official seal of this Department at the City of Dover, this 19th day of May, 2015.

Karen Weldin Stewart, CIR-ML
Insurance Commissioner

Karen Weldin Stewart, CIR-ML
Commissioner



Delaware Department of Insurance

REPORT OF EXAMINATION
OF THE
BERKLEY 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", is written over a horizontal line.

Karen Weldin Stewart, CIR-ML
Insurance Commissioner

Dated this 19th 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. 14.001, dated December 9, 2013, an examination has been made of the affairs, financial condition and management of the

BERKLEY INSURANCE COMPANY

hereinafter referred to as “Company” or “BIC” 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

BERKLEY 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

BERKLEY 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 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:

| <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 of Minnesota | 31003 | MN* |
| Union Insurance Company | 25844 | IA |

*Redomiciled to Iowa in December 2014

BERKLEY INSURANCE COMPANY

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

Fidelity Bonds and Other Insurance

Pensions, Stock Ownership and Insurance Plans

Statutory Deposits

SUMMARY OF SIGNIFICANT FINDINGS

None.

SUBSEQUENT EVENTS

Subsequent to the examination period, the Company paid ordinary dividends in the amount of \$487.1 million. The dividends were paid on February 5, 2014, and March 30, 2014, in the amount of \$200 million and \$287.1 million, respectively.

COMPANY HISTORY

The Company was incorporated on December 18, 1975, under the laws of the State of Nebraska and commenced business on December 31, 1975, as Signet Reinsurance Company (“Signet Re”). Signet Re continued to conduct business as a Nebraska domiciled company until March 31, 1995, when it re-domesticated to the State of Delaware. On December 31, 2000, the name of the Company was changed to Berkley Insurance Company.

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, provided a quorum is present. Other meetings may be held as determined by Board of Director resolution and special meetings may be called by the Chairman of the Board or President. 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 initially of seven Directors and thereafter may consist of any number determined by resolution of the Board of Directors.

The Directors are elected annually by the stockholders 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> |
|------------------------|---|
| William Robert Berkley | Chairman of the Board & Chief Executive Officer W.R. Berkley Corporation |

BERKLEY INSURANCE COMPANY

| | |
|---------------------------|--|
| 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 |
| Paul James Hancock | Senior Vice-President & Chief Corporate Actuary W.R. Berkley Corporation |
| Carol Josephine LaPunzina | Senior Vice-President of Human Resources W.R. Berkley Corporation |
| Ira Seth Lederman | Senior Vice-President, General Counsel & Secretary W.R. Berkley Corporation |
| C. Fred Madsen | Senior Vice-President of Reinsurance Operations W.R. Berkley Corporation |

Officers were elected in accordance with the Bylaws during the period under examination. The Bylaws require election of a President, one or more Vice Presidents, a Secretary, one or more Assistant Secretaries, a Treasurer, and one or more Assistant Treasurers. The Board of Directors may also elect a Chairman of the Board of Directors at its discretion. The primary officers serving as of December 31, 2013 were as follows:

| <u>Name</u> | <u>Title</u> |
|------------------------|---|
| W. Robert Berkley, Jr. | President |
| Eugene George Ballard | Treasurer |
| Ira Seth Lederman | Secretary |
| Rajiv Nayan Raval* | Senior Vice President and General Counsel |

* Subsequent to the examination date, Rajiv Nayan Raval resigned and had not been replaced as of the completion of examination fieldwork.

BERKLEY INSURANCE COMPANY

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 direct parent 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:

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.

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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
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

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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
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

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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
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

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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:

- Management Agreements

Effective January 1, 2013, the Company 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 property and casualty insurance underwriting, claims adjustment and payment and other management services. The Company also has similar agreements with Berkley Canada, effective April 1, 2009 and amended January 15, 2011, and Berkley International Puerto Rico, effective April 29, 2013. In accordance with the agreements, the Company appoints the Managers to act on its behalf and do all things necessary and incidental to conduct the business of the Company and its insurance subsidiaries. The agreements authorize the Managers to subcontract any of the services furnished under the agreements to any subsidiary, affiliate or unrelated third party subject to the Company’s approval. Simultaneous to the January 1, 2013 agreement, the property and casualty

BERKLEY INSURANCE COMPANY

companies in the Group, with the exception of Preferred Employers Insurance Company, appointed the Company to act as their manager under either the Reinsurance Pooling Agreement or a 100% Quota Share Agreement. These reinsurance agreements authorized the Company to subcontract any of the duties and obligations to affiliates or unrelated third parties. Effective January 1, 2013, the Company entered into an affiliated Management Agreement with Preferred Employers Insurance Company. In accordance with the agreement, Preferred Employers Insurance Company appoints the Company to act as a manager on its behalf and do all things necessary and incidental to conduct the business of Preferred Employers Insurance Company. The agreement authorizes the Company to subcontract any of the services furnished under the agreement to any subsidiary, affiliate or unrelated third party subject to Preferred Employers Insurance Company's approval. Simultaneous to this agreement, the Company entered into a Management Agreement with forty-eight affiliated companies or Managers to act on its behalf and do all things necessary and incidental to conduct the business of the Company and its insurance subsidiaries.

- Tax Allocation Agreement – Effective January 1, 2013, the Company entered into an affiliated Tax Allocation Agreement with WRBC, which replaced the previous Consolidated Federal Income Tax Agreement between the two parties dated January 1, 1996, and amended December 31, 2000. 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,

BERKLEY INSURANCE COMPANY

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, deductions, tax credits or similar items, WRBC shall pay the Company an amount equal to its federal income tax liability calculated on a separate return basis. In no event shall the Company be required to make payment that would result in the Company being in a less favorable position than if it had filed a separate federal income tax return. In accordance with the contract, WRBC and the Company shall each pay its own state and local taxes.

- Investment Advisory Agreement – Effective April 1, 1996, and amended December 31, 2000 and December 5, 2008, the Company entered 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.
- 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.

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- Computer Services Agreement – Effective July 9, 2010, the Company entered into 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.
- Guarantee Agreement – Effective September 13, 2012, the Company entered an affiliated Guarantee with W.R. Berkley Insurance (Europe), Limited (“WRBIEL”). In accordance with the guarantee, the Company agrees to pay, or cause to be paid, any policyholder obligation that becomes due because WRBIEL does not have sufficient funds for the payment. Payment will occur subject to the terms and conditions of the applicable policy issued by WRBIEL. In the event the agreement is terminated based on the required notice of either party, the Company shall remain liable for policyholder obligations assumed from WRBIEL on or prior to the termination date unless WRBIEL attains a financial strength rating from Standard & Poor’s of “A+” or better without giving weight to the support of the guarantee.

TERRITORY AND PLAN OF OPERATION

The Company is licensed in all fifty (50) states, the District of Columbia and Puerto Rico. The Company is also authorized to write insurance and/or reinsurance in various foreign jurisdictions including: Australia, Canada, China, Singapore and the United Kingdom. For the year ended December 31, 2013, the Company's unaffiliated business consisted of \$683 million in unaffiliated gross assumed premium and \$193 million in unaffiliated direct gross premium written. The unaffiliated assumed reinsurance was primarily produced by: Berkley Re America; the Company's Asia Pacific operations; BF Re Underwriters; Facultative Resources; Medical Excess Underwriters and the Company's United Kingdom operations. The unaffiliated direct premium written was primarily produced by: Berkley Professional Liability; Monitor Liability Managers and Berkley Canada. The following further describes the business written by each Profit Center:

- Berkley Re America is a specialty reinsurance underwriter with an emphasis on providing solutions for insurance companies, or units within insurance companies, that have a business model built upon specialization in the products they underwrite. Its lines of business include general and products liability, environmental liability, professional liability, medical malpractice, automobile, umbrella and excess liability, workers' compensation and property.
- The Company's Asia Pacific operations (also known as Berkley Re Asia Pacific and Berkley Re Australia) underwrite and provide reinsurance capacity on a proportional and excess of loss basis on property, engineering and casualty lines of business for clients in the Asia region that have expanding needs for risk bearing capital, advanced risk

BERKLEY INSURANCE COMPANY

management and selection disciplines. Services are provided through offices in Hong Kong and Singapore.

- BF Re Underwriters, now known as Berkley Re Direct, is a direct casualty facultative reinsurance underwriter serving clients through a nationwide network of regional offices. Its facultative reinsurance products include automatic, semi-automatic and individual risk assumed reinsurance. Berkley Re Direct also provides its customers value-added services across its lines, including underwriting, claims and actuarial consultation.
- Facultative ReSources is a broker market casualty, professional liability and property facultative underwriter based in Stamford, Connecticut. It provides expertise across many lines of facultative business, and has recently broadened its expertise in a number of specialized areas, including professional liability and property hazards in emerging technologies.
- Medical Excess Underwriters 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.
- The Company's United Kingdom operations, also known as Berkley Re UK, write international property casualty treaty accounts. Its territorial scope includes reinsured clients domiciled in the United Kingdom, Europe, Africa, the Middle East and the Caribbean.
- Berkley Professional Liability specializes in professional liability insurance for large publicly-traded and private entities based in the United States and Canada. Its liability coverages include directors and officers, fiduciary, employment practices and sponsored insurance agents.

BERKLEY INSURANCE COMPANY

- 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 Canada underwrites specialty, casualty and surety lines of business. It specializes in commercial casualty and professional liability, and offers a broad portfolio of risk products that include commercial general liability, umbrella, professional liability, directors and officers, commercial property and surety, in addition to niche products for specific industries such as technology and life sciences.

In addition to its unaffiliated reinsurance operations and primary lines of business, the Company assumes all business produced by the Group's property and casualty companies. The companies in the Group conduct business on an admitted and non-admitted basis in primary lines, excess and surplus lines and reinsurance lines including treaty and facultative lines of business. Products are marketed and distributed via the Company's pooling agreement and related management agreements with its various affiliated Profit Centers.

The Company also assumes limited business produced by WRBIEL and other affiliates, and has additional exposure to various international markets through its wholly owned international insurance subsidiaries including: WRBIEL and Berkley Insurance Company - Escritorio de Representacao no Brasil, Ltda. The Group and WRBIEL comprise the majority of the WRBC insurance operations worldwide. WRBC also writes business internationally through other wholly owned subsidiaries including: Greenwich Knight Insurance Company, Queen's Island Insurance Company, Ltd. and East Isles Reinsurance, Ltd.

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Historically, WRBC has operated in five business segments of the property and casualty insurance market:

- Specialty – includes excess and surplus lines and admitted specialty lines
- Regional – includes commercial line property and casualty
- Alternative Markets – includes excess workers' compensation, monoline workers' compensation, accident and health and insurance services
- Reinsurance – includes facultative and treaty as well as participation in business written through Lloyd's of London.
- International – includes selected regions throughout the world including almost forty countries worldwide, with branches or offices in fifteen locations outside the United States, including the United Kingdom, Continental Europe, South America, Australia, the Asia Pacific region, Scandinavia and Canada.

Each of the five business segments is composed of multiple Profit Centers that serve a market defined by geography, products, services or types of customers. Each Profit Center is positioned close to its customer base and participates in a niche market requiring specialized knowledge about a territory or product. In the first quarter of 2013, the Group began to realign its previous five segments into three segments. All domestic insurance Profit Centers, previously included in the Specialty, Regional and Alternative Markets segments, were aggregated into the Insurance-Domestic segment; all reinsurance Profit Centers were aggregated into the Reinsurance-Global segment and all international Profit Centers were aggregated into the Insurance-International segment. The three new consolidated segments are further described as follows:

BERKLEY INSURANCE COMPANY

- Insurance-Domestic - commercial insurance business, including excess and surplus lines and admitted lines, primarily throughout the United States;
- Insurance-International - insurance business primarily in the United Kingdom, Continental Europe, South America, Canada, Scandinavia and Australia
- Reinsurance-Global - reinsurance business on a facultative and treaty basis, primarily in the United States, United Kingdom, Continental Europe, Australia and the Asia-Pacific Region.

GROWTH OF THE COMPANY

The following information reflects the admitted assets, surplus as regards policyholders, net 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>Net Premiums Written</u> | <u>Net Income</u> |
|-------------|------------------------|---|-----------------------------|-------------------|
| 2013 | \$16,122,680,430 | \$4,907,172,289 | \$5,744,145,566 | \$1,493,816,453 |
| 2012 | 10,223,837,721 | 4,656,251,357 | 1,719,304,428 | 294,521,111 |
| 2011 | 7,830,163,642 | 2,611,163,505 | 1,525,782,992 | 232,788,901 |
| 2010 | 7,517,455,064 | 2,623,691,650 | 1,327,234,776 | 323,553,914 |
| 2009 | 7,190,317,258 | 2,477,191,155 | 1,226,018,526 | 223,725,953 |

Since 2012, the Company's operating results and financial position have been heavily skewed by the \$1.7 billion capital contribution in the form of stock in Admiral Insurance Company in 2012 and the 2013 transfer of assets from affiliates related to the Reinsurance Pooling Agreement and 100% Quota Share Agreements. For the 2013 Annual Statement, the prior year financial statement presentation was not restated to reflect the new agreements. Excluding these events, the Company experienced a trend of admitted asset growth over the

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examination period. The growth in admitted assets and net income over the examination period is primarily attributed to an upward trend in net premium written since 2010 and relatively stable overall expense and loss ratios with combined ratios on an incurred basis of 97%, 101%, 105% and 103% for 2013, 2012, 2011 and 2010, respectively. The estimated yield on invested assets was also stable over the examination period at 4.1%, 4.3% and 5.4% for 2012, 2011 and 2010, respectively. Overall, surplus as regards to policyholders has grown as the result of positive operating results despite the Company paying \$783.2 million in parent company dividends during the examination period.

LOSS EXPERIENCE

Total net loss and loss adjustment expense reserves as of December 31, 2013 were \$6.9 billion and \$1.4 billion, respectively. The Delaware Department of Insurance of Insurance granted the Company permission to restate Schedule P historical information in the 2013 Annual Statement as if the Reinsurance Pooling Agreement was in place for all years reported. As of December 31, 2013, incurred losses and loss adjustment expenses attributable to insured events of prior years decreased by \$89 million as a result of reexamination of unpaid loss and loss adjustment expenses principally on the liability occurrence and reinsurance non-proportional assumed liability reinsurance. The prior years' favorable development was primarily from the non-proportional assumed liability lines.

BERKLEY 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 | \$ 193,212,196 | 2.9% | \$ 53,280,189 | 4.0% |
| Reinsurance assumed from affiliates | 5,838,292,932 | 86.9% | 791,508,225 | 58.9% |
| Reinsurance assumed from non-affiliates | <u>683,125,131</u> | <u>10.2%</u> | <u>499,404,472</u> | <u>37.2%</u> |
| Gross premiums written ("GPW") | <u>\$ 6,714,630,259</u> | <u>100%</u> | <u>\$ 1,344,192,886</u> | <u>100%</u> |
| Reinsurance ceded to affiliates | \$ 3,978,255 | 0.1% | \$ 1,365,990 | 0.1% |
| Reinsurance ceded to non-affiliates | <u>966,506,437</u> | <u>14.4%</u> | <u>116,808,369</u> | <u>8.7%</u> |
| Total ceded | <u>\$ 970,484,692</u> | <u>14.5%</u> | <u>\$ 118,174,359</u> | <u>8.8%</u> |
| Net premiums written | <u><u>\$ 5,744,145,567</u></u> | <u><u>85.5%</u></u> | <u><u>\$ 1,226,018,527</u></u> | <u><u>91.2%</u></u> |

Assumed Reinsurance - Affiliated

Historically, the Group had various reinsurance agreements between the Company 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 Company and Group were commuted, assigned and novated or otherwise amended binding the Company to assume 100% of all direct and assumed liability of all property and casualty companies in the Group. As of December 31, 2013, the only agreements remaining in force between companies in the Group include a Reinsurance Pooling Agreement and four individual Quota Share Agreements. The four quota share agreements are between the Company and four subsidiaries/affiliates that do not participate in the Reinsurance Pooling Agreement. Outside of the Group, the Company is party to multiple reinsurance agreements with its indirectly owned European subsidiary WRBIEL and its affiliate Queen's Island Insurance Company, Ltd. The following is a summary of the primary affiliated reinsurance contracts in force as of December 31, 2013:

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- Reinsurance Pooling Agreement – Effective January 1, 2013, the Company entered into a Reinsurance Pooling Agreement (“Pooling Agreement”) with nineteen of its twenty-three property and casualty insurance company subsidiaries, referred to as “Pool Affiliates”. The Pooling Agreement commutes all prior reinsurance agreements between the Company 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 the Company to act as manager to do all things necessary and incidental to conduct the business of the Pool Affiliates, and provides the Company 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 the Company. The Pool Affiliates pay the Company 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.
- Quota Share Agreements – Effective January 1, 2013, the Company entered three separate Assignment, Novation and Amendment of Reinsurance Contract(s) to replace the named affiliated reinsurer and increase the participation in each quota share

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agreement to 100% where applicable. As a result, the Company became party to three separate 100% Quota Share Agreements with Admiral Indemnity Insurance Company, Clermont Insurance Company and Union Standard Lloyds, respectively. Additionally, the Company amended its historical 90% Quota Share Agreement with Preferred Employer Insurance Company to increase the Company's participation in the contract to 100%. Under each agreement, the Company assumes 100% of net liabilities under policies, contracts and binders of insurance and reinsurance (1) issued and attaching prior to the effective date and (2) issued or renewed and attaching on or after the effective date. The maximum liability assumed under the agreement with Admiral Indemnity Insurance Company cannot exceed 300% of premiums ceded for the twelve months immediately preceding the month in which the loss occurred. The Admiral Indemnity Insurance Company, Clermont Insurance Company and Union Standard Lloyds contracts appoint the Company to act as manager to do all things necessary and incidental to conduct the business as defined by the contract and provide the Company the right to subcontract any of the duties and obligations to affiliates or unrelated third parties. The Preferred Employers Insurance Company has a separate management agreement directly with the Company that appoints the Company to act as manager and do all things necessary and incidental to conduct the business of Preferred Employers Insurance Company. All agreements require cash settlement on a daily basis.

Assumed Reinsurance– Non-affiliated

For the year ended December 31, 2013, the Company wrote approximately \$683 million in unaffiliated gross assumed premium. The unaffiliated assumed reinsurance was primarily produced by the following Profit Centers: Berkley Re America; the Company's Asia Pacific

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operations; BF Re Underwriters (now known as Berkley Re Direct); Facultative Resources; Medical Excess Underwriters and the Company's United Kingdom operations. The business was produced from a wide range of insurance companies primarily on a treaty basis as well as a on a facultative basis. The products are marketed through reinsurance brokers as well as on a direct basis with the underlying insurance company.

Ceded Reinsurance

In accordance with the affiliated Reinsurance Pooling agreement effective January 1, 2013, the Company received a settlement value plus any future reinsurance recoveries received by the Pool Affiliates as consideration. Accordingly, the Company now reports the NAIC Annual Statement *Schedule F – Part 3 Ceded Reinsurance* schedules as if it replaced the Pool Affiliate (original cedant) in all ceded reinsurance contracts issued by the Pool Affiliates prior to the agreement. After January 1, 2013, all aggregate and facultative reinsurance purchased to cover business underwritten by the Pool Affiliates is acquired in the name of the Company. The Company purchases reinsurance principally to reduce its net liability on individual risks and to protect against catastrophic losses. Reinsurance coverage and retentions vary depending on the line of business, location of the risk and nature of loss. The following summarizes the Company's significant ceded reinsurance:

- Property Reinsurance Treaties - The Company purchases property reinsurance to reduce its exposure to large individual property losses and catastrophe events. The Company does not generally purchase significant catastrophe reinsurance for its assumed reinsurance business. The Company's catastrophe reinsurance agreements are subject to certain limits, exclusions and reinstatement premiums.

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- Casualty Reinsurance Treaties - The Company purchases casualty reinsurance to reduce its exposure to large individual casualty losses, workers' compensation, catastrophe losses and casualty losses involving multiple claimants or insureds.
- Facultative Reinsurance - The Company also purchases facultative reinsurance on certain individual policies or risks that are in excess of treaty reinsurance capacity.
- Other Reinsurance - Depending on the operating unit, the Company purchases specific additional reinsurance to supplement the above programs.

The Company ceded approximately 14.5% of gross premium written for the year ended December 31, 2013 and reported total gross reinsurance recoverable of \$1.7 billion as of year ended. Gross reinsurance recoverable consisted of \$668 million recoverable for paid loss and loss adjustment expense and known case and case loss adjustment expense. The remaining \$1 billion consisted of incurred but not reported losses and unearned premium. As of December 31, 2013, the five largest reinsurers represented approximately \$812 million and 48.5% of the total gross reinsurance recoverable and gross recoverables from the National Workers Compensation Reinsurance Pool in the amount of \$399 million represented 23.8% of the total. Gross reinsurance recoverables were primarily from authorized reinsurers at \$1.5 billion, and the Company's net retention on any one risk was \$15.4 million as of December 31, 2013.

ACCOUNTS AND RECORDS

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

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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

BERKLEY 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 | \$ 8,536,003,149 | \$ - | \$ 8,536,003,149 | 1 |
| Preferred stocks | 108,911,757 | - | 108,911,757 | |
| Common stocks | 2,837,239,558 | - | 2,837,239,558 | 2 |
| Mortgage loans on real estate | 180,442,280 | - | 180,442,280 | |
| Real estate - Properties occupied by the company | 85,066,207 | - | 85,066,207 | |
| Real estate - Properties held for the production of | 32,628,550 | 2,679,550 | 29,949,000 | |
| Cash and short-term investments | 844,009,782 | - | 844,009,782 | |
| Derivatives | 2,428,068 | - | 2,428,068 | |
| Other invested assets | 1,742,068,768 | - | 1,742,068,768 | 3 |
| Investment income due and accrued | 77,196,659 | - | 77,196,659 | |
| Uncollected premiums and agent balances | 1,136,303,272 | 1,235,999 | 1,135,067,273 | |
| Deferred premiums | 41,955,300 | - | 41,955,300 | |
| Accrued retrospective premiums | 1,422,706 | - | 1,422,706 | |
| Amounts recoverable from reinsurers | 100,074,180 | - | 100,074,180 | |
| Funds held by or deposited with reinsured companies | 13,247,780 | - | 13,247,780 | |
| Net deferred tax asset | 417,775,153 | 127,318,625 | 290,456,528 | |
| Electronic data processing equipment and software | 10,051,942 | - | 10,051,942 | |
| Furniture and equipment | 20,935,849 | 20,935,849 | - | |
| Receivables from parent, subsidiaries and affiliates | 89,882,994 | 3,757,684 | 86,125,310 | |
| Aggregate write-ins for other than invested assets | 9,455,562 | 8,491,379 | 964,183 | |
| Total assets | \$ 16,287,099,516 | \$ 164,419,086 | \$ 16,122,680,430 | |

BERKLEY INSURANCE COMPANY**Liabilities, Surplus and Other Funds
December 31, 2013**

| | |
|---|--|
| Losses | \$ 6,896,691,852 |
| Reinsurance payable on paid loss and loss adjustment expenses | 63,690,208 |
| Loss adjustment expenses | 1,420,241,973 |
| Commission payable, contingent commissions and other similar charges | 8,644,831 |
| Other expenses | 122,606,118 |
| Taxes, licenses and fees | 3,153,856 |
| Current federal & foreign income taxes | 100,112,456 |
| Unearned premiums | 2,113,011,724 |
| Ceded reinsurance premiums payable | 150,250,011 |
| Funds held by company under reinsurance treaties | 39,119,494 |
| Amount withheld or retained by company for account of others | 3,152,217 |
| Remittances and items not allocated | 9,106,566 |
| Provision for reinsurance | 10,681,460 |
| Net adjustments in assets and liabilities due to foreign exchange rates | 2,035,204 |
| Payable to parent, subsidiaries and affiliate | 32,173,742 |
| Derivatives | 2,129,382 |
| Payable for securities | 1,867,044 |
| Aggregate write-ins for liabilities | <u>236,840,003</u> |
| Total liabilities | <u>\$ 11,215,508,141</u> |
| | |
| Common capital stock | \$ 43,000,000 |
| Preferred capital stock | 10,000 |
| Aggregate write-ins for other than special surplus funds | (12,031) |
| Gross paid in and contributed surplus | 2,751,028,412 |
| Unassigned funds (surplus) | <u>2,113,145,908</u> |
| | |
| Total surplus as regards policyholders | <u>\$ 4,907,172,289</u> |
| | |
| Total liabilities, capital and surplus | <u><u>\$ 16,122,680,430</u></u> |

BERKLEY 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

| | | |
|--|--------------------|------------------------|
| Income: | | |
| Premiums earned | | \$4,381,717,627 |
| Net investment income earned | | 1,721,823,970 |
| Net realized capital gains | | 38,364,481 |
| Other income | | 10,498,889 |
| Total income | | <u>\$6,152,404,967</u> |
| Expenses: | | |
| Losses incurred | | \$2,281,156,470 |
| Loss adjustment expenses incurred | | 418,584,207 |
| Other underwriting expenses | | 1,526,333,605 |
| Dividends to policyholders | | 4,596,120 |
| Federal and foreign income tax incurred | | 427,918,112 |
| Total expenses | | <u>\$4,658,588,514</u> |
| Net income: | | <u>\$1,493,816,453</u> |
| Surplus as regards to policyholders, December 31, 2012 | | \$4,656,251,357 |
| Net income | | 1,493,816,453 |
| <u>Additions:</u> | | |
| Change in net deferred income tax | \$ 316,915,966 | |
| Paid in surplus | <u>114,998,179</u> | |
| Total additions | | 431,914,145 |
| <u>Deductions:</u> | | |
| Change in unrealized capital gains (losses) | \$ (1,199,216,863) | |
| Change in foreign exchange capital gains (losses) | (99,582,650) | |
| Change in non admitted assets | (114,681,072) | |
| Change in provision for reinsurance | (7,749,805) | |
| Dividend to stockholders | (253,567,245) | |
| Dividends | <u>(12,031)</u> | |
| Total deductions | | (1,674,809,666) |
| Surplus as regards to policyholders, December 31, 2013 | | <u>\$4,907,172,289</u> |

BERKLEY INSURANCE COMPANY

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

| | Aggregate Write-ins Other than | Common Capital Stock | Preferred Capital Stock | Special Surplus Funds | Gross Paid-in & Contributed Surplus | Unassigned Funds (Surplus) | Total |
|----------------------|--------------------------------------|----------------------------|-------------------------------|-----------------------------|---|----------------------------------|-------------------------|
| | <u>Surplus Funds</u> | <u>Stock</u> | <u>Stock</u> | <u>Funds</u> | <u>Surplus</u> | <u>(Surplus)</u> | <u>Total</u> |
| December 31, 2009 | \$ 29,033,952 | \$ 43,000,000 | \$ 10,000 | \$ - | \$ 922,136,789 | \$ 1,483,010,414 | \$ 2,477,191,155 |
| 2010 Operations (1) | - | - | - | - | - | 395,819,998 | 395,819,998 |
| 2010 Special Surplus | (2,319,503) | - | - | - | - | - | (2,319,503) |
| 2010 Dividends (3) | - | - | - | - | - | (247,000,000) | (247,000,000) |
| 2011 Operations (1) | - | - | - | - | - | 244,396,592 | 244,396,592 |
| 2011 Special Surplus | 2,023,303 | - | - | (2) | 23,631,820 | - | 25,655,123 |
| 2011 Dividends (3) | - | - | - | - | - | (282,579,860) | (282,579,860) |
| 2012 Operations (1) | - | - | - | - | - | 383,563,980 | 383,563,980 |
| 2012 Special Surplus | (28,737,752) | - | - | (2) | 1,690,261,624 | - | 1,661,523,872 |
| 2012 Dividends | - | - | - | - | - | - | - |
| 2013 Operations (1) | - | - | - | (12,031) | - | 389,502,029 | 389,489,998 |
| 2013 Special Surplus | - | - | - | (2) | 114,998,179 | - | 114,998,179 |
| 2013 Dividends (3) | - | - | - | - | - | (253,567,245) | (253,567,245) |
| December 31, 2013 | <u>\$ -</u> | <u>\$ 43,000,000</u> | <u>\$ 10,000</u> | <u>\$ (12,031)</u> | <u>\$ 2,751,028,412</u> | <u>\$ 2,113,145,908</u> | <u>\$ 4,907,172,289</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 500,000 shares of common stock with a \$100 par value and 100,000 shares of preferred stock with a \$10 par value. As of December 31, 2013, the Company had 430,000 common shares and 1,000 preferred shares issued and outstanding totaling \$43 million and \$10,000, respectively. All outstanding common and preferred shares of the Company are owned by Signet Star Holdings, Inc., which is a wholly owned subsidiary of WRBC.

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As of December 31, 2013, the Company reported gross paid in and contributed surplus of \$2.8 billion. During the examination period, the Company received approximately \$23.6 million, \$1.7 billion and \$115 million of gross paid in and contributed surplus from its parent for the years ended 2011, 2012 and 2013, respectively. The 2012 contribution consisted of all the issued and outstanding shares of the Company's affiliate, Admiral Insurance Company.

Dividends

The Company paid ordinary dividends during the examination period in the amounts of \$247 million, \$282.6 million and \$253.6 million for the years ended 2010, 2011 and 2013, respectively. The dividends were paid in the form of cash or transfer of invested assets, including ownership of a wholly owned subsidiary valued at book adjusted carrying value on the date of transfer.

SCHEDULE OF EXAMINATION ADJUSTMENTS

None.

NOTES TO THE FINANCIAL STATEMENTS

Note 1: Bonds

\$ 8,536,003,149

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 \$8.5 billion and fair market values of \$8.8 billion. Bonds were comprised of the following classes:

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| | <u>Statement Value</u> | <u>% of Total</u> |
|--|-------------------------|-------------------|
| U.S. Governments | \$ 219,697,752 | 2.6% |
| All Other Governments | 287,377,608 | 3.4% |
| U.S. States, Territories & Possessions | 238,284,630 | 2.8% |
| U.S. Political Subdivisions of States, Territories & Possessions | 173,498,132 | 2.0% |
| U.S. Special Revenues | 3,686,841,469 | 43.2% |
| Industrial and Miscellaneous | 3,815,113,416 | 44.7% |
| Hybrid Securities | 115,190,142 | 1.3% |
| Total | <u>\$ 8,536,003,149</u> | <u>100.0%</u> |

The Company reported an additional \$178.2 million in bonds at book adjusted carrying value as short-term investments or cash equivalents for total bond holdings of \$8.7 billion. Of the Company's total bond holdings, \$7.2 billion or 82.5% were categorized as Class 1 with respect to NAIC credit quality standards. NAIC Class 2 bonds totaled \$1.2 billion and represented 14.0% of total bonds. The remaining holdings were NAIC Class 3, 4, 5 and 6 and accounted for 3.5% of total bonds. The bond holdings were 91.1% publically traded and 8.9% private placement securities. Bond maturities were diversified relative to maturity with 18.6%, 39.9%, 28.9% 8.3% and 4.3% maturing in less than one year, one to five years, five to ten years, ten to twenty years, and over 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****\$2,837,239,558**

As of December 31, 2013, the Company reported total common stock investments with book adjusted carrying values in the amount of \$2.9 billion and fair market values of \$3.1 billion. The Company's common stock holdings consisted primarily of common stock shares in affiliated investments at \$2.5 billion and a diversified portfolio of unaffiliated publically traded companies at \$339.4 million. Common stocks in affiliates consisted of the following:

BERKLEY INSURANCE COMPANY

(In thousands of dollars)

| <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> | | | | | |
| Berkley Regional Insurance Company | \$ 643,180 | \$ 643,180 | \$ 234,170 | \$ 100,093 | 12/29/2000 |
| Admiral Insurance Company | 597,621 | 597,621 | 1,703,369 | 1,170,027 | 3/1/2013 |
| Starnet Insurance Company | 109,441 | 109,441 | 94,951 | 352 | 2/26/1999 |
| Berkley Life & Health Insurance Company | 94,221 | 94,221 | 74,100 | - | 12/29/2011 |
| Midwest Employers Casualty Company | 93,579 | 93,579 | 103,698 | 72,294 | 3/30/2000 |
| Great Divide Insurance Company | 65,731 | 65,731 | 66,580 | - | 7/26/2010 |
| Gemini Insurance Company | 54,067 | 54,067 | 46,300 | - | 1/1/1997 |
| Berkley Assurance Company | 50,862 | 50,862 | 52,058 | - | 2/13/2013 |
| Berkley National Insurance Company | 49,402 | 49,402 | 50,541 | - | 7/26/2010 |
| Preferred Employers Insurance Company | 41,873 | 41,873 | 40,797 | - | 1/1/2013 |
| Riverport Insurance Company | 39,255 | 39,255 | 25,677 | - | 8/18/2010 |
| Key Risk Insurance Company | 28,514 | 28,514 | 25,345 | - | 5/21/2009 |
| Subtotal | \$ 1,867,746 | \$ 1,867,746 | \$ 2,517,586 | \$ 1,342,766 | |
| <u>Investment in Parent</u> | | | | | |
| WR Berkley Corporation Common Shares | \$ - | \$ 153,763 | \$ 26,515 | \$ 1,382 | 5/31/2010 |
| <u>International Insurance Companies</u> | | | | | |
| Berkley London Holdings, Inc. | \$ 250,938 | \$ 250,938 | \$ 236,108 | \$ - | 1/1/2013 |
| WR Berkley Syndicate Holdings | - | - | 5,838 | 9,957 | 11/1/2011 |
| Subtotal | \$ 250,938 | \$ 250,938 | \$ 241,946 | \$ 9,957 | |
| <u>Other Affiliated Companies</u> | | | | | |
| Greenwich Aero Group, Inc. | \$ 171,366 | \$ 171,366 | \$ 171,502 | \$ - | 9/30/2013 |
| Ledenhall Street LTD #34 | 158,480 | 158,480 | 156,726 | - | 10/23/2013 |
| Biopharma Closed End Fund | 49,261 | 49,261 | 51,619 | 6,108 | 12/16/2013 |
| Reinserco, Inc. | - | - | 216 | - | 1/1/1986 |
| Subtotal | \$ 379,107 | \$ 379,107 | \$ 380,063 | \$ 6,108 | |
| Grand Total | \$ 2,497,791 | \$ 2,651,554 | \$ 3,166,110 | \$ 1,360,213 | |

The examination verified the existence and reported values for the common stock securities as of December 31, 2013, without 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.

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Note 3:

Other Invested Assets

\$1,742,068,768

As of December 31, 2013, the Company reported total other invested assets with book adjusted carrying values in the amount of \$1.7 billion and reported fair market values that were not materially different than book adjusted carrying value. Of the total, approximately \$1 billion or 59.7% were affiliated assets, and the remaining \$701.4 million and 40.3% were unaffiliated investments. The affiliated assets consisted of other classes, real estate and fixed income instruments at 80.1%, 13.4% and 6.4% of total affiliated assets, respectfully. The other affiliated asset class totaling \$834 million consisted of the following:

(In thousands of dollars)

| <u>Name or Description</u> | <u>Book Value</u> | <u>Fair Value</u> | <u>Actual Cost</u> | <u>% Owned</u> | <u>Date Acquired</u> |
|---|-------------------|-------------------|--------------------|----------------|----------------------|
| 33 GP LLC | \$ 249,192 | \$ 249,192 | \$ 251,830 | 99% | 1/27/2011 |
| Middle Patent Capital, LLC | 135,331 | 135,331 | 139,945 | 100% | 12/30/2011 |
| Berkley International | 130,271 | 130,271 | 100,739 | 84% | 7/5/1999 |
| CC Equity Holdings, LLC | 104,705 | 104,705 | 97,726 | 100% | 11/21/2012 |
| Berkley Capital Partners, LLC | 73,842 | 73,842 | 47,680 | 99% | 2/11/2003 |
| 860 Development Company, LLC | 68,906 | 68,906 | 69,005 | 100% | 12/31/2012 |
| ARS Investors II | 28,757 | 28,757 | 18,106 | 99% | 3/30/2012 |
| Franchise Credit | 19,579 | 19,579 | 19,005 | 100% | 1/5/2012 |
| 120 DB Films Capital, LLC | 15,659 | 15,659 | 15,509 | 90% | 12/28/2011 |
| Silvercap Greenwich, LLC | 7,742 | 7,742 | 8,658 | 98% | 4/1/2013 |
| Berkley Global Underwriters, LLC | - | - | 250 | 100% | 1/1/2013 |
| Facultative Resources, Inc. | - | - | 102 | 100% | 1/1/2013 |
| Berkley ADM of Connecticut | - | - | 2,485 | 100% | 1/1/2013 |
| Key Risk Management Services, LLC | - | - | 8,560 | 100% | 1/1/2013 |
| Regional Excess Underwriters, LLC | - | - | 2,401 | 100% | 1/1/2013 |
| Berkley Risk Administrators Company, LLC | - | - | 20,348 | 100% | 1/1/2013 |
| Subtotal - Other Affiliated Assets | <u>\$ 833,984</u> | <u>\$ 833,984</u> | <u>\$ 802,349</u> | | |

Other invested assets increased significantly over the examination period from the five year low of \$336 million in 2009. The examination verified the existence and reported values for the other invested assets as of December 31, 2013, without exception. Other invested assets were reviewed for proper reporting in accordance with *Statement of Statutory Accounting*

BERKLEY INSURANCE COMPANY

Principles No. 48 – Joint Ventures, Partnerships and Limited Liability Companies without exception.

Note 4:

| | |
|---------------------------------|-------------------------|
| Losses | \$ 6,896,691,852 |
| Loss Adjustment Expenses | \$ 1,420,241,973 |

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.

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 that the Board hold annual meetings in accordance with Article 3, section 6 of the Company Bylaws. Additionally, it was recommended that officers be elected by the Board on an annual basis pursuant to Article V, section 2 of the Bylaws.

The Company has complied with this recommendation.

SUMMARY OF RECOMMENDATIONS

None.

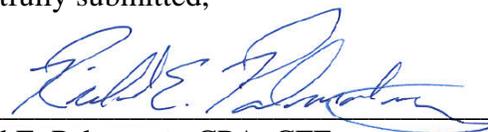
CONCLUSION

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 | \$ 16,122,680,430 | \$ 7,190,317,258 | \$ 8,932,363,172 |
| Liabilities | \$ 11,215,508,141 | \$ 4,713,126,103 | \$ 6,502,382,038 |
| Capital and Surplus | \$ 4,907,172,289 | \$ 2,477,191,155 | \$ 2,429,981,134 |

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