REPORT ON EXAMINATION

OF

EXCESS REINSURANCE COMPANY

AS OF

DECEMBER 31, 2004

I, Matthew Denn, Insurance Commissioner of the State of Delaware, do hereby certify that the attached REPORT ON EXAMINATION, made as of December 31, 2004 of the

EXCESS REINSURANCE COMPANY

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

ATTEST BY: ______________________

DATE: 22 FEBRUARY 2006

In Witness Whereof, I HAVE HEREUNTO SET MY HAND AND AFFIXED THE OFFICIAL SEAL OF THIS DEPARTMENT AT THE CITY OF DOVER, THIS 22ND DAY OF 2006.

____
Insurance Commissioner

REPORT ON EXAMINATION

OF THE

EXCESS REINSURANCE COMPANY

AS OF

December 31, 2004

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

Consideration has duly been 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.

MATTHEW DENN
INSURANCE COMMISSIONER

DATED this 22ND Day of FEBRUARY 2006.

TABLE OF CONTENTS

October 10, 2005

Honorable Matthew Denn
Insurance Commissioner
State of Delaware
841 Silver Lake Boulevard
Dover, Delaware 19904

Dear Commissioner:

In compliance with instructions and pursuant to statutory provisions contained in Certificate of Authority No. 05-015, an examination has been made of the affairs, financial condition and management of the

EXCESS REINSURANCE COMPANY

hereinafter referred to as "Excess Re", or "Company". Excess Re was incorporated under the laws of the State of Delaware as a mutual reinsurance company on December 17, 1934. Its statutory home office is located at 2711 Centerville Road, Suite 400, Wilmington, Delaware 19805. The examination was conducted at the main administrative office of the Company, located at Two Logan Square (9th Floor), Philadelphia, PA. 19103-2772.

The report of such examination is respectfully submitted herewith.

SCOPE OF EXAMINATION

The last examination of the Company was conducted as of December 31, 2001. This examination covered the period from January 1, 2002 through December 31, 2004, and consisted of a general survey of the Company's business policies and practices, management, any corporate matters incident thereto, a verification and evaluation of assets and a determination of liabilities. Transactions subsequent to the latter date were reviewed where deemed necessary.

This report is presented on the exception basis. It is designed to set forth the facts with regard to any material adverse findings disclosed during the examination. The text will explain changes wherever made. If necessary, comments and recommendations have been made in those areas in need of correction or improvement. In such cases, these matters were thoroughly discussed with responsible Company Officials during the course of the examination.

The general procedures of the examination followed the rules established by the National Association of Insurance Commissioners' (NAIC) Committee on Financial Condition Examiners Handbook, and generally accepted statutory insurance examination standards.

In addition to items hereinafter incorporated as part of the written report, the following were checked and made part of the workpapers of this examination:

Corporate Records
Legal Actions
All Asset & Liability items not mentioned

The December 31, 2004 examination was conducted by the Delaware Insurance Department in accordance with the Examination guidelines established by the National Association of Insurance Commissioners. Due to the fact that the Company does not write any direct business, an Association Examination was not called. Therefore, no states in addition to the State of Delaware participated in the examination.

HISTORY

The Company was incorporated on December 17, 1934 under the laws of the State of Delaware as a mutual property and casualty reinsurance company having perpetual existence. Excess Re commenced business on January 1, 1935. A group of mutual insurance carriers acted as the Company's sponsors.

In 1995 the Company submitted a Plan of Demutualization to the Delaware Insurance Department. On November 1st of that year, the Plan was approved by the Commissioner of Insurance of the State of Delaware. The membership of the Company (participating policyholders) approved the Plan of Demutualization, which subsequently became effective December 31, 1995. Prior to December 31, 1995 the Company was known as Excess Mutual Reinsurance Company. As of December 31, 1995, the Company's name was changed and is now known as Excess Reinsurance Company, a stock insurance company incorporated in the State of Delaware.

During the prior examination period, effective November 17, 1999 and upon the approval of the Commissioner of Insurance of the State of Delaware, the Company acquired Guilderland Reinsurance Company (Guilderland Re), a stock property and casualty reinsurer domiciled in the State of New York.

In the latter part of 2003, the Company's Board of Directors decided to discontinue underwriting new business and consequently, the Company remains in a run-off mode. Further comments may be found under the caption "Territory and Plan of Operations."

MANAGEMENT AND CONTROL

The By-Laws of the Company, which were most recently amended on April 3, 1996, state that the business and affairs of the Company shall be managed by a Board of Directors consisting of not less than seven-(7) nor more than thirteen-(13) Directors. The Directors shall be elected at the annual meeting of the stockholders and shall hold office until a successor is elected and qualified. The Directors are divided as equally as possible into three-(3) classes. Each term is three-(3) years in duration so that the term of one-(1) class of Directors will expire each year.

The following, elected by unanimous vote of the Stockholders at the annual meeting of Stockholders (held the first Wednesday in April), constitute the Board of Directors as of December 31, 2004:

Board of Directors	Principle Affiliation
Henry H. Gibbel, President & CEO	Lititz Mutual Insurance Company Lititz, PA
Richard H. Harris, Treasurer & Director	The Franklin Mutual Insurance Company Branchville, NJ
Todd J. Carmony, President	Wayne Mutual Insurance Company Wooster, OH
F. Timothy Hegarty, Jr., President & CEO	The Norfolk & Dedham Group Dedham, MA
John A. Hervochon, Executive VP	The Cumberland Mutual Fire Insurance Company Bridgeton, NJ
Thomas S. Inch, President	Farmers Mutual Insurance Company Elizabethtown, PA
Kent W. Jones, President & CEO	Farmers Mutual Fire Insurance Co. of Salem County Salem, NJ
Gregory J. Ostrowski, President	Guy Carpenter and Co. Inc. of PA Philadelphia, PA

Thomas R. Ruane, President	Security Mutual Insurance Company of Ithaca, New York Ithaca, NY
Steven C. Sliver, President	Mutual Benefit Insurance Company Huntingdon, PA
Robert A. Wadsworth, President & CEO	Preferred Mutual Insurance Company New Berlin, NY
Sandra G. Parrillo, President & CEO	Providence Mutual Fire Insurance Company Providence, RI

The following were elected by the Board of Directors and were serving as the Officers of the Company as of December 31, 2004:

Officer	Title
Henry H. Gibbel	President & Director
Thomas R. Ruane	Vice President, Secretary & Director
Richard H Harris	Treasurer & Director
James H. Soper	Executive Vice President & Chief Operating Officer
Daniel P. Dorrian	Asst. Secretary
Charles E. Klaniecki	Asst. Secretary
Joseph P. Marlowe	Asst. Treasurer
Dina A. Narda	Asst. Treasurer

HOLDING COMPANY SYSTEM

Effective November 17, 1999 upon the Company's acquisition of Guilderland Reinsurance Company, the Company became a member of an Insurance Holding Company System. As of the December 31, 2004 examination date, Excess Re and Guilderland Re were the only companies meeting the definition of affiliated companies. Several small mutual insurance Companies along with Guy Carpenter & Company, Inc. of PA (Guy Carpenter) own both voting and non-voting shares of Excess Re's Common Capital Stock. However, in no case do the voting shares equal or exceed 10% of the Company's Common Capital Stock. In addition, the Company maintains a Management/Administrative Services Agreement with Guy Carpenter (*see "Management Agreement" below*).

The following is an organizational chart, which reflects the identities and interrelationships within the Insurance Holding Company System as of December 31, 2004:

Excess Reinsurance Company (DE- NAIC# 13722)

Guilderland Reinsurance Company (NY- NAIC# 28630)

Effective upon the Company's acquisition of Guilderland Re, Excess Re became subject to Delaware Insurance Code, Chapter 50- Insurance Holding Company Systems along with Regulation 13- Insurance Holding Company Systems. As part of these laws and regulations, the Company is required to file the "Form B- Insurance Holding Company Registration Statement" on an annual basis along with any amendments that occur during a given year.

MANAGEMENT AND SERVICE AGREEMENTS

Third-Party

Management & Administrative Services Agreement

The By-Laws of the Company provide that the Company may have a general manager who may be a natural or corporate person. As of December 31, 2004, Guy Carpenter was the Company's general manager under a management agreement which has been in effect since January 1, 1949. The management agreement was originally effective on January 1, 1949.

Due to the current run-off status of the Company, Guy Carpenter is to perform "all of the services essential to the prior conduct of the Company's underwriting operations, including the negotiation and issuance of reinsurance policies and contracts, the collection of premiums, the settlement of claims occurring during the period this agreement remains in force, the maintenance of accounts and records, and preparation of state and federal reports." It is noted that binding authority for retrocessional agreements rests with Officers of the Company who are not affiliated with Guy Carpenter. In addition, investment management responsibilities are specifically excluded from this Management Agreement.

For its services, Guy Carpenter is paid a fee of 5% of Excess Re's gross premiums earned. In addition, Guy Carpenter receives 1.75% of gross premiums earned to cover the expenses incurred while providing services to the Company.

Given that the Company went into run-off in 2003, the fees based on premiums provision of the agreement will have to change as the fees charged will decrease significantly while many of the expenses of running the day to day operations of Excess Re remain fixed. The Company is currently negotiating new terms for this Management and Administrative Services Agreement.

Investment Management Agreement

The Company was party to an Investment Management Agreement with Logan Capital Management (Logan Capital- an unaffiliated company) as of December 31, 2004. Per the Agreement, which was effective November 7, 1997, Logan Capital is to supervise the investment and reinvestment of Excess Re's assets held by the Company's Custodian(s). The Agreement specifically states that under no circumstances shall Logan Capital act as a Custodian of the account or have possession of any portion of the cash or investments of Excess Re. NOTE: The examiners reviewed the Custody Agreements in effect as of the December 31, 2004 examination date and noted that the NAIC's Indemnification Clause was included in the Agreements.

Intercompany Agreements

Tax Allocation Agreement

Effective January 1, 2000 the Company entered into a Tax Allocation Agreement with Guilderland Re (Excess Re's only affiliate). The Agreement provides for the filing of a consolidated tax return with Excess Re and Guilderland Re. Each company is to have its tax liability calculated as if it were filing a separate Federal Income Tax Return. Carryback Net Operating Losses are also handled on a separate company basis.

Excess Re pays the total tax liability for both companies. Subsequently, timely settlements between the affiliates are required by the terms of the Agreement. The review of the provision of the Tax Allocation Agreement noted no concerns.

Administrative Services Agreement

Excess Re was party to an intercompany service agreement between itself and its subsidiary, Guilderland Re. The agreement, which was effective in July 1999, provides that, as Guilderland has no employees it requires that its parent Company (Excess Re) provide most of the day to day functions of the Company. The terms of this agreement are consistent with the significant pooling arrangement between the two affiliates (see *Reinsurance* below).

The review of the Service Agreement notes that it has not been executed and it has not been filed with the Delaware Insurance Department. As such the following recommendation is made:

It is recommended that the Company execute the intercompany Service Agreement with Guilderland Reinsurance Company, which is dated July 1999.

It is further recommended that the Company file this agreement with the Delaware Insurance Department for its review.

TERRITORY AND PLAN OF OPERATION

Territory

Excess Re is a property and casualty reinsurance company. Historically, most of the Company's Gross Written Premiums have been derived from non-proportional excess of loss property and casualty reinsurance.

The Company is licensed in State of Delaware. They are licensed to write the following lines of business:

* Health	* Burglary & Theft
* Boiler & Machinery	* Malpractice
* Livestock	* Credit Health
* Vehicle	* Personal Property Floater
* Workers Compensation & Employers Liab.	* Elevator
* Entertainments	* Marine & Transportation
* Liability	* Glass
* Leakage & Fire Equipment	* Congenital Defects
* Miscellaneous	* Property

The Company's Delaware Certificate of Authority has not been amended since January 24, 2000. In addition to Delaware the Company is licensed or otherwise authorized as an accredited reinsurer in 43 States. The review of these licenses/authorizations noted no concerns or conflicts.

Below is a breakdown of the type of business written by the Company on a gross basis (100% assumed, no direct). A comparison to 2001 is included here to show the changes that have occurred during the period under review.

Gross Premiums Written- by Type of Business

	2004	2001	Change	
Underlying XOL	$ 4,659,891	$ 6,552,013	$ (1,892,122)	-28.88%
Casualty XOL	$ -	$ -	$ -	N/A
Excess Cat & Aggr.	$ 24	$ 70,130	$ (70,106)	-99.97%
Participating Aggregate XOL	$ -	$ 3,731,933	$ (3,731,933)	-100.00%
Guilderland Re Q/S	$ -	$ 2,192,955	$ (2,192,955)	-100.00%
Regional Accounts Program	$ (5,162,253)	$ 1,730,246	$ (6,892,499)	N/A
Open Markets (Brotherhood)	$ 9,846,058	$ -	$ 9,846,058	N/A
NAMIC	$ 90,031	$ 28,322	$ 61,709	217.88%
	$ 9,433,751	**$ 14,305,599**	**$ (4,871,848)**	**-34.06%**

As shown above, Gross Premiums Written have decreased ($4,871,848) or (34.06%) since 12/31/2001. Subsequent to December 31, 2004, the only premiums remaining on the Company's books are amounts applicable to NAMIC and Guilderland Re which also is in run off mode. The Company intends to remain in a run-off status until a suitable buyer is found for either Guilderland Re, the Company, or both. In addition, the Open Markets business, all with Brotherhood Mutual, was terminated on January 1, 2005 and was commuted during the first quarter 2005. The Company's Board of Directors made the decision to send the Company into run-off in mid-2003. Subsequent to July 1, 2005 the only Gross Premiums Written on the Company's books are the amounts applicable to NAMIC and the pooling assumption from Guilderland Re, which is immaterial given that both Excess Re and Guilderland Re have gone into run-off.

GROWTH OF COMPANY

The following information was obtained from the Company's filed Annual Statements:

Excess Reinsurance Company
Examination as of December 31, 2004
Growth of the Company

Year	Gross Written Premium	Net Written Premium	Net Undrwrtng Gain/(Loss)	Admitted Assets	Net Income	Surplus
2004	**9,435,887**	**8,863,785**	**566,231**	**58,861,976**	**1,736,469**	**34,231,346**
2003	40,353,568	17,749,737	1,224,967	88,795,198	2,420,848	36,219,229
2002	20,997,843	14,031,173	3,011,838	76,914,227	2,430,463	31,364,346
2001	14,210,205	10,114,429	(408,446)	78,716,171	(2,645,466)	32,251,092
Change	**-33.60%**	**-12.36%**	**238.63%**	**-25.22%**	**165.64%**	**6.14%**

The Company has not experienced significant growth during the period under examination; however, significant changes have occurred during this period. These changes are outlined as follows:

- Gross Written Premium has decreased (33.60%) or from 14,210,205 to 9,435,887
- Net Written Premium has decreased (12.36%) or from 10,114,429 to 8,863,785
- Net Underwriting Gain has increased 238.63% or from (408, 446) to 566,231
- Admitted Assets has decreased (25.22%) or from 78,716,171 to 58,861,976
- Net Income has increased 165.64% or from (2,645,466) to 1,736,469
- Surplus has increased 6.14% or from 32,251,092 to 34,231,346

The following factors contributed to the Company changes noted above:

- The decreases noted in gross and net premiums written are attributable to the Board of Directors 2003 decision to discontinue the active solicitation of business. As the Company has progressed into run-off the premium volume has declined significantly. An additional significant decrease can be expected in 2005 as the Company has terminated and commuted the last of its material assumption business.

- Surplus increased due to consistent net income and the change in net unrealized capital gains during the examination period. This gains were somewhat offset by dividends to stockholders in 2004, which amounted to $7,127,400.

REINSURANCE

As the Company writes no business on a direct basis, it obtains 100% of its Gross Premiums Written (GPW) through Assumed Reinsurance. The Company's direct, assumed, gross, ceded and net business for 2004 is shown below:

	2004	2001	Change (in %)
Direct Premiums-	$ 0	$ 0	0.0%
Assumed Premiums-	$9,435,887	$14,210,205	(33.6%)
Gross Premiums Written-	**$9,435,887**	**$14,210,205**	**(33.6%)**
Ceded Premiums-	$ 572,102	$ 4,095,777	(86.0%)
Net Premiums Written-	**$8,863,785**	**$10,114,428**	**(12.4%)**

Subsequent event: As previously noted in the Territory & Plan of Operation section of this examination the assumed reinsurance from Brotherhood Mutual Insurance Company (discussed in detail below) was terminated and commuted in 2005. In addition, 99% of all assumed business was canceled by July 1, 2005. As such, it is anticipated that the Company will report less than $100,000 in both gross and net premiums written for the year ended December 31, 2005. This is confirmed by a review of the Company's June 30, 2005 quarterly statement, which reports an immaterial amount of gross and net premiums written.

ASSUMED REINSURANCE

Guilderland Re- Retrocessional Quota Share

The Company previously maintained a retrocessional Quota Share agreement with Guilderland Reinsurance Company (Guilderland Re or GRC), the Company's subsidiary. Per this agreement the Company assumed 100% of the net property per risk business of GRC. The

Company retained 100% of this business. The agreement was terminated during the examination period and was not in effect as of December 31, 2004.

NAMIC

This is an assumption from NAMIC Insurance Company. The Company also owns shares in NAMIC, which are admitted by Excess Re. The Company participates at approximately 1% of the pool each year. The exact percentage changes annually but remains at around 1%. This business is and has historically been immaterial to the Company’s operations.

Underlying Property Excess of Loss

As previously noted, the Underlying Excess of Loss property line has been the Company’s core business for years. Per the standard agreement, the Company assumes property business on an Excess of Loss (XOL) basis from various small mutual insurers. An example of the business assumed under this type of agreement would be: 100% of $275,000 in excess of $225,000 per risk. Though this has been the Company's staple for years, many of the various contracts have been canceled since the 2001 examination date, though nine-(9) such agreements were still in effect as of 12/31/2004. On January 1, 2005 eight-(8) of these nine-(9) agreement were terminated and the last agreement, which had a renewal date of July 1, 2004, was terminated on July 1, 2005. The Company retained 100% of this business.

Open Markets- Brotherhood Mutual Insurance Company

Guy Carpenter maintains an underwriting facility known as "Open Markets". Excess Re's only participation in this program during 2004 was two-(2) underlying xol agreements with Brotherhood Mutual Insurance Company (BMIC). The Company acted as the reinsurer for one-

(1) underlying excess of loss property contract originally effective in 2002 and one-(1) underlying excess of loss casualty contract, originally effective in 2003.

The underlying xol property contract provided for a $250,000 xs of $250,000 assumption by Excess Re. The assumption was on a per risk basis with an occurrence limit of $1,000,000. Excess Re's participation was 100%. The agreement included the standard provisions and exclusions and provided for funds held and a profit commission. Subsequent to the examination date on January 1, 2005 the agreement was mutually terminated by both parties and was commuted. There will be no future losses payable under this contract.

The underlying xol casualty contract provided for a $250,000 xs of $250,000 assumption by Excess Re. The assumption was on an occurrence basis. Excess Re's participation was 100%. The agreement included the standard provisions and exclusions and provided for funds held and a profit commission. Subsequent to the examination date on January 1, 2005 the agreement was mutually terminated by both parties and was commuted. There will be no future losses payable under this contract.

CEDED REINSURANCE

Guilderland Re-Intercompany Pooling Agreement

Effective January 1, 2000 the Company entered into an Intercompany Pooling Agreement with Guilderland Reinsurance Company (the Company's subsidiary). The Pooling Agreement is an accident year contract that provides for the pooling of the net retained line (net of all other reinsurance) of both Excess Re and Guilderland Re. Per the Agreement, the allocation of premiums and losses changes from year to year and is based on the policyholders’ surplus of both companies from the prior-year ended. For 2004, Excess Re's share of the pool was 72% and Guilderland Re's share was 28%.

Though the Company went into run-off during 2003 the pooling agreement has remained in effect. Per discussions with Company management the pooling agreement will remain in effect for the foreseeable future while the Company seeks potential buyers for both Excess Re and Guilderland Re.

ACCOUNTS AND RECORDS

The accounts and records reviewed included an evaluation of the Company’s operational and organizational controls. The areas evaluated included accounting systems, organizational structure, and the processing structure. In general, it has been determined that the Company does have a sufficient level of controls in place for all of the above areas.

Much of the data reviewed in order to come to this conclusion was obtained from the Company’s third-party CPA’s. Effective in 2004 the Company utilized the services of Brown, Schultz, Sheridan and Fritz (BSSF). Prior to 2004, the Company’s annual audit was performed by KPMG. No conflicts were noted between KPMG and the Company during or subsequent to KPMG’s 2003 review.

In addition to the above, extensive planning exhibits were completed by the Company and reviewed by the examination. Various control testing was performed during the cycle reviews including a Data Validity Test applicable to the loss cycle regarding the reliability of the loss data being received by the Company and third-party actuaries for the purposes of establishing loss reserves.

FINANCIAL STATEMENTS

The following statements show the assets, liabilities, surplus and other funds of Excess Reinsurance Company, as determined by this examination, as of December 31, 2004.

Analysis of Assets
Liabilities, Surplus and Other Funds
Summary of Operations (Income Statement)
Capital and Surplus Account
Examination and Surplus Changes

It should be noted that the various schedules and exhibits may not add to the totals shown due to rounding. With the exception of Bonds and Losses & Loss adjustment expenses, write-ups on the individual accounts in the Notes to the Financial Statements section of this report are presented on the "exception basis". Only comments relative to adverse findings, material financial changes, or other significant regulatory concerns are noted.

Analysis of Assets
December 31, 2004

	Ledger Assets	Non-Ledger Assets	Assets Not Admitted	Net Admitted Assets	Note
Bonds	$8,800,273	$ -0-	$ -0-	$8,800,273	1
Common stocks	35,013,080	-0-	-0-	35,013,080	1
Cash & Short-Term Investments	3,916,390	-0-	-0-	3,916,390	
Agents' Balances- In the Course of Collection	1,714,833	-0-	-0-	1,714,833	
Funds held by reinsured companies	4,436,422	-0-	-0-	4,436,422	
Reinsurance Recoverables on Paid Losses & Paid LAE	4,771,828	-0-	-0-	4,771,828	2
Federal Income Tax Recoverable	91,147	-0-	-0-	91,147	
Interest & Dividend Income Due & Accrued	125,311	-0-	-0-	125,311	
Receivable from Parent, Subsidiaries & Affiliates	(7,308)	-0-	-0-	(7,308)	2
Total Assets	$58,861,976	$ 0	$ 0	$58,861,976	

Liabilities, Surplus and Other Funds
December 31, 2004

		Note
Losses	$8,658,750	3
Reinsurance Payable on Paid Loss and Loss Adjustment Expenses	338,790	
Loss Adjustment Expenses	553,700	
Commissions Payable, Contingent Commissions and other similar charges	4,619,441	4
Other Expenses	106,220	4
Net Deferred Tax Liability	4,954,955	
Unearned Premiums	29,774	
Dividends to stockholders declared and unaid	900	
Ceded Reinsurance Premiums Payable	3,649,198	
Amounts withheld by Company for account of others	(6,782)	
Provision for Reinsurance	52,302	
Net Adjustment Due to Foreign Exchange Rates	69,581	
Aggregate Write-ins for Liabilities	1,603,801	
Total Liabilities	$24,630,630	
Aggregate Write-ns for Special Surplus Funds	0	
Common Capital Stock	3,753,250	
Surplus Notes	0	
Gross Paid-in and Contributed Surplus	25,019,025	
Unassigned Funds (Surplus)	5,459,071	
Less Treasury Stock	0	
Surplus as regards Policyholders	$ 34,231,346	
Totals	$58,861,976	

Income Statement
December 31, 2004

Income:		
Premiums Earned	$ 10,575,418	
Net Investment Income Earned	1,277,119	
Net Realized Capital (losses)	655,395	
Aggregate Write-ins for Miscellaneous Income	(56,533)	
Total Income		$12,451,399
Expenses:		
Losses Incurred	$4,066,234	
Loss Expenses Incurred	361,781	
Other Underwriting Expenses Incurred	5,581,172	
Total Expenses		$10,009,187
Net Income before federal and foreign income taxes		$2,442,212
Federal and Foreign Income Taxes Incurred		$705,743
Net Income		$1,736,469

Capital and Surplus Account
December 31, 2003 to December 31, 2004

Capital and Surplus, December 31, 2003		$36,219,232
Net Income		$1,736,469
Additions:		
Change in Net Unrealized Capital Gains	$3,505,341	
Change in Provision for Reinsurance	194,408	
Total Additions		$3,699,749
Deductions:		
Change in Net Unrealized Foreign Exchange Capital Loss	$49,985	
Change in Net Deferred Income Tax	177,182	
Capital & Surplus Paid-In	69,537	
Dividends to Stockholders	7,127,400	
Total Deductions		($ 7,424,104)
Change in Surplus during the year		($ 1,987,886)
Surplus as regards Policyholders, December 31, 2004		$34,231,346

Schedule of Examination Adjustments

Assets	Per Examiners	Per Company	Surplus Increase (Decrease)
Amounts Recoverable from Reinsurers	$4,771,828	$3,316,734	$1,455,094
Receivable from Parent, Subsidiaries & Affiliates	($ 7,308)	$1,447,786	($1,455,094)
Total Change in Assets			**$ 0**
Liabilities, Surplus and Other Funds			
Commissions Payable, Contingent Commissions	$4,619,441	$ 0	($4,619,441)
Other Expenses	$ 106,220	$4,725,661	$4,619,441
Total Change in Liabilities			**$ 0**
Net Change in Surplus per Examination			**$ 0**
Policyholders Surplus per Company			$ 34,231,346
Policyholders Surplus per Examination			**$ 34,231,346**

NOTE: The Balance Sheet reclassifications noted above are discussed thoroughly in the Notes to Financial Statements.

NOTES TO THE FINANCIAL STATEMENTS

1. Bonds	**$8,800,273**
1. Common Stocks	**$35,013,080**

Procedures were performed to confirm the existence and ownership of the investments reported in Schedule D, Part 1 and Schedule D- Part 2- Section 2. These procedures were performed without exception. The Company's invested assets constituted 81.1% of the Company's total admitted assets as of December 31, 2004. 100% of the Company's bond portfolio is rated Class "1" as defined by the NAIC. Approximately 36.1% of the Company stock portfolio consists of its investment in its only subsidiary, Guilderland Reinsurance Company (previously discussed).

2. Receivable from Parent, Subsidiaries & Affiliates	**($ 7,308)**
2. Amounts Recoverable from Reinsurers	**$4,771,828**

The amounts shown here for Receivable from Affiliates and Amounts Recoverable from Reinsurers are ($1,455,094) less than and $1,455,094 more than the amounts reported in the Company's Annual Statement, respectively.

During the review of receivable from affiliates it was noted that the Company continues to report intercompany reinsurance recoverables in the affiliated recoverable account. The NAIC Annual Statement instructions state that intercompany reinsurance balances are to be excluded from the intercompany receivable and payable accounts and are to be included in the applicable reinsurance line items on the Balance Sheet. A recommendation regarding this practice by the Company was noted during the December 31, 2001 examination.

It is again recommended that the Company comply with the NAIC's Annual Statement Instructions by excluding intercompany reinsurance balances from the Receivable From/Payable To Affiliates Balance Sheet accounts.

The examination has reclassified the intercompany reinsurance recoverable out of the affiliated recoverable account and placed it into “Amounts Recoverable from Reinsurers”. See the “Schedule of Examination Adjustment” for the entry. The surplus effect of this change is $0.

3. Loss Reserves **$8,658,750**

The amount shown above is the same amount as reported by the Company with regards to stated Loss Reserves as of December 31, 2004.

The examination process consisted of a review of the Company’s Actuarial Opinion along with a verification of the underlying data used to calculate the reserves. Randomly selected claim records relevant to reserve liabilities, were tested using statistical sampling techniques prescribed by the NAIC. The verification of the underlying data noted no errors.

Jim Neidermyer, ACAS, MAAA of INS Consultants, Inc. was contracted by the Delaware Insurance Department to perform an analysis of the Company’s stated Loss & LAE reserves as of December 31, 2004. The Actuarial Reserve Analysis performed by INS Consultants found no material deficiency with the Company’s stated reserves on a gross basis or on a net basis as of the December 31, 2004 examination date.

4. Commission Payable & Contingent Commissions **$4,619,441**
4. Other Expenses **$ 106,220**

The amounts shown above are for Commissions Payable and Other Expenses are $4,619,441 more than and ($4,619,441) less than the amounts reported on the Company’s

Balance Sheet, respectively. The amount in question is applicable to an accrual for contingent commissions/profit commissions related to the underlying excess of loss property and the underlying excess of loss casualty reinsurance agreements assumed from Brotherhood Mutual Insurance Company. These agreements were effective in 2002 and 2003, respectively.

The Annual Statement instructions require that profit commissions accrued be reported on page 3, line 4 of the Annual Statement. As such;

It is recommended that the Company comply with the NAIC's Annual Statement Instructions and report contingent/profit commissions on the correct line of the Balance Sheet on all future statutory statement filings.

The examination has reclassified the profit commission out of the other expenses account and placed it into “Commission Payable, Contingent Commissions and other similar charges”. See the “Schedule of Examination Adjustment” for the entry. The surplus effect of this change is $0.

COMPLIANCE WITH PRIOR EXAMINATION RECOMMENDATIONS

The examination reviewed the prior Report on Examination along with the Company’s compliance with prior examination recommendations, comments and concerns. Based on that review, the Company has complied with all prior examination recommendations, comments and concerns.

SUMMARY OF RECOMMENDATIONS

1) It is recommended that the Company execute the intercompany Service Agreement with Guilderland Reinsurance Company, which is dated July 1999 (page 8).
2) It is further recommended that the Company file this agreement with the Delaware Insurance Department for its review (Management & Service Agreements, page 8).
3) It is again recommended that the Company comply with the NAIC's Annual Statement Instructions by excluding intercompany reinsurance balances from the Receivable From/Payable To Affiliates Balance Sheet accounts (Notes to Financial Statements, page 21).
4) It is recommended that the Company comply with the NAIC's Annual Statement Instructions and report contingent/profit commissions on the correct line of the Balance Sheet in all future filed Annual Statements (Notes to Financial Statements, page 22).

SUMMARY COMMENTS

The following is a summary of significant events occurring during the period under examination.

1) The Company's Board of Directors made the decision to send the Company into run-off in mid-2003. Subsequent to July 1, 2005 the only Gross Premiums Written on the Company's books are the amounts applicable to NAMIC and the pooling assumption from Guilderland Re, which is immaterial given that both Excess Re and Guilderland Re have gone into run-off. The Company intends to remain in run-off until a suitable buyer is found for either Guilderland Re or Excess Re or both.

2) On January 1, 2005 the Company terminated its reinsurance agreements assumed from Brotherhood Mutual Insurance Company (BMIC). The agreements were completely commuted during the first quarter 2005. Assumed premiums from the two-(2) BMIC agreements amount to $9,846,058 in 2004.

CONCLUSION

As a result of this examination, the financial condition of Excess Reinsurance Company as of December 31, 2004 was determined to be as follows:

	Current Examination	12/31/01 Examination	Changes- Increases/ (Decreases)
Total Assets	$58,861,976	$79,368,631	($20,506,655)
Total Liabilities	$24,630,630	$48,384,079	($23,753,449)
Policyholders' Surplus	$34,231,346	$30,984,552	$3,246,794

Since the last examination was made as of December 31, 2001, total assets have decreased by ($20,506,655). Liabilities have decreased by ($23,753,449) and surplus has increased by $3,246,794 in the same period.

In addition to the undersigned, John White and Jim Blair, Jr., CFE, CPA (Supervising Examiner) participated in the examination along with actuarial services provided by Jim Neidermyer, ACAS, MAAA of INS Consultants, Inc.

Respectfully submitted,

Gregg S. Bealuk, CFE
Examiner In-Charge
State of Delaware
Northeastern Zone, NAIC

SUBSEQUENT EVENTS

Subsequent to the December 31, 2004, the following events occurred which are considered material to the Company's operations.

- On January 1, 2005 the Company terminated its reinsurance agreements assumed from Brotherhood Mutual Insurance Company (BMIC). The agreements were completely commuted during the first quarter 2005. Assumed premiums from the two-(2) BMIC agreements amount to $9,846,058 in 2004.

- On July 1, 2005 the Company cancelled the last of its underlying property excess of loss agreements. The various agreements were not commuted and continue to run off the applicable losses. These agreements were historically the staple of the Company's underwriting operations and consisted of the Company's participating insurance Company's. The participants of these underlying property excess of loss agreements were the majority of the stockholders of the Company. The net premiums written as of the end of the second quarter 2005 were immaterial.