

REPORT ON EXAMINATION
OF THE
BERKLEY REGIONAL INSURANCE COMPANY
AS OF
DECEMBER 31, 2009

Karen Weldin Stewart, CIR-ML
Commissioner



Delaware Department of Insurance

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BERKLEY REGIONAL INSURANCE COMPANY
AS OF
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The above-captioned Report was completed by examiners of the Delaware Department of Insurance.

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

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

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 28th day of June, 2011

Karen Weldin Stewart, CIR-ML
Commissioner



Delaware Department of Insurance

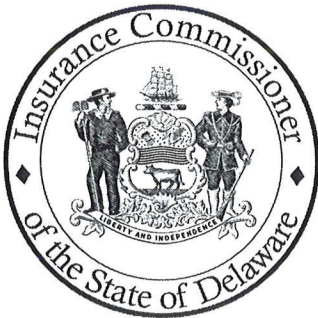
I, Karen Weldin Stewart, Insurance Commissioner of the State of Delaware, do hereby certify that the attached REPORT ON EXAMINATION, made as of December 31, 2009 of the

BERKLEY REGIONAL INSURANCE COMPANY

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

Attest By: *Sonia C. Harris*

Date: 28 June 2011



In Witness Whereof, I have hereunto set my hand and affixed the official seal of this Department at the City of Dover, this 28th day of June, 2011.

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

Karen Weldin Stewart, CIR-ML
Insurance Commissioner

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March 7, 2011

SALUTATION

Honorable Joseph Torti, III
Chairman, Financial Condition (E) Committee,
NAIC
Deputy Director and Superintendent of
Insurance and Banking
Division of Insurance
Department of Business Regulation
State of Rhode Island
1511 Pontiac Avenue, Bldg # 69-2
Cranston, Rhode Island 02920

Honorable Sharon P. Clark,
Secretary, Southeastern Zone
Commissioner of Insurance
Kentucky Department of Insurance
P.O.Box517
Frankfort, Kentucky 40602-0517

Honorable Monica J. Lindeen
Secretary, Western Zone
Commissioner of Securities and Insurance
Montana State Auditor's Office
840 Helena Ave.
Helena, Montana 59601

Honorable Stephen W. Robertson,
Secretary, Midwestern Zone
Commissioner of Insurance
Indiana Department of Insurance
311 West Washington Street, Suite 300
Indianapolis, Indiana 46204-2787

Honorable Mila Kofman
Secretary, Northeastern Zone
Superintendent of Insurance
Department of Professional Regulation and
Financial Regulation
Maine Bureau of Insurance
34 State House Station
Augusta, Maine 04333-0034

Honorable Karen Weldin Stewart, CIR-ML
Commissioner
Delaware Department of Insurance
Rodney Building
841 Silver Lake Boulevard
Dover, Delaware 19904

Commissioners:

In compliance with instructions and pursuant to statutory provisions contained in Certificate of Authority No. 10.003C, dated February 18, 2010, an Association examination has been made of the affairs, financial condition and management of the

BERKLEY REGIONAL INSURANCE COMPANY

hereinafter referred to as "Company" or "BRIC" incorporated under the laws of the State of Delaware as a stock company with its statutory home office located at 1209 Orange Street,

Wilmington, Delaware. The examination was conducted at the main administrative office of the Continental Western Insurance Company, located at 11201 Douglas Avenue, Urbandale, IA 50306.

The examination report of Berkley Regional Insurance Company is hereby respectfully submitted.

SCOPE OF EXAMINATION

The last examination was as of December 31, 2007. This examination is a comprehensive risk-focused examination which covers the two-year period from January 1, 2008 to December 31, 2009. The examination encompasses a general review of 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 at December 31, 2009. Transactions subsequent to the examination date were reviewed where deemed necessary.

This examination was conducted in accordance with the NAIC Financial Condition Examiners Handbook (Handbook). 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 material inherent risks within classified Company key activities, evaluating company procedures and system controls used to mitigate those risks, and conducting targeted substantive procedures on accounts and areas determined to have unmitigated risks moderate and above. The examination also included assessing the principles used and significant estimates made by management, as well as evaluating overall financial statement presentation, management's compliance with Statutory Accounting Principles and annual statement instructions when applicable to domestic state regulations.

All accounts and activities of the Company were considered in accordance with the risk focused examination process. The examination report addresses regulatory issues revealed during 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 work papers of the examiners and have been utilized in determining the scope and areas of emphasis in conducting the examination.

This report of examination was confined to financial statements and comments on matters that involved departures from laws, regulations or rules, or which were deemed to require special explanation or description.

SUMMARY OF SIGNIFICANT FINDINGS

There were no significant findings or material adjustments to the Company's financial statement that warranted disclosure in this examination report.

SUBSEQUENT EVENTS

The Company's Board of Directors (Board) appointed a nine (9) member Audit Committee effective June 21, 2010. Members of the new Audit Committee were made up of the current Board.

The Company's Board approved to pay Berkley Insurance Company (BIC), the Company's sole shareholder, on July 26, 2010, a \$44,006,902 dividend consisting of cash and additional securities.

COMPANY HISTORY

The Company, formerly National Assurance Underwriters, Inc. (NAUI) was incorporated on December 17, 1985, under the laws of Missouri and began business on January 28, 1987. On August 1, 1996, the Company became a wholly owned subsidiary of WRBC of Greenwich, CT, an insurance holding company domiciled in the State of Delaware. On August 26, 1996, the Company changed its name to Berkley Regional Insurance Company. As of December 31, 1996, WRBC contributed to the Company all of the capital stock of its regional insurance companies and then WRBC contributed the common stock of BRIC to BIC on December 31, 2000. BIC is wholly owned by Signet Star Holdings, Inc., which is a wholly owned subsidiary of the ultimate parent WRBC.

On December 31, 2000, the Company re-domesticated from Missouri to the State of Delaware.

The following reconciliation of capital and surplus for the period from its last examination as of December 31, 2007 to December 31, 2009, was extracted from the Company's filed Annual Statements:

Berkley Regional Insurance Company

	Common Capital Stock	Gross Paid-in and Contributed Surplus	Unassigned Surplus	Special Surplus (3)	Total
December 31, 2007	\$ 4,000,000	\$ 347,722,886	\$ 302,507,162		\$ 654,230,048
Operations 2008 (1)			(20,210,169)		(20,210,169)
Dividend to shareholder (2)			(23,719,243)		(23,719,243)
Operations 2009 (1)			82,948,890		82,948,890
Dividend to shareholder (2)			(61,030,064)		(61,030,064)
Increased amount of admitted DTA (3)				\$ 17,724,302	17,724,302
December 31, 2009	<u>\$ 4,000,000</u>	<u>\$ 347,722,886</u>	<u>\$ 280,496,576</u>	<u>\$ 17,724,302</u>	<u>\$ 649,943,764</u>

1. Operations is defined as net income (loss), change in net unrealized capital gains or (losses), change in unrealized foreign exchange capital gain (loss), change in net deferred income tax, change in non-admitted assets, change in provision for reinsurance, and cumulative effect of changes in accounting principles.
2. The Company paid ordinary dividends in 2008 in the amount of \$23,719,243 and in 2009 in the amount of \$61,030,064 to its parent, BIC.
3. The Company adopted SSAP No. 10R, which increased special surplus amount for additional admitted DTA in the amount of \$17,724,302.

CORPORATE RECORDS

The recorded minutes of the sole shareholder and Board of Directors were reviewed for the period under examination. The recorded minutes of the Board adequately documented its meetings and approval of Company transactions and events, including the authorization of investments as required by 18 Del.C.13 § 1304.

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 and business of the Company

shall be managed by the Board. The bylaws provide that the number of directors that shall constitute the whole Board shall not be less than nine (9) members. The Board, by vote of a majority of the whole Board, may from time to time designate one or more committees. The bylaws provide that the committees shall keep regular minutes of their meetings and the findings of the committees shall be reported to the Board.

The Board serving as of December 31, 2009 was as follows:

<u>Name</u>	<u>Principal occupation</u>
Eugene George Ballard	Senior Vice President, CFO and Treasurer, WRBC
William Robert Berkley	Chairman of the Board and Chief Executive Officer, WRBC
William Robert Berkley, Jr.	President, Chief Operating Officer and Director, WRBC
Robert Paul Cole	Senior Vice President – Regional Operations WRBC
Paul James Hancock	Senior Vice President and Chief Corporate Actuary, WRBC
Robert Carruthers Hewitt	Senior Vice President – Alternative Markets Operations, WRBC
Ira Seth Lederman	Senior Vice President, General Counsel and Secretary, WRBC
Clement Patrick Patafio	Vice President – Corporate Controller, WRBC
James Gerald Shiel	Senior Vice President – Investments, WRBC

The Company's principal officers and their respective titles serving as of December 31, 2009 were as follows:

<u>Name</u>	<u>Title</u>
William Robert Berkley	Chairman of the Board
William Robert Berkley, Jr.	President and Chief Operating Officer
Robert Floyd Buehler	Treasurer
Ira Seth Lederman	Senior Vice President and Secretary
George Eugene Ballard	Senior Vice President and CFO
Robert Paul Cole	Senior Vice President
Clement Patrick Patafio	Vice President, Corporate Controller, and Assistant Treasurer

It was noted that written correspondence was submitted to the Delaware Department of Insurance in regards to the changes in officers and directors during the period under examination in compliance with 18 Del. C. §4919 “Change in Officer and Director Notice”.

HOLDING COMPANY SYSTEM

The Company is a member of the WRBC insurance holding company system. WRBC operates in five segments of the property and casualty insurance business: specialty insurance, regional property and casualty insurance, alternative markets, reinsurance and international. As of December 31, 2009, the Company is a wholly-owned subsidiary of BIC, a Delaware company and the sole stockholder. The ultimate parent is WRBC.

WRBC is a United States property and casualty insurance and insurance services holding company with operations throughout the U.S., as well as South America, Australia, Hong Kong, the United Kingdom and Continental Europe. WRBC is publicly traded on the New York Stock

Berkley Regional Insurance Company

Exchange as “WRB”. As of December 31, 2009, WRBC reported assets of \$17.3 billion and stockholders’ equity of \$3.6 billion on a GAAP basis, held in excess of 160 separate legal entities.

An organizational chart listing the Holding Company System in which the Company is a member as of December 31, 2009, is as follows:

Organizational Chart

W.R. Berkley Corporation

All American Agency Facilities, Inc.

Berkley Dean & Company, Inc.

Berkley Capital Investors, LP

Berkley Capital, LLC

Berkley Holdings Corp. Two

Berkley Holdings, LLC

Berkley Insurance Services, LLC

Berkley International, LLC

Berkley International Holdings, LLC

Berkley International Latinoamerica S. A.

Berkley International Aseguradora de Riesgos del Trabajo S. A.

Berkley International do Brasil Seguros S. A.

Berkley International Seguros, S. A. (99.6% Ownership)

Berkley International Seguros, S. A. (Uruguay)

Cotasy Corporation S. A.

Independencia Compania de Seguros de Vida, S. A.

BI China, Limited

Magaverse, Limited

Masterclass, Limited

Global Direct, LLC

Steamboat Advisory Services, Limited

Berkley Offshore Underwriting Managers UK, Limited

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

Greenwich Knight Insurance Company

Greenwich AeroGroup, Inc.

Atlantic Aero Holdings, Inc.

Atlantic Aero, Inc.

Alamo Aerospace, LP

Mid-Atlantic Freight, Inc.

MartinAire Aviation LLC

Mid-Atlantic Freight GenPar, LLC

Banner Aerospace, Inc.

GCCUS, Inc.

DAC International, Inc.

Matrix Aviation, Inc.

Berkley Regional Insurance Company

NASAM Incorporated (formerly known as Banner Acquisition Corp. II)

Professional Aircraft Accessories, Inc.

Professional Aviation Associates, Inc.

Summit Aviation, Inc.

Western Acquisition Corp.

Western Aircraft, Inc.

J/I Holding Corporation

Admiral Insurance Company

Admiral Indemnity Company

Admiral Risk Insurance Services, Inc.

Armada Insurance Services, Inc.

Carolina Casualty Insurance Company

Berkley Specialty Insurance Services, LLC

Admiral Insurance Group, LLC

Berkley Professional Liability, LLC

Berkley Select, LLC (formerly known as Select Specialty Managers, LLC)

Berkley Specialty Underwriting Managers, LLC

Carolina Casualty Insurance Group, LLC

Clermont Specialty Managers, Ltd.

Monitor Liability Managers, LLC (formerly known as Monitor Liability Managers, Inc.)

Nautilus Insurance Group, LLC

Southwest International Underwriting Managers, Inc.

Vela Insurance Services, LLC (formerly known as Vela Insurance Services, Inc.)

Clermont Insurance Company

Jersey International Brokerage Corporation

Nautilus Insurance Company

Great Divide Insurance Company

Commodore Re Management Corporation

East Isles Reinsurance, Ltd.

Northwest International Underwriting Manager, Inc.

MADA Reciprocal Services, Inc.

Peyton Street Independent Financial Services Corporation (6)

Insurbanc

Queen's Island Insurance Company, Ltd.

Signet Star Holdings, Inc.

Berkley Insurance Company

Berkley Canada Inc. (formerly known as Berkley Underwriting Managers Canada, Ltd.)

Berkley Regional Insurance Company

Acadia Insurance Company

Maine Compensation Services, 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 (formerly known as Berkley Surety Group, Inc.)

Continental Western Group, LLC

Regional Excess Underwriters, LLC

Union Standard Insurance Group, LLC

Berkley Regional Specialty Insurance Company

Berkley Regional Insurance Company

- CGH Insurance Group, Inc.
 - American Mining Claims Service, Inc.
 - CGH Claims Service, Inc.
 - American Mining Insurance Company, Inc.
 - Deck Software, 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 Insurance Company
- Union Standard Management Company, Inc
- Gemini Insurance Company
- Key Risk Insurance Company
- Midwest Employers Casualty Company
 - Berkley Alternative Markets Insurance Services, LLC
 - Berkley Medical Excess Underwriters, LLC
 - Berkley Administrators of Connecticut, Inc
 - Berkley Risk Administrators Company, LLC
 - All Claims of Nevada, Inc.
 - Berkley Risk Administrators of Texas, Inc.
 - Berkley Risk Services of Vermont, Inc.
 - Garnet Captive Services, LLC
 - Independent Plan Administrators, LLC
 - Rasmussen Agency, Inc.
 - Key Care, LLC
 - Key Risk Management Services, LLC (formerly Key Risk Management Services, Inc.)
 - Key Risk Underwriting Managers, LLC (formerly Key Risk Underwriting Managers, Inc.)
 - Midwest Employers Casualty Group, LLC
 - Midwest Employers Services, LLC
 - Preferred Employers Group, LLC
 - Select Marketing Insurance Services, LLC.
 - Riverport Insurance Services, LLC
- Preferred Employers Insurance Company
- Riverport Insurance Company
- Reinsenco, Inc
 - Merrill Management Corporation
- 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 Life Sciences, LLC
 - Berkley Net Underwriters, LLC
 - Berkley Offshore Underwriting Managers, LLC
 - Berkley Oil & Gas Specialty Services, LLC
 - Berkley Risk Solutions, LLC (formerly known as Berkley Risk Solutions, Inc.)
 - Berkley Technology Services LLC
 - Berkley Underwriting Partners, LLC
 - B F Re Underwriters, LLC

Berkley Regional Insurance Company

Facultative ReSources, Inc.
FinSecure, LLC
Lenpex, LLC
Signet Star Re, LLC
Watch Hill Fac Management, LLC

Surety-Pro Services, Inc.
WR Berkley Syndicate Holdings, Ltd (formerly known as WRBC (SH), Limited)
WRBC Corporate Member, Ltd
WR Berkley Syndicate, Ltd (formerly known as WRBC (ST), Limited)

Steamboat Asset Management, LLC

WRBC Transportation, Inc.

Interlaken Capital Aviation Holdings, Inc.
Interlaken Capital Aviation Services, Inc.

W. R. Berkley Capital Trust

W. R. Berkley Capital Trust II

W. R. Berkley Capital Trust III

MANAGEMENT CONTRACT AND/OR LENDING RELATIONSHIP (NON-OWNED)

MADA Insurance Exchange

Union Standard Lloyds

States Self-Insurers Trust

States Self Insurers Risk Retention Group

W. R. Berkley Syndicate 1967

A review of the Insurance Holding Company Annual Registration Statement filings (Form B and Form C) made by the Company for all years under examination revealed that the Company had complied with the requirements of 18 Del. Admin. Code 1801.

AFFILIATED AGREEMENTS

The following affiliated agreements were in effect as of December 31, 2009:

Underwriting Management Agreement

Effective November 15, 2008, the Company entered into an Underwriting Management Agreement with Berkley Asset Protection Underwriters, LLC (BAPU). BAPU acts as a manager on the Company's behalf to do all things necessary and essential for the purpose of producing, underwriting, and servicing insurance policies, including paying claims of the inland marine class

of business as well as fidelity and crime insurance business within the terms and conditions of the Agreement. Primarily fine art and financial protection business were written by BAPU on the behalf of the Company under this Agreement during the examination period. The Company pays BAPU a base fee plus a performance fee for these services provided.

Parent Company Guaranty

A Parental Guaranty was effective on August 26, 2008, by the Company as guarantor of all obligations incurred by Firemen's Insurance Company of Washington D. C. (FIC), a wholly owned subsidiary of the Company, under the Longshore and Harbor Workers' Compensation Act and/or its extensions, the Outer Continental Shelf Lands Act, the Defense Base Act and the Non-appropriated Fund Instrumentalities Act.

Administrative Services Agreement

Effective January 1, 2007, the Company entered into an Administrative Services Agreement with Berkley Risk Administrators Company, LLC (BRAC). The Company was selected to administer a portion of the workers' compensation residual market in the state of Tennessee and entered into a Servicing Carrier Agreement with Aon Fisk Services of Missouri, Inc. (Plan Administrator). The Agreement provides for the Company to utilize the personnel, resources and expertise of BRAC to perform the work under the Servicing Carrier Contract. In consideration of the services to be performed by BRAC, the Company shall pay to BRAC, all fees and compensation allowable to the Company under the Servicing Carrier Contract.

Management Agreement

Effective May 3, 2006, the Company entered into a Management Agreement with Berkley Aviation, LLC, a Delaware limited liability company (BA). The Company appointed BA as its representative for the purpose of producing, underwriting and servicing business on its behalf in accordance with the terms outlined in the agreement, including the handling and servicing of all

claims, losses and legal actions. BA is authorized to engage in aviation coverage in any state in which the Company is authorized as an approved aviation carrier. The Company maintains the ultimate veto on underwriting and right to cancel any risk. The Company maintains the ultimate responsibility for a general control of claims adjustments and claims payments. The Company shall pay to BA the actual costs of services provided to the Company by BA. Any extraordinary expenses shall be approved in advance by the Company. The agreement shall remain in effect until canceled by either party upon ninety (90) days prior written notice.

Management Agreement

Effective August 21, 2006, the Company entered into a Management Agreement with Berkley Accident and Health, LLC (BAH). The Company appointed BAH as its representative for the purpose of producing, underwriting and servicing its accident and health business, including the handling and servicing of all claims, losses and legal actions. The BAH is authorized to issue coverages in the state of Alabama, in which the Company is licensed as an insurer for accident and health insurance, and certain risks as may be approved by the Company from time to time. BAH is limited for any one risk to \$10,000,000. The Company maintains the ultimate veto on underwriting and right to cancel any risk. The Company maintains the ultimate responsibility for general control of claims adjustments and claims payments. The Company shall pay to BAH the actual costs of services provided to the Company by BAH. BAH agrees that the Company shall be responsible only for such expenses that are necessary. Any extraordinary expenses shall be approved in advance by the Company. The agreement shall remain in effect until canceled by either party upon ninety (90) days prior written notice.

Investment Management Agreement

Effective January 1, 2005, the Company entered into an Investment Management Agreement with Steamboat Asset Management, LLC (SAM), whereby SAM provides investment

and reinvestment services to the Company on certain assets. SAM shall receive an administrative fee equal to 1% per year of the Company's weighted average investment portfolio under the agreement for each calendar year. SAM shall additionally receive compensation based upon the aggregate investment return from the investment portfolio. The administrative fee shall be paid by the Company monthly in arrears. This agreement may be terminated at any time upon written notice to the other party.

Management Agreement

Effective November 1, 2004, the Company and Berkley Specialty Underwriting Managers, LLC (BSUM), entered into a Management Agreement. BSUM acts as manager on behalf of the Company to produce and underwrite and service commercial property and casualty lines of business in fifteen states and the District of Columbia. BSUM is compensated quarterly on an actual cost basis.

Joint Services Agreement

Effective January 1, 2003, a Joint Services Agreement was executed among the Company, BRIC, Tri-State Insurance Company of Minnesota (TSIC), Continental Western Insurance Company (CWIC), Acadia Insurance Company (AIC), and various other affiliates within the BRIC group of companies. The agreement was filed with the Delaware Department of Insurance on March 14, 2003. Under the terms of the joint services agreement, any company (appointing company) may appoint other parties to the agreement to act as managers (servicing company) for the purpose of producing, underwriting and servicing certain business sourced through said other party including the handling and servicing of all claims, losses and legal actions resulting or arising there-from. Accounts settled on a daily basis are to be balanced quarterly pursuant to quarterly reporting periods. This agreement remains in effect until canceled by either party upon ninety (90) days prior written notice.

Administrative Service Agreement

The Company and CWIC entered into an Administrative Service Agreement effective June 21, 2002. Pursuant to the terms of the agreement, the Company makes use in its day to day operations of certain property, equipment and facilities of CWIC as the Company may from time to time request. CWIC is compensated on an actual cost basis after submitting to the Company a monthly billing within thirty (30) days after the end of each calendar month.

Management Agreement

Effective August 20, 2002, the Company and BRAC entered into a Management Agreement whereby BRAC acts as manager on the Company's behalf and has the authority to do all things necessary and incidental to the conduct of business written within the terms of this agreement. As noted in Exhibit A of the agreement, BRAC is authorized to produce and service workers' compensation and employers' liability coverages in the state of Nevada, subject to the policy limits stated in the agreement. BRAC charges the Company on a quarterly basis for services rendered on an actual cost basis.

Standby Letter of Credit Agreement

Effective September 6, 2002, the Company executed a Standby Letter of Credit Agreement with WRBC. Pursuant to this agreement, WRBC may from time to time make loans to the Company in an amount not to exceed \$10,000,000, and for a term not to exceed three months. As of the examination date, there were no outstanding loans resulting from this Agreement.

Administrative Services Agreement

Effective March 1, 2000, the Company entered into an Administrative Services Agreement with BRAC. BRAC provides services related to the Nevada Workers' Compensation Plan. The service fee paid to BRAC is equal to the commission that the Company earns on the National Council on Compensation Insurance, Inc. (NCCI) pool business.

Management Agreement

Effective October 1, 2000, the Company entered into a Management Agreement with Berkley Surety Group, LLC (BSG), formerly Monitor Surety Managers, Inc. and an affiliate. BSG acts as a manager on the Company's behalf to do all things necessary and incidental to the conduct of the surety business within the terms and conditions of the Agreement. The Company pays to BSG a quarterly fee equal to the actual costs of services provided.

Management Agreement

The Company and Southwest Risk Services (Southwest), a division of BRAC, entered into a Management Agreement on August 15, 1999. Pursuant to the terms of this Agreement, Southwest acts as a manager on behalf of the Company to do all things necessary and incidental to conduct the business written within the terms and conditions of the Agreement. Southwest is authorized to write workers' compensation and employers liability coverages in the state of Nevada. Southwest submits a statement of account to the Company on a quarterly basis.

Management Agreement

Effective October 1, 1998, the Company and Berkley Risk Services, LLC (aka Berkley Risk Administrators Company, LLC) an affiliate, entered into a Management Agreement, whereby BRAC produces and services property and casualty insurance in several states on the Company's paper. BRAC is compensated quarterly for services rendered on an actual cost basis.

Service Agreement

Effective January 1, 1997, the Company entered into a Service Agreement with WRBC whereby WRBC provides the Company with assistance and professional advice with respect to data processing, legal, accounting and actuarial matters.

Tax Allocation Agreement

Effective August 1, 1996, the Company is included in the WRBC consolidated income tax return pursuant to the Tax Allocation Agreement with WRBC. The provision for federal income tax is computed as if the Company were filing a separate federal income tax return. Benefits, which arise from tax credits and net operating losses, are allocated to the extent they are utilized in the consolidated federal income tax provision. Tax balances are settled quarterly.

Investment Advisory Agreement

The Company and Berkley Dean & Company, Inc. (Berkley Dean), a subsidiary of WRBC, entered into an Investment Advisory Agreement on August 11, 1996. Berkley Dean provides investment advisory services at an annual fee per terms in the agreement, based on the net asset value of the portfolio at the end of each quarter, with billing rendered on a quarterly basis at one fourth of the annual rate.

TERRITORY AND PLAN OF OPERATION

The Company is licensed to write business in all fifty (50) states and authorized in the District of Columbia in virtually all classes of business. The Company writes a small amount of direct business, primarily workers' compensation and surety lines of business. Direct business of \$55.6 million represented almost five (5) percent of total net premiums written of \$1,140 million for the year ended 2009.

The major purpose of the Company, is to provide a reinsurance facility for eight regionally operated insurance companies comprised of seven direct subsidiaries and one indirect subsidiary, referred to collectively as the Regional Group. The regional companies primarily write standard commercial and personal lines insurance through independent agents. The Group consists of the

Company, Berkley Regional Specialty Insurance Company (BRSIC), Acadia Insurance Company, Tri-State Insurance Company of Minnesota (TSIC), Continental Western Insurance Company (CWIC), Firemen's Insurance Company of Washington D.C. (FIC), Union Standard Insurance Company (USIC), Union Insurance Company (UIC) and Union Standard Lloyds Insurance Company. The Company entered into a 100% multiple lines quota share reinsurance contract with its seven direct subsidiaries and indirect subsidiary effective January 1, 2000, whereby the Company assumes all of the subsidiaries' net underwriting business. Simultaneously therewith, the Company assumed their beginning loss reserves, loss adjusting reserves, and unearned premium reserve in exchange for securities and other assets. Although the subsidiaries cede all of their net underwriting business to the Company, they retain all investment income and expenses.

The Regional Group operations are structured into four geographic regions resulting in decentralization of administrative and managerial functions. Each region utilizes several of the legal entities to issue business, depending on state licensing, rating tier and other filing requirements. Management and operations of the companies in each region are provided by the lead company. The "Regional Market" lead companies in each of the four geographic areas are as follows:

- New England- Acadia Insurance Company (AIC)
- Berkley Mid-Atlantic Group – Firemen's Insurance Company of Washington, D.C. (FIC)
- Midwest – Continental Western Insurance Company (CWIC)
- Southern – Union Insurance Company (UIC)

New England

AIC writes commercial lines property and casualty business, with primary lines written being commercial multiple peril, workers' compensation and commercial auto liability. AIC uses

three affiliated companies for price tiering purposes: CWIC, FIC and UIC. In addition, the affiliated companies write and service the Company's business in their regional areas. AIC is authorized to conduct business in twenty-six (26) states and the District of Columbia and is currently underwriting commercial property and casualty coverages in twenty-three (23) states. The majority of business is written in five New England states: Maine, New Hampshire, Massachusetts, Vermont and Connecticut.

Berkley Mid-Atlantic Group

FIC is a multiple lines insurance carrier underwriting commercial and personal property and casualty products, and is licensed in thirty-nine (39) states and is authorized in the District of Columbia. FIC's primary lines of business are commercial multiple peril, workers' compensation, and commercial auto liability. The majority of direct premium is written in the following states: Massachusetts, Pennsylvania, North Carolina, Virginia, and Maryland.

Midwest

CWIC is a multiple lines insurance carrier with primary lines of business being commercial multiple peril, workers' compensation and commercial auto liability. CWIC is authorized to conduct business in forty-four (44) states and the District of Columbia. Business written is concentrated in the Midwest and Pacific Northwest. The majority of direct premium is written in the following states: Kansas, Iowa, Colorado, Nebraska, Washington, Minnesota and Missouri.

Southern

UIC is a property and casualty insurance company licensed in forty-two (42) states and the District of Columbia. The primary lines of business written are commercial multiple peril, workers' compensation and commercial auto liability. The majority of direct premium is written in the following states: Texas, Arkansas, Mississippi, and Oklahoma.

GROWTH OF THE COMPANY

The following information was obtained from the Company's filed Annual Statements and covers the two year period from the last examination as of December 31, 2007, through this examination, December 31, 2009:

<u>Year</u>	<u>Net Written Premiums</u>	<u>Net Admitted Assets</u>	<u>Liabilities</u>	<u>Surplus as Regards Policyholders</u>	<u>Net Income (Loss)</u>
2009	\$ 1,139,706,917	\$ 2,769,586,810	\$ 2,119,643,046	\$ 649,943,764	\$ 105,036,966
2008	1,276,901,910	2,665,456,179	2,055,155,543	610,300,636	19,553,837
2007	1,309,050,832	2,565,873,584	1,911,643,536	654,230,048	132,145,124

The changes over the examination period are as follows:

- A 12.9% decrease in Net Written Premiums
- A 7.9% increase in Net Admitted Assets
- A 10.9% increase in Liabilities
- A 0.7% decrease in Surplus as Regards Policyholders
- A 20.5% decrease in Net Income

During the examination period, the Company earned net income totaling \$124,590,803 and paid ordinary dividends to BIC totaling \$84,749,307 (\$23,719,243 in 2008 and \$61,030,064 in 2009).

The Company's gross written premiums primarily came through twelve (12) different profit centers, and decreased slightly each year under examination due to soft market conditions. Of those twelve profit centers, four produced 89.7% of the premiums, the Company's four largest producing profit centers for 2009 were 1) Continental Western Group Profit Center (CWG or Midwest Region) with \$366.1 million in produced premiums or 29.3%, 2) Acadia Insurance Group Profit Center (AIG or New England Region) with \$316.3 million in produced premiums or 25.4%, 3) Union Standard Insurance Group Profit Center (USIG or Southern Region) with \$227.9 million

in produced premiums or 18.3%, and 4) Berkley Mid-Atlantic Group Profit Center (BMAG) with \$208.8 million in produced premiums, or 16.7%, of the total \$1,247.8 million of the Company's 2009 assumed affiliate premiums.

LOSS EXPERIENCE

The reserves for losses and loss adjustment expenses as of December 31, 2008 were \$1,445.7 million. During 2009, favorable development of \$73.8 million was incurred for loss and loss adjustment expense attributable to insured events of prior years. Reserves remaining for prior years are \$757.0 million as of December 31, 2009, and are the result of re-estimation of unpaid claims and claim adjustment expenses. Therefore, there has been a \$61.2 million favorable prior year development since 2008. The decrease is generally the result of ongoing analysis of loss development trends.

REINSURANCE

As of December 31, 2009, the Company reported the following distribution of net premiums written:

Direct business	\$55,584,716
Reinsurance assumed (from affiliates)	1,247,832,600
Reinsurance assumed (from non-affiliates)	7,222,509
Total direct and assumed	<u>\$1,310,639,825</u>
Reinsurance ceded (to affiliates)	8,568,227
Reinsurance ceded to (non-affiliates)	<u>162,364,682</u>
Total ceded	<u>\$170,932,909</u>
Net Premiums Written	<u><u>\$1,139,706,917</u></u>

A general outline of the significant assumed reinsurance agreements in effect at December 31, 2009 follows:

Direct

The Company's paper is used to write a modest sized block of workers' compensation and surety business. This is done as an accommodation to the affiliated underwriting manager who also has access to other affiliated companies' paper. The workers' compensation business is 100% reinsured with the state-assigned risk program with each reinsurer participating on each other's business. The surety risks are retained by the Company.

Assumed From Affiliates

As previously discussed, the major purpose of the Company is to provide a reinsurance facility for nine regionally operated insurance companies comprised of eight direct subsidiaries and one indirect subsidiary. Effective January 1, 2000, the Company entered into a 100% multiple lines quota share reinsurance agreement with its direct subsidiaries and one indirect subsidiary, whereby the Company assumes all of the subsidiaries' net underwriting business. Simultaneously, the Company assumed their beginning loss reserves, loss adjusting reserves, and unearned premium reserve in exchange for securities and other assets.

As of December 31, 2009, 93.7% of assumed premiums were attributable to four affiliates as follows: CWIC in the amount of \$504.5 million; AIC in the amount of \$278.0 million; FIC in the amount of \$167.0 million, and UIC in the amount of \$202.3 million.

Ceded

As of December 31, 2009, the Company's retrocession protection is minimal. In 2009, the Company retained approximately 86.9% of direct and assumed premiums. The largest net amount insured on any one risk is \$10,000,000. The Company, along with its affiliates, maintains various quota share and excess of loss reinsurance agreements as follows:

- Property Catastrophe Excess of Loss, Effective January 1, 2009, \$110 million xs of \$10 million
- Casualty Contingency Excess of Loss, Effective January 1, 2009, \$ 28 million xs of \$2 million retention (non-workers compensation)
- Property Per Risk Excess of Loss, Effective April 1, 2009, \$38 million xs of \$2 million retention
- Workers' Compensation Excess of Loss, Effective May 1, 2009, \$65 million xs of \$5 million retention

These contracts cover primary business written by the Group's United States affiliates which includes the Company. The cost of this coverage is allocated based on subject premium, modeled catastrophe exposures and estimates of potential loss costs. Reinsurance companies domiciled within the United States provide 87.7% of the Company's ceded reinsurance program coverage.

ACCOUNTS AND RECORDS

The accounts and records review included an evaluation of the Company's operational and organizational controls. The areas evaluated included computer systems, accounting systems, organizational structures, and the processing structure.

The independent certified public accounting firm, KPMG audited the Company's records for the years ended 2007, 2008 and 2009 and issued an unqualified audit opinion in each year. Audit reports and applicable work papers were made available for the examiners' use.

The accounts and records review also included an assessment of the Company's risk management process in identifying and controlling risks in the key operational areas of the Company. In making the assessment in each key area, processes were reviewed, risks were identified, operational and organizational controls were identified and tested and the Company's methodology for assessing the effectiveness of the established mitigation factors was evaluated.

The primary systems used in the operations of the Company were also evaluated. The consulting firm of INS Services, Inc. performed an Exhibit C review of the Company IT operations.

In 2009, the Company changed its method of accounting for deferred income taxes due to the adoption of Statement of Statutory Accounting Principles (SSAP) No. 10R, *Income Taxes – Revised, A Temporary Replacement of SSAP 10*. Also in 2009, the Company adopted SSAP No. 43, *Revised – Loan- backed Structured Securities*.

FINANCIAL STATEMENTS

The following pages contain a statement of assets, liabilities, surplus and other funds as of December 31, 2009, as determined by this examination, along with supporting exhibits as detailed below:

- Assets
- Liabilities, Surplus and Other Funds
- Statement of Income
- Capital and Surplus Account
- Analysis of Financial Statement Changes resulting from Examination

ASSETS

DECEMBER 31, 2009

<u>Assets</u>	<u>Ledger Assets</u>	<u>Non-Admitted Assets</u>	<u>Net-Admitted Assets</u>	NOTES
Bonds	\$ 1,456,214,428	\$ 0	\$ 1,456,214,428	1
Preferred Stocks	72,984,845	0	72,984,845	
Common Stocks	459,314,405	0	459,314,405	
Other than first liens - mortgage loans on real estate	89,127,760	0	89,127,760	
Real Estate Properties Held for Sale	40,000	0	40,000	
Cash	101,082,789	0	101,082,789	
Other Invested Assets	177,940,486	0	177,940,486	
Receivables for Securities	2,643,422	0	2,643,422	
Long Options	638,701	0	638,701	
Investment income due and accrued	17,412,090	0	17,412,090	
Premiums and Considerations:				
Uncollected premiums and agents balances	82,670,959	449,235	82,221,724	
Deferred premiums	227,292,952	1,190	227,291,762	
Accrued retrospective premiums	1,476,125	0	1,476,125	
Reinsurance:				
Amounts recoverable from reinsurers	8,330,170	0	8,330,170	
Net deferred tax asset	115,823,184	42,984,219	72,838,966	
Guaranty funds receivable or on deposit	19,720	0	19,720	
Miscellaneous Receivable	9,417	0	9,417	
Prepaid Expenses	1,528	1,528	0	
Total Assets	\$ 2,813,022,981	\$ 43,436,172	\$ 2,769,586,810	

LIABILITIES, SURPLUS AND OTHER FUNDS

DECEMBER 31, 2009

		NOTES
Losses	\$ 1,148,307,838	2
Reinsurance payable on paid losses and LAE	160,759	
Loss adjustment expenses	320,118,852	2
Commissions payable, contingent commissions and similar charges	433,275	
Other expenses	6,359,495	
Taxes, licenses and fees due and accrued	72,537	
Current federal and foreign income taxes	9,201,277	
Unearned premiums	539,339,031	
Ceded reinsurance premiums payable	38,120,857	
Funds held by company under reinsurance treaties	485,939	
Remittances and items not allocated	120,135	
Provision for reinsurance	890,028	
Payable to parent, subsidiaries and affiliates	24,762,037	
Payable for securities	3,870,082	
Liability for short option sales	226,940	
Liability for short stock sales	27,163,930	
Miscellaneous payable	<u>10,034</u>	
 Total Liabilities	 <u>\$ 2,119,643,046</u>	
Aggregate write-ins for special surplus funds - Additional admitted		
deferred tax assets	\$ 17,724,302	
Common capital stock	4,000,000	
Gross paid in and contributed surplus	347,722,886	
Unassigned funds (surplus)	<u>280,496,576</u>	
 Surplus as regards policyholders	 <u>\$ 649,943,764</u>	
 Total liabilities, surplus and other funds	 <u>\$ 2,769,586,810</u>	

SUMMARY OF OPERATIONS

DECEMBER 31, 2009

Underwriting Income

Premiums earned	<u>\$ 1,182,547,848</u>
Deductions	
Losses incurred	\$ 560,520,230
Loss adjustment expenses incurred	143,859,438
Other underwriting expenses incurred	<u>393,002,877</u>
Total underwriting deductions	<u>\$ 1,097,382,545</u>
Net underwriting gain or (loss)	<u>\$ 85,165,303</u>

Investment Income

Net investment income earned	\$ 99,190,804
Net realized capital gains or (losses)	<u>(31,376,608)</u>
Net investment gain or (loss)	<u>\$ 67,814,196</u>

Other Income

Net gain or (loss) from agents' or premium balances charged off	<u>\$ (10,831)</u>
Total other income (loss)	<u>\$ (10,831)</u>
Net income before dividends to policyholders, after capital gains tax and before all other federal and foreign income taxes	\$ 152,968,669
Dividends to policyholders	<u>14,093,126</u>
Net income after dividends to policyholders and before federal income taxes	\$ 138,875,542
Federal income taxes	<u>33,838,577</u>
Net Income	<u><u>\$ 105,036,965</u></u>

RECONCILIATION OF CAPITAL AND SURPLUS ACCOUNT

FROM DECEMBER 31, 2007 to DECEMBER 31, 2009

Capital and Surplus Account

Capital and Surplus, December 31, 2007	\$ <u>654,230,048</u>
Net Income	\$ 124,590,803
Change in net unrealized capital gains	(55,059,891)
Change in net unrealized foreign exchange capital gain	(4,711,199)
Change in net deferred income tax	27,654,029
Change in non-admitted assets and related items	(37,046,161)
Change in provision for reinsurance	250,836
Capital paid in	0
Cumulative effect of changes in accounting principles	7,060,304
Dividends to stockholder	(84,749,307)
Aggregate Write-Ins for changes in surplus	<u>17,724,302</u>
Change in surplus as regards policyholders for the period	<u>\$ (4,286,284)</u>
Capital and Surplus, December 31, 2009	<u><u>\$649,943,764</u></u>

ANALYSIS OF CHANGES IN THE FINANCIAL STATEMENTS

DECEMBER 31, 2009

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

NOTES TO THE FINANCIAL STATEMENTS

(Note 1) Bonds

\$1,456,214,428

99% of the Company's bonds and mortgage-backed securities (MBS) are rated as Class 1 or Class 2 by the NAIC. The Company does not have any direct investments in subprime mortgage loans, direct investments in securities with underlying subprime mortgage exposure, or equity investments in subsidiary, controlled or affiliated entities with significant subprime mortgage exposure.

(Note 2) Losses

\$1,148,307,838

Loss Adjustment Expenses

\$320,118,852

INS Consultants, Inc. (INS) was retained by the Delaware Insurance Department to conduct a review of the Company's reserve methodologies and adequacy. INS evaluated the Company's book of business by line of business for losses and loss adjustment expenses (LAE). The conclusions reached by INS are largely based upon information supplied by the Company's staff, which included an in-depth actuarial analysis. The INS reserve analysis was performed on both a gross and net of reinsurance basis and did not address the collectability of reinsurance recoverables. The INS reserve review found the Company's combined net loss and LAE reserves were adequate to support the business underwritten.

Loss and LAE reserves are subject to errors of estimation arising from the fact that the ultimate liability for claims evaluated as of the valuation date are dependent on future contingent events which cannot always be anticipated. The possible occurrence of such events, as well as the inherent uncertainty associated with statistical estimates, allows no guarantee that the actual ultimate liabilities will be the same as the reserve levels described in this examination report. The review was conducted in conjunction with the current financial examination. Based on the review, INS has accepted the conclusion that additional actuarial reserves were not required as of December 31, 2009.

COMPLIANCE WITH PRIOR REPORT RECOMMENDATIONS

There were no prior examination report recommendations.

SUMMARY OF RECOMMENDATIONS

There were no examination findings or recommendations.

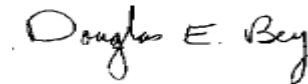
CONCLUSION

The following schedule shows the changes from the previous examination and the financial condition of the Company, as of December 31, 2009:

<u>Description</u>	<u>December 31, 2009</u> <u>Examination</u>	<u>December 31, 2007</u> <u>Examination</u>	<u>Changes</u> <u>Increases/</u> <u>(Decreases)</u>
Assets	\$2,769,586,810	\$2,565,873,584	\$203,713,226
Liabilities	2,119,643,046	1,911,643,536	207,999,510
Policyholders Surplus	649,943,764	654,230,048	(4,286,284)

The assistance of Delaware's consulting actuarial firm, INS Consultants, Inc., and INS Services, Inc. and Company management and staff is acknowledged.

Respectfully submitted,



Douglas E. Bey, CFE
Examiner In-Charge
State of Delaware