REPORT ON EXAMINATION

OF

THE PRINCETON EXCESS AND SURPLUS LINES INSURANCE COMPANY

AS OF

DECEMBER 31, 2012

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, 2012 of the

PRINCETON EXCESS AND SURPLUS LINES INSURANCE COMPANY

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

Attest By: ____________________

Date: April 25, 2014

In Witness Whereof, I have hereunto set my hand and affixed the official seal of this Department at the City of Dover, this 25th day of April, 2014.

____

Karen Weldin Stewart, CIR-ML
Insurance Commissioner

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

Karen Weldin Stewart, CIR-ML
Commissioner

Delaware Department of Insurance

REPORT OF EXAMINATION

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PRINCETON EXCESS AND SURPLUS LINES INSURANCE COMPANY

AS OF

DECEMBER 31, 2012

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.

Karen Weldin Stewart, CIR-ML
Insurance Commissioner

Dated this 25th day of April, 2014

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SALUTATION

February 5, 2014

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

Dear Commissioner,

In compliance with instructions and pursuant to statutory provisions contained in Certificate of Authority No. 13.007, dated March 25, 2013, an examination has been made of the affairs, financial condition and management of

THE PRINCETON EXCESS AND SURPLUS LINES INSURANCE COMPANY

hereinafter referred to as “the Company” or “PESLIC” and incorporated under the laws of the State of Delaware. The Company’s registered office in the State of Delaware is located at 2711 Centerville Road, Suite 400, Wilmington, Delaware, 19808. The examination was conducted at the Company’s administrative offices located at 555 College Road East, Princeton, New Jersey, 08543. The examination of the Company was conducted concurrently with American Alternative Insurance Corporation (AAIC) and Munich Reinsurance America, Inc. (MRAm), both Delaware affiliated entities. Separate reports of examination were filed for each company.

The report of examination thereon is respectfully submitted.

SCOPE OF EXAMINATION

The last examination was completed as of December 31, 2008, by the Delaware Insurance Department. This examination covered the period of January 1, 2009 through December 31, 2012, 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 at December 31, 2012. 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* (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 risks within the Company and evaluating system controls and procedures used to mitigate those risks. The examination also included assessing 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 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 reviewed during the examination process.

During the course of this examination, consideration was given to work performed by the Company's external accounting firm, KPMG LLC. Certain auditor work papers of their 2012 audit have been incorporated into the work papers of the examiners and have been utilized in determining the scope, areas of emphasis in conducting the examination and in the area of risk mitigation and substantive testing.

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

Subsequent Events
Corporate Records
Fidelity Bonds and Other Insurance
Pensions, Stock Ownership and Insurance Plans
Statutory Deposits
Compliance With Prior Examination Recommendations – none

SUMMARY OF SIGNIFICANT FINDINGS

There were no material adverse findings, adjustments to the financial statements or specific recommendations as a result of this examination.

COMPANY HISTORY

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

On August 13, 1996, Munich Re America Corporation (MRAC), the Company's immediate parent, entered into an Agreement and Plan of Merger with Munchener Ruckversicherungs-Gesellschaft Aktiengesellschaft (Munich Re Germany or MRG) and Puma Acquisition Corporation (Puma), a Delaware corporation and a wholly owned subsidiary of MRG. Pursuant to terms of the Agreement and Plan of Merger, on November 25, 1996, following approval of the merger by MRAC's stockholders and applicable regulatory authorities, Puma was merged with MRAC with the latter being the surviving entity.

During July 1997, MRAC and MRG completed the merger of Munich American Reinsurance Company (MARC). At that time, the insurance assets and liabilities of the U.S. branch of MRG was merged into MRAm (an affiliate of PESLIC). After the merger, MRG's ownership of MRAC stood at 91%. The remaining outstanding shares of MRAC were acquired from Victoria Versicherung AG in 1998 and from Allianz Aktiengesellschaft in 1999, bringing MRG's ownership interest in MRAC to 100%.

Munich-American Holding Corporation (MAHC), a Delaware Holding Company, was organized in September 2000. After regulatory approval, MRG contributed all of the issued and outstanding stock of MRAC (and therefore its subsidiaries) to MAHC.

There have been no ownership changes since September 2000.

MANAGEMENT AND CONTROL

Board of Directors

Pursuant to the General Corporation Law of the State of Delaware, as implemented by the Company's Certificate of Incorporation and bylaws, all corporate powers and its business property and affairs are managed by, or under the direction of, its Board of Directors (Board). The Board shall consist of at least three members and subject to a maximum of eleven members.

The Board at December 31, 2012, was comprised of nine members, each elected or appointed in accordance with Company bylaws. Each Director shall hold office until his successor is elected and qualified, or until earlier resignation or removal.

Directors

The Board of Directors, duly elected in accordance with the Company's bylaws and serving at December 31, 2012, was as follows:

Directors Name	Principal Business Affiliation
Giuseppina Carmela Albo	Munich Reinsurance America, Inc.
Anthony Joseph Kuczinski	Munich Reinsurance America, Inc.
Murray Steven Levy	Munich Reinsurance America, Inc.
Robin Harriet Willcox	Munich Reinsurance America, Inc.
Stephen John Morello	Munich Reinsurance America, Inc.
Craig Richard Smiddy*	The Princeton Excess & Surplus Lines Ins. Co.
George Terrence Van Gilder	Outside Independent Director
Charles Arthur Bryan	Outside Independent Director
James Joseph Butler	Outside Independent Director

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

Officers

At December 31, 2012, the Company's principal officers and their respective titles were as follows:

Officer	Title
Craig Richard Smiddy*	President
Robin Harriet Willcox	Senior Vice President, General Counsel & Secretary
Murray Steven Levy	Senior Vice President and Chief Financial Officer
Daniel Fisher	Senior Vice President & Head of Human Resources
Melissa Ann Salton	Senior Vice President and Chief Risk Officer

*Resigned April 2013 and replaced by Carsten Prussog in November 2013.

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

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

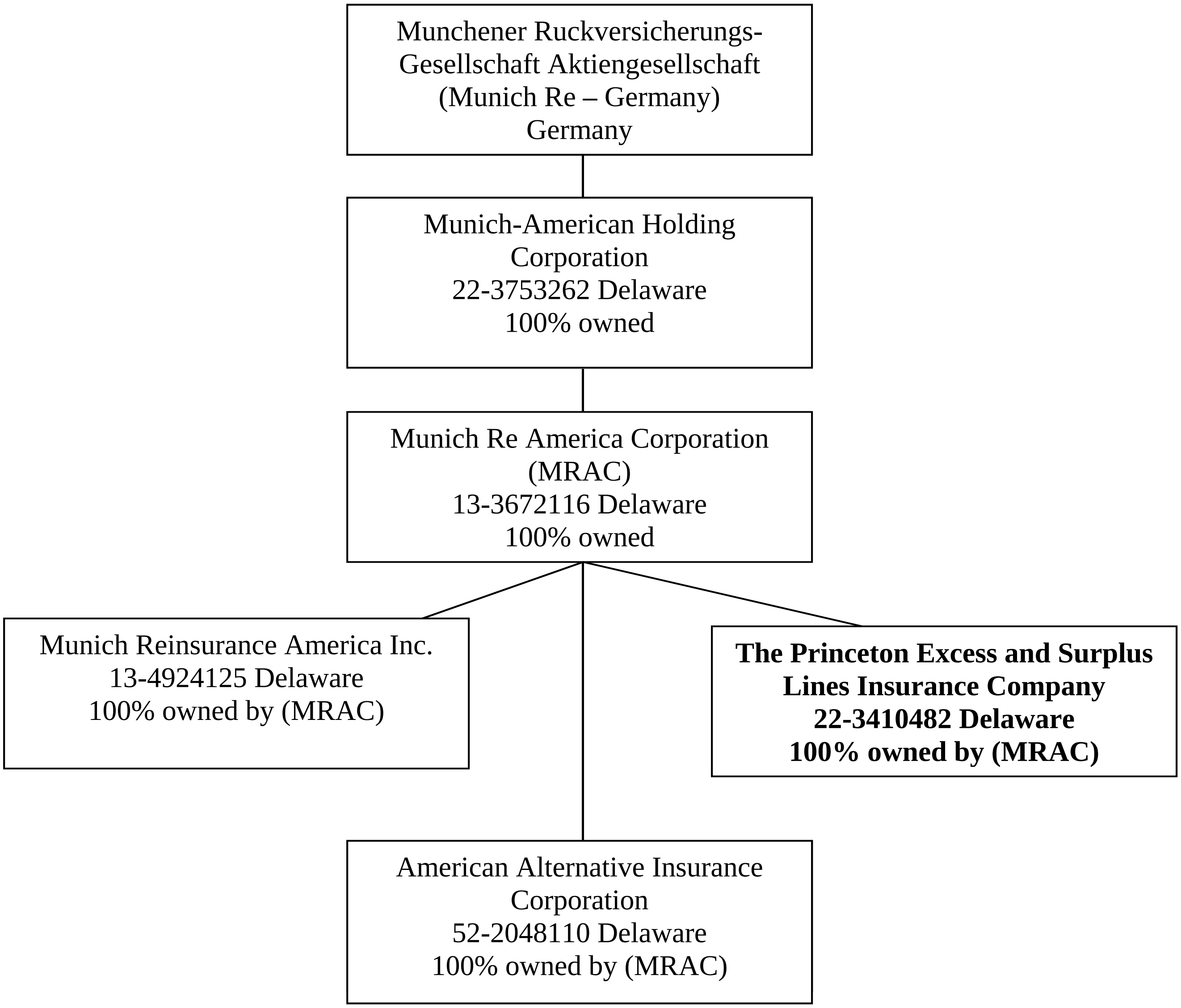
During our review for compliance with 18 Del. C. §4919, it was noted that the Company properly reported changes in directors and principal officers.

Insurance Holding Company System

The Company is a member of an Insurance Holding Company System as defined under Chapter 50 of the Delaware Insurance Code. As previously noted, the immediate parent of the Company at December 31, 2012, was MRAC and the Ultimate Parent is MRG. The Munich Re Group, led by MRG, maintains liaison offices in over 60 locations serving clients worldwide. The 2012 amounts below were reported in the most recent MRG annual report based on International Financial Reporting Standards (IFRS), converted from the Euro to U.S. dollars at the December 31, 2012 (conversion rate of 1.32 Euro / $1 U.S.).

Assets	U.S. $341.0 billon
Equity	U.S. $ 36.2 billion
Gross Premiums Written	U.S. $ 68.6 billion
Gain from Operations (pre-tax)	U.S. $ 7.1 billion

The following holding company system, as of December 31, 2012, reflects only identities and interrelationships between the Company and its direct parent, its intermediate parent, and its ultimate parent and affiliates concurrently examined.



A review of the Annual Form B and Form C filings made by PESLIC for all years under examination revealed that the Company had complied with the requirements of Regulation 13 of the Delaware Insurance Code.

Management, Tax and Service Agreements

The Company had the following significant intercompany agreements and arrangements in effect as of December 31, 2012:

Affiliated

Consolidated Income Tax Allocation Agreement

Effective September 1, 2008, the Company entered into an Amended and Restated Tax Allocation Agreement with Munich-American Holding Corporation (MAHC) and all of its subsidiaries including MRAm, AAIC and PESLIC. Under this agreement, income tax expenses are computed on a separate company basis as if each affiliate filed a separate tax return. Intercompany balances shall be settled on a quarterly basis. This agreement was replaced by a similar Amended and Restated Tax Allocation Agreement among MAHC and its subsidiaries dated March 2, 2012, for tax years ending December 31, 2011, and later. The current tax allocation agreement was approved by the Delaware Department of Insurance on January 30, 2012. The agreement was non-materially amended on August 12, 2012 to add and remove certain affiliated companies and the amendment was filed with the Delaware Department of Insurance on an informational basis.

General Service and Administrative Agreements

Effective April 1, 2004, the Company entered into an Administrative Services Agreement with MRAm which states that MRAm will provide PESLIC with such management services as corporate finance, investment strategy, communications, public relations policies, actuarial, audit, executive, legal, personnel, benefits and benefit plans, accounting, tax, and other financial services. The agreement requires that charges and expenses incurred be allocated according to Delaware Insurance Laws and NAIC Accounting Practices and Procedures. Charges shall be settled within thirty days of the end of each calendar quarter. The terms of this agreement are considered fair and equitable. This agreement was terminated effective August 31, 2009 and replaced with a similar agreement described below.

Effective September 1, 2009, the Company entered into a General Services and Cost Allocation Agreement with MAHC and numerous affiliates. Parties to the agreement may provide the following services to each other: accounting, tax, auditing, underwriting, claims, actuarial, information technology, legal, payroll, human resources, corporate finance, public relations, executive, engineering, loss mitigation and inspection, executive, intellectual property and other services. The agreement requires that charges and expenses incurred be allocated according to Delaware Insurance Laws and SSAP 70. Charges shall be settled within thirty days of the end of each calendar quarter. The terms of this agreement are considered fair and equitable. This agreement was approved by the Delaware Department of Insurance on July 1, 2009. The agreement was amended as of January 14, 2013 and previously approved by the Delaware Department of Insurance on August 12, 2012.

Investment Management Agreement

Effective September 1, 1997, and most recently amended March 12, 2012 the Company entered into an Investment Management Agreement with affiliate MEAG New York Corporation (MEAG-NY). The agreement provides that MEAG-NY will manage the investment portfolio of invested assets held by State Street Bank, the Company's most significant custodian. MEAG-NY is required to adhere to strict Investment Guidelines attached to the agreement and amended periodically whenever the Company amends its investment policy. The Company retains the sole authority to modify Investment Guidelines and MEAG-NY is not permitted to trade assets that are designated by the Company as regulatory or trust deposits. MEAG-NY does not act as custodian and does not physically hold any of the Company's invested assets. Regular reviews of the performance and actions of MEAG-NY are performed and the terms of the agreement were considered fair and equitable. Charges shall be settled within thirty days of the end of each calendar quarter. All amendments were approved by the Delaware Department of Insurance.

Letter of Credit Facility

Effective October 13, 2009, the Company entered into an Amended and Restated Letter of Credit (LOC) Facility Fee Reimbursement Agreement with MRG, MRAm and AAIC. MRG shall from time to time provide collateral for reinsurance in the form of letters of credit to MRAm, AAIC and PESLIC from MRG's existing LOC facilities to support unaffiliated unauthorized liabilities. MRAm, AAIC and PESLIC shall pay MRG a fee of fifty basis points for any issuances of LOCs made by the Company under any of MRG's LOC facilities. This agreement was approved by the Delaware Department of Insurance on October 23, 2009.

<u>Unaffiliated</u>

Custodial Agreements

The Company has a custodial agreement with State Street Bank and Trust which provides for the safekeeping of the Company's invested assets and contains the required protective language specified by NAIC guidelines. The most recent SSAE 16 Report for State Street Bank and Trust was obtained and reviewed without exception.

Investment Accounting Services Agreement

Effective June 1, 2000, the Company entered into an Investment Services Agreement (IASA) with BlackRock Financial Management, Inc. (BlackRock). As of July 1, 2009, this agreement was replaced with an IASA between Munich Re America Services, Inc., an affiliate of PESLIC, which covers PESLIC and various other affiliates. Per the IASA, BlackRock performs PESLIC's investment accounting transaction entry along with: asset reconciliations, income and dividend projections, foreign exchange calculations and a review of all investment results.

Furthermore, BlackRock performs the monthly closing process and provides PESLIC with a transaction journal and transaction ledger along with a Client Holding Report showing PESLIC's investment portfolio sorted by CUSIP Number and by investment classification. The PAM investment accounting application system provides the detailed information necessary for the Company to complete the investment schedules for its statutory financial reports. The terms of the agreement are considered fair and equitable. BlackRock provides PESLIC with a SSAE 16 Report annually and PESLIC has the right to audit BlackRock operations. The most recent SSAE 16 Report for BlackRock was obtained and reviewed without exception.

Agency Agreements

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

TERRITORY AND PLAN OF OPERATION

Territory

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

Plan of Operation

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

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

The Company utilizes several Third Party Administrators (TPA) for the solicitation and acquisition of business; however, none of these entities meet the definition of a Managing General Agent (MGA) as defined in 18 Del.C. §1802(3). Specifically, none of the TPAs is permitted to adjust or pay claims or to negotiate reinsurance on behalf of the Company.

The largest lines of direct written premiums, which represent 83.7% of the 2012 total of $230.2 million, were as follows:

Line	Direct Written Premiums	Percent
Commercial Multiple Peril	$83,052,666	36.1%
Inland Marine	31,301,059	13.6%
Other Liability - Occurrence	30,938,954	13.4%
Other Liability – Claims Made	24,171,972	10.5%
Fire	23,271,807	10.1%
Total	$192,736,458	83.7%

PESLIC has remained conservative during the examination period in terms of the business being solicited and underwritten. The corporate philosophy is that risks underwritten should have adequate risk premium and PESLIC appears to have applied this underwriting discipline over the examination period.

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

A.M. Best Rating:

Based on A.M. Best's current opinion of the consolidated financial condition and operating performance of the Company, PESLIC was assigned an A.M. Best rating of A + (Superior) for the year ending 2012. A.M. Best notes that the rating reflects the Company’s solid returns and substantial improvement in risk adjusted capitalization.

GROWTH OF THE COMPANY

The following information was extracted from the Company’s filed Annual Statements and covers the period from the last examination (2008), and the intervening period to this examination (2012):

Year	Net Admitted Assets	Surplus as Regards Policyholders	Direct Written Premiums	Net Written Premiums	Net Income/ (Loss)
2008	$176,503,156	$56,150,021	$146,662,226	$25,826,371	$13,632,689
2009	170,663,276	58,574,568	203,180,347	(50,766)	15,423,215
2010	173,503,904	56,391,832	206,933,406	0	10,800,595
2011	164,766,015	57,934,070	218,995,868	0	9,755,710
2012	164,516,822	57,807,807	230,248,297	0	9,214,658

The following comments describe Company growth and results of operations:

- Net Admitted Assets and Policyholder Surplus fluctuated within a tight but decreasing range due to positive but decreasing net income even considering the paid dividends totaling $44,732,505 during the examination period.

- Direct Premiums Written increased significantly from 2008 to 2009 but then only increased conservatively but consistently from 2009 to 2012 as the economy improved.

- Net Premiums Written decreased to $0 as a result of the termination of the variable quota share reinsurance agreement with MRAm effective June 30, 2009, and the inception of the reinsurance pooling agreement with MRAm effective July 1, 2009, in which PESLIC's participation percentage is 0%.

- The Company's underwriting results are significantly influenced by the pooling arrangement. Under the pooling arrangement, net underwriting results consist solely of the ceding commission revenue in excess of the Company's acquisition and administrative expenses. The ceding commission and net investment income are the drivers of net income since the pooling arrangement.

LOSS EXPERIENCE

The Company is a participant in a pooling arrangement with two affiliates, MRAm and AAIC. The Company has a 0% participation in the pooled business. As such, on a net basis, the Company has no incurred losses and loss adjustment expenses.

REINSURANCE

PESLIC reported the following distribution of premiums written in 2012:

Direct	$230,248,297
Gross Written Premiums	$230,248,297
Ceded to affiliates	$210,468,240
Ceded-to non-affiliates	19,780,057
Total Ceded Premiums	$230,248,297
Net Premiums Written	$ 0

<u>Ceded to affiliates</u>

Ceded to MRAm

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

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

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

The Company is a participant in the above stated pooling agreement with MRAm and AAIC. The Reinsurance Pooling Agreement, effective July 1, 2009, covers all direct and assumed current and prior policies and contracts issued by AAIC and PESLIC. Under the pooling agreement, each of the companies cedes 100% of its net liabilities to the pool, MRAm is the lead company for the pooling agreement and has a 100% participation in the pooled business and AAIC and PESLIC each have a 0% participation in the pooled business. A provisional ceding commission of 24.5%, adjusted quarterly for actual acquisition expenses allocable to the net business subject to the agreement, is paid to AAIC and PESLIC. In addition, an override commission of 5.5% is paid to AAIC and PESLIC under the agreement. The override commission is in excess of the acquisition costs, and therefore, in accordance with SSAP 62R – paragraph 54, a liability of $4,030,084 equal to the difference between the reinsurance commission received and the acquisition costs was recorded at December 31, 2012. The liability for deferred ceding commissions is amortized pro-rata over the effective period of the agreement in proportion to the amount of coverage provided. The Commutation and Release Agreement and Reinsurance Pooling Agreement were approved by the Delaware Department of Insurance on September 29, 2009.

Total premium ceded by PESLIC to MRAm in 2012 was $206,716,000. Because MRAm has provided the corporate ceded reinsurance program to PESLIC for many years, the loss recoveries have been significant through the examination period. At December 31, 2012, PESLIC reported net reinsurance recoverable from MRAm of $314,440,000.

Ceded to other affiliates

The remaining business ceded to affiliates totaled $3,752,000 in 2012: $3,166,000 ceded to Hartford Steam Boiler Inspection and Insurance Company (domiciled in Connecticut) and $586,000 ceded to Princeton Eagle West Insurance Co., Ltd. (domiciled in Bermuda) under miscellaneous reinsurance agreements.

Ceded to non-affiliates

As noted above, premiums ceded to non-affiliates totaled $19,780,057 in 2012. Interviews with management indicated that these cessions to non-affiliates involve situations where the reinsurer has a relationship with the agent producing the business for PESLIC. In 2012, PESLIC ceded premiums of $4,243,000 to Hannover Rueckversicherungs AG for a portion of the reinsurance covering two programs produced for PESLIC by Arthur J. Gallagher Ltd.

ACCOUNTS AND RECORDS

Accounting System

All necessary accounting records of the Company are maintained on electronic data processing equipment, which is also shared by MRAm and AAIC. The general ledger system allows the Company to capture information necessary to produce financial statements on a Statutory Accounting Principles (SAP) basis, as well as U.S. Generally Accepted Accounting Principles (U.S. GAAP) basis and International Financial Reporting Standards (IFRS) basis. The Company's database was tested during the examination without material exception.

Information Systems

INS Services, Inc. reviewed the Company's responses to the Evaluation of Controls in Information Systems Questionnaire (Exhibit C) and performed tests of the systems. INS Services analysis concluded that:

- the Company's responses to Exhibit C present fairly, in all material respects, the aspects of the Company's policies and procedures that may be relevant to their internal control structure,
- the control structure policies and procedures were suitably designed to achieve the control objectives implicit in the questionnaire, if those polices and procedures were complied with, and
- such policies and procedures have been placed in operation as of December 31, 2012.

FINANCIAL STATEMENTS

The following pages contain the Company's Financial Statements for the year ending December 31, 2012, as determined by this examination, with supporting exhibits as detailed below:

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

It should be noted that the various schedules and exhibits may not add to the totals shown due to rounding. Narratives on certain individual accounts were included to provide the reader with additional supporting information.

Analysis of Assets
As of December 31, 2012

	Assets	Nonadmitted Assets	Net Admitted Assets	Note
Bonds	$ 125,959,219		$ 125,959,219	1
Cash and short-term investments	6,117,328		6,117,328	
Investment income due and accrued	905,116		905,116	
Uncollected premiums and agents' balances in the course of collection	4,985,872	$ 56,603	4,929,269	
Deferred premiums, agents' balances & Installments booked but deferred and not yet due	2,756,515		2,756,515	
Amounts recoverable from reinsurers	11,982,122		11,982,122	
Current federal and foreign income tax recoverable and interest thereon	351,239		351,239	
Net deferred tax asset	1,348,830		1,348,830	
Aggregate write-ins for other than invested assets	10,304,304	137,120	10,167,184	
Total Assets	$ 164,710,545	$ 193,723	$ 164,516,822	

Statement of Liabilities, Surplus and Other Funds
As of December 31, 2012

			Note
Losses	$	-	2
Loss adjustment expenses		-	2
Commissions payable, contingent commissions & other similar charges		7,012,259	
Other expenses		12,564	
Current federal and foreign income taxes		1,881	
Ceded reinsurance premiums payable		86,366,735	3
Funds held by company under reinsurance treaties		7,056,508	
Payable to parent,subsidiaries and affiliates		2,156,582	
Aggregate write-ins for liabilities		4,102,486	
Total Liabilities	$	106,709,015	
Common capital stock	$	5,000,000	
Surplus notes	$	20,100,000	
Gross paid in and contributed surplus		10,000,000	
Unassigned funds (surplus)		22,707,807	
Surplus as regards policyholders	$	57,807,807	
Total Liabilities, Capital and Surplus	$	164,516,822	

Underwriting & Investment Exhibit-Statement of Income
As of December 31, 2012

UNDERWRITING INCOME		
Premiums earned	$	-
DEDUCTIONS		
Losses incurred	$	-
Loss adjustment expenses incurred		-
Other underwriting expenses incurred (income)		(12,570,287)
Total underwriting deductions (income)	$	(12,570,287)
Net underwriting gain or (loss)	$	12,570,287
INVESTMENT INCOME		
Net investment income earned	$	2,395,799
Net realized capital gains or (losses)		202,406
Net investment gain or (loss)	$	2,598,205
OTHER INCOME		
Net gain (loss) from agents' balances charged off		(1,096)
Aggregate write-ins for miscellaneous income		(1,151,357)
Total other income		(1,152,453)
Net income before dividends to policyholders and before federal income taxes	$	14,016,039
Net income after dividends to policyholder but before federal income taxes	$	14,016,039
Federal and foreign income taxes incurred		4,801,381
Net income	$	9,214,658

Capital and Surplus Account
As of December 31, 2012

CAPITAL AND SURPLUS ACCOUNT		
Surplus as regards policyholders, December 31, 2011	$	57,934,070
GAINS AND (LOSSES) IN SURPLUS		
Net income	$	9,214,658
Change in net unrealized capital gains or (losses) less capital gains tax		171,241
Change in net deferred income tax		(42,408)
Change in non-admitted assets		(47,994)
Divends to stockholder		(9,421,760)
Change in surplus as regards policyholders for the year	$	(126,263)
Surplus as regards policyholder, December 31, 2012	$	57,807,807

Reconciliation of Surplus since last Examination

	Common Capital Stock	Surplus Notes	Gross Paid -in & Contributed Surplus	Unassigned Funds (Surplus)	Total
December 31, 2008	$ 5,000,000	$20,100,000	$ 10,000,000	$ 21,050,021	$56,150,021
Operations 2009 (1)				15,838,309	15,838,309
Dividends 2009 (2)				(13,413,762)	(13,413,762)
Operations 2010 (1)				10,989,150	10,989,150
Dividends 2010 (2)				(13,171,885)	(13,171,885)
Operations 2011 (1)				10,267,338	10,267,338
Dividends 2011 (2)				(8,725,098)	(8,725,098)
Operations 2012 (1)				9,295,496	9,295,496
Dividends 2012 (2)				(9,421,760)	(9,421,760)
December 31, 2012	$ 5,000,000	$20,100,000	$ 10,000,000	$ 22,707,809	$57,807,809

(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 dividend section below

Capitalization

The Company is authorized to issue 10,000 common shares with a par value of $500 per share. As of December 31, 2012, the Company has 10,000 common shares issued and outstanding, for a common capital stock balance of $5,000,000. All of the issued and outstanding shares are owned by Munich Re America Corporation.

Dividends

According to Company records for the years indicated, as reflected in the Board of Director meeting minutes, cash dividends were paid to the sole stockholder and approved by the Delaware Insurance Department as follows:

Date Declared	Date Paid	Dividend Type	Dividend Paid
November 30, 2012	December 18, 2012	Ordinary	$ 9,421,760
November 10, 2011	November 28, 2011	Ordinary	$ 8,725,098
November 4, 2010	November 16, 2010	Ordinary	$11,085,092
November 4, 2010	November 16, 2010	Extraordinary	$ 38,670
May 6, 2010	June 15, 2010	Ordinary	$ 2,009,453
May 6, 2010	June 15, 2010	Extraordinary	$ 38,670
December 18, 2009	January 15, 2010	Ordinary	$ 2,290,000
October 1, 2009	October 13, 2009	Ordinary	$11,123,762
Total Dividends			$44,732,505

Surplus Notes

On June 24, 2002, the Company issued a $20,100,000 Promissory Capital Note to MRAm at a 5% annual interest rate. The Note was approved by the Delaware Insurance Department. All or any part of the principal or interest due pursuant to this Note may be repaid at any time, or from time to time, without penalty, but subject to the prior written approval of the Delaware Insurance Commissioner. In accordance with the 5% annual interest rate and with approval from the Delaware Insurance Department, the Company paid MRAm $1,005,000 in interest during 2012

Schedule of Examination Adjustments

No examination changes were made as a result of this examination.

NOTES TO FINANCIAL STATEMENTS

(1) Bonds $125,959,219

The above-captioned amount, which is the same as that reported by the Company in its Annual Statement, has been accepted for purposes of this report. 100.0% of the Company's bonds have a NAIC SVO rating of either 1 or 2. With the exception of bonds held for statutory purposes, investments are primarily held by State Street Bank under a custodial agreement. A review of corporate records indicates that the Board of Directors has approved the Company's investment transactions made during the examination period in accordance with 18 Del. C. §1304.

(2) Losses $0
Loss Adjustment Expenses $0

The above-captioned amounts, which are the same as those reported by the Company in its Annual Statement, have been accepted for purposes of this report.

Losses

Reported Losses (Case)	
Direct	$ 89,177,089
Reinsurance Assumed	0
Reinsurance Ceded	(89,177,089)
Net Reported Losses	$ 0
Incurred but not reported (IBNR)	
Direct	$209,612,597
Reinsurance Assumed	0
Reinsurance Ceded	(209,612,597)
Net IBNR	$ 0
Net Losses Unpaid	$ 0
Loss Adjustment Expenses (LAE)	$ 0

The Delaware Insurance Department retained the firm of INS Consultants, Inc. (INS or consulting actuary) to review the Company's stated reserves. The consulting actuary was provided with the Company's statement of actuarial opinion and an actuarial report as supporting documentation of the actuarial opinion with loss and loss adjustment expense reserves evaluated as of December 31, 2012. In addition, INS was provided with other reports, schedules, exhibits and relevant information as requested.

The Consulting actuary's review of loss and allocated loss adjustment expenses (ALAE) reserves consisted of separately analyzing the Company's property and casualty books of business on a gross and net basis. In addition, for unallocated loss adjustment expenses (ULAE), the consulting actuary reviewed the methodology employed by the Company's actuaries. INS accepted the methodology and factor selections utilized by the Company's actuaries. In conjunction with the actuarial review, the examination team validated loss data used by the Company without material exception.

In conjunction with the actuarial review, the examination team validated loss data used by the Company without material exception.

(3) <u>Ceded Reinsurance Premiums Payable</u> <u>$86,366,735</u>

The above-captioned amount, which is the same as that reported by the Company in its Annual Statement, has been accepted for purposes of this report. Approximately $84,782,000, or 98.2%, of the total is due to MRAm under the Reinsurance Pooling Agreement effective July 1, 2009. Approximately $463,000, or 0.5%, of the total is due to affiliate Hartford Steam Boiler Inspection & Insurance Company under a miscellaneous reinsurance agreement. The remaining $1,122,000, or 1.3%, of the total is due to approximately 32 non-affiliates.

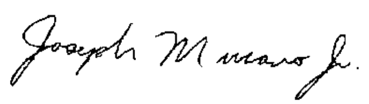
CONCLUSION

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

Description	December 31, 2008	December 31, 2012	Increase (Decrease)
Assets	$ 176,503,156	$ 164,516,822	$ (11,986,334)
Liabilities	$ 120,353,136	$ 106,709,015	$ (13,644,121)
Common Capital Stock	5,000,000	5,000,000	-
Surplus notes	20,100,000	20,100,000	-
Gross Paid In and Contributed Surplus	10,000,000	10,000,000	-
Unassigned Funds (Surplus)	21,050,021	22,707,807	1,657,786
Total Surplus as Regards Policyholders	$ 56,150,021	$ 57,807,807	$ 1,657,786
Totals	$ 176,503,157	$ 164,516,822	$ (11,986,335)

The assistance of Delaware’s consulting actuarial firm, INS Consultants, Inc. and INS Services, Inc. is acknowledged.

Respectfully submitted,



Joseph Murano Jr., CFE
Examiner-In-Charge
State of Delaware