

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



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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".

Karen Weldin Stewart, CIR-ML
Insurance Commissioner

Dated this 14th day of June, 2011

Karen Weldin Stewart, CIR-ML
Commissioner



Delaware Department of Insurance

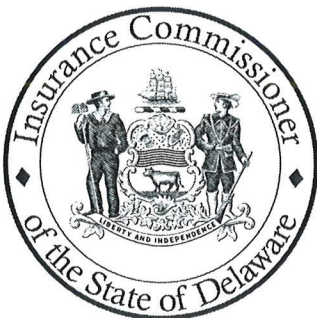
I, Karen Weldin Stewart, Insurance Commissioner of the State of Delaware, do hereby certify that the attached REPORT ON EXAMINATION, made as of December 31, 2009 of the

STARNET INSURANCE COMPANY

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

Attest By: *Sonia C. Harris*

Date: 14 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 14th 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

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Division of Insurance
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Honorable Monica J. Lindeen
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Montana State Auditor's Office
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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. 10.003H, dated February 18, 2010, an Association examination has been made of the affairs, financial condition and management of the

STARNET INSURANCE COMPANY

hereinafter referred to as “Company” or “SIC”, 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 principal offices of the Company located at 475 Steamboat Road, Greenwich, Connecticut. The examination report thereon is respectfully submitted.

SCOPE OF EXAMINATION

The last examination was as of December 31, 2006. This examination is a comprehensive risk-focused examination which covers the three (3) year period from January 1, 2007, to December 31, 2009, and encompassed 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 as of December 31, 2009. Transactions subsequent to the examination date were reviewed where deemed necessary.

The examination was conducted in accordance with the National Association of Insurance Commissioners (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 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 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

Subsequent to December 31, 2009, the Company took the following action:

- The Company's multi-line quota share reinsurance agreement with BIC was increased from a 90% cession to a 100% cession, effective January 1, 2010. The opening balances for Part 2A – Loss and Loss Adjustment Expense Reserves Schedule have been restated to reflect this change.

- The Company paid dividends on July 15, 2010, to its parent of \$10,000,000.

COMPANY HISTORY

The Company was incorporated in Delaware on June 11, 1998 as StarNet Casualty Company, a wholly-owned subsidiary of Berkley Insurance Company f/k/a as Signet Star Reinsurance Company, and commenced business on September 8, 1998.

The Company was formed as a shell company in order to facilitate a re-domestication by merger as the Company was to be merged with StarNet Insurance Company, a New York domiciled company and a wholly-owned subsidiary of Signet Star, allowing the surviving company to be a Delaware Corporation.

On June 30, 1998, Signet Star acquired 100% of the outstanding common stock of Resolute Reinsurance Company (Resolute Re), a property and casualty insurer incorporated in New York on February 27, 1981 from National Indemnity Insurance Company through a Stock Purchase Agreement. Contemporaneous with such sale of Resolute Re to Signet Star, National Indemnity Insurance Company assumed 100% of Resolute Re's gross liabilities and obligations under all policies of insurance and contracts of reinsurance written or reinsured by Resolute Re on or prior to the date of Resolute Re's sale. On July 9, 1998, Resolute Re's name was changed to StarNet Insurance Company.

Effective February 28, 1999, the re-domestication by merger of StarNet Insurance Company and StarNet Casualty Company was approved by the New York and Delaware Insurance Departments. Concurrent with the merger, StarNet Casualty Company, the surviving corporation, changed its name to StarNet Insurance Company.

During the period covered by this examination, gross paid-in and contributed surplus increased \$101,000 from \$88,849,611 in 2006 to \$88,950,611 in 2009. The increase for the period is illustrated in the following schedule.

Ending Balance as of December 31, 2006	\$88,849,611
2009: Capital Contribution from BIC	<u>101,000</u>
Ending Balance as of December 31, 2009	<u>\$88,950,611</u>

CORPORATE RECORDS

The recorded minutes of the shareholders, Board of Directors (Board) and certain internal committees were reviewed for the period under examination. The recorded minutes of the Board adequately documented its meetings and approval of Company transactions and events. It was noted, however, that no annual meeting was held by the Company for the year 2009. Per the Company bylaws Article 3, section 6 the Board shall hold an annual meeting for the purpose of organization and the transaction of business immediately after the annual meeting of the stockholders. Additionally, per Article V, section 2, the officers of the Company shall be chosen annually by the Board.

Therefore,

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

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 state that the affairs of the Company shall be managed by its Board consisting of not less than six (6) and not more than fifteen (15) Directors. Directors are elected at the annual meeting of the stockholder and each Director serves for the term of one (1) year until the next annual election and until their successors are elected and qualified.

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

<u>Name</u>	<u>Principal Occupation</u>
William Robert Berkley	Chairman of the Board and CEO, WRBC
William Robert Berkley Jr.	President and COO, WRBC
Eugene George Ballard	Senior VP - Chief Financial Officer, WRBC
Paul James Hancock	Senior VP - Chief Corporate Actuary, WRBC
Carol Josephine LaPunzina	Senior VP- Human Resources, WRBC
Ira Seth Lederman	Senior VP-General Counsel and Secretary, WRBC
C. Fred Madsen	Senior VP- Reinsurance Operations, WRBC

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

<u>Name</u>	<u>Office</u>
William Robert Berkley	Director and Chief Executive Officer
William Robert Berkley Jr.	Director and President
Eugene George Ballard	Director and Executive Vice President
Paul James Hancock	Director
Carol Josephine LaPunzina	Director, SVP, General Counsel & Secretary
Ira Seth Lederman	Director and Executive Vice President
C. Fred Madsen	Director
Mark Gary Davidowitz	Senior VP and Treasurer
Christopher Caleb Brown	Executive Vice President
John Stanley Diem	Executive Vice President
Joseph Patrick Dowd	Executive Vice President
John Kevin Goldwater	Executive Vice President
Annette Merz	Executive Vice President
Jason Richard Niemela	Executive Vice President
Joseph Lee Matthews	Senior Vice President

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 Signet Star Holdings, a Delaware Holding Company. 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 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:

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.

StarNet Insurance Company

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.
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

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

StarNet Insurance Company

Select Marketing Insurance Services, LLC.
Riverport Insurance Services, LLC
Preferred Employers Insurance Company
Riverport Insurance Company
Reinserco, 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
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. Administrative Code 1801.

AFFILIATED AGREEMENTS

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

Tax Allocation Agreement

Effective September 8, 1998 and last amended February 28, 1999, StarNet and WRBC entered into a tax allocation agreement whereby the Company is a member of an affiliated group of corporations of which WRBC, directly or indirectly, is the common parent that files consolidated federal income tax returns for the participating member companies.

The tax liability is allocated among affiliates in the ratio that each affiliate's separate return tax liability bears to the sum of the separate return tax liabilities of all affiliates that are members of the WRBC Group. Estimated payments are made by the respective affiliates to WRBC and if such member is entitled to a credit, WRBC will account for such amount in the same way as if a credit or a claim for a refund was made directly by an affiliate with the Internal Revenue Service.

Investment Advisory Agreement

Effective July 16, 1998, and last amended February 28, 1999, StarNet entered into an investment advisory agreement with Berkley Dean and Company, Inc. (Berkley Dean) whereby Berkley Dean will provide certain advisory and management services based upon criteria,

standards and guidelines of the Company. StarNet has ultimate and final authority over decisions and policies on purchases and sales of securities. Berkley Dean receives .25% of 1% of the first \$10,000,000 and .20% of 1% thereafter, of the net asset value of the portfolio at the end of each quarter which is when fee payments are due. The agreement may be terminated at any time by either party with at least 90 days written notice prior to each anniversary of the agreement.

Cost Sharing Agreement

Effective July 16, 1998 the Company was a party to a cost sharing agreement whereby Berkley Insurance Company (Berkley) will provide certain property, equipment, facilities and personnel in performing certain underwriting, claims, accounting, legal and administrative functions and special services for its subsidiaries in their insurance and business operations.

Fees shall be charged on a cost basis and include directly allocable expenses, reasonably and equitably determined to be attributable to StarNet by Berkley plus a reasonable charge for direct overhead to be mutually agreed upon by StarNet and Berkley from time to time; provided, however, that such charges shall be no greater than the Company would expend if providing such services for itself.

Berkley shall submit within 30 days of the end of each calendar month a statement of the amount owed and StarNet shall pay to Berkley within fifteen (15) days following receipt of such statement. Either party may cancel the agreement upon giving 60 days prior written notice.

Underwriting Management Agreements

The Company has four underwriting management agreements and compensates its managers for the actual costs of services provided to the Company by the manager. Duration

and termination provisions are contained in the agreements that may be cancelled by either party.

The agreements are described as follows:

(1) Berkley Underwriting Partners, LLC

Effective July 1, 2001, StarNet entered into an agreement with Berkley Underwriting Partners, LLC (BUP) to act as a manager for coordinating and overseeing all activities relating to the production of insurance underwritten by general agencies that specialize in managing program business. BUP provides Managing General Agencies (MGAs) or Program Administrators services that include underwriting, claims, accounting, financing, information technology, regulatory compliance and actuarial support. In addition, BUP can manage activities regarding the placement of reinsurance through reinsurers in connection with the MGAs or program business, enter into agreements on the Company's behalf with Third Party Administrators (TPAs) for obtaining claims administration services or adjust or settle claims arising out of or in connection with policies pursuant to MGAs or program administration agreement entered into on behalf of StarNet.

Settlement of balances by the manager to the Company shall be no later than thirty (30) days after the close of each quarter and settlement by the Company to the manager shall be upon receipt of the statement of account, unless the parties agree otherwise.

(2) Berkley Aviation, LLC

Effective April 24, 2006, StarNet entered into an agreement with Berkley Aviation, LLC (BA) to act as a manager for producing, underwriting and servicing, on the Company's behalf,

aviation coverage, including the handling and servicing of all claims and losses, and legal actions resulting or arising from such business.

Aviation coverage includes policies written for airlines, aircraft charter operations, aircraft hull and liability used for personal and business uses, non-owned aviation liability, commercial general liability for operations that are directly involved in aviation and other aviation related operations requiring insurance and certain other risks as may be approved in writing by the Company.

Services performed by BA are subject to the guidelines of the Company and include such functions as the following:

- Acceptance and declination of risks
- Issuance, cancellation and amendment of contracts of insurance
- Collection and payment of premiums and return premiums
- Rejection, adjustment, compromise and payment of loss and loss expenses
- Recovery of losses and expenses from the Company and or its reinsurers, if any
- Payment of all taxes and fees imposed by any government or agency other than premium taxes
- Payment of all dues and all other expenses connected with the business
- Determination of what constitutes a “risk”, an “insured”, a “claim” and a “loss”

A statement of account shall be forwarded by the manager to the Company on a calendar quarterly basis in such form and detail as mutually agreed, but not later than thirty (30) days after the close of each quarter. Settlement between the Company and the manager shall be within thirty (30) days upon receipt of the statement of account, unless the parties agree otherwise.

(3) Berkley Net Underwriters, LLC

Effective April 24, 2006, StarNet entered into an agreement with Berkley Net Underwriters, LLC (BNU) to act as a manager for producing, underwriting and servicing, on the Company’s behalf, Workers Compensation coverage and certain other risks as may be approved

by the Company including the general oversight of the handling and servicing of all claims and losses and legal actions resulting or arising from such business.

Employer liability limits will be no more than \$1 million on any single policy.

Services performed by BNU are subject to the guidelines of the Company and include such functions that were similarly described in the agreement with BA.

The rendering of the statement of accounts and the settlement of balances between the parties are the same as described in the agreement with BA.

4) Berkley Accident and Health, LLC

Effective April 24, 2006, StarNet entered into an agreement with Berkley Accident and Health, LLC (BAH) to act as a manager for producing, underwriting and servicing, on the Company's behalf, Accident and Health coverage and certain other risks as may be approved by the Company including the handling and servicing of all claims and losses and legal actions resulting or arising from such business.

The manager is authorized for any one risk, to write coverage with a maximum limit of net liability of \$10,000,000 for each and every claim and in the aggregate and in no event can the manager bind the Company to a policy limit greater than the amount as stated herein except to the extent that express approval is received in advance from amongst a specific named officer of the Company.

Services performed by BAH are subject to the guidelines of the Company and include such functions that were described in the agreement with BA.

The rendering of the statement of accounts and the settlement of balances between the parties are the same as described in the agreement with BA.

Claims Service Agreements

Agreements are entered into between the Company's affiliates on behalf of StarNet, with Berkley Risk Administrators Company, LLC (BRAC), the servicing company that administers the claims and BUP, the company that acts as a manager for StarNet, for the business underwritten by general agencies that specialize in managing specific types of program business.

BRAC performs detailed services that include; adjustment, settlement, and resisting of claims, furnishing of claim forms and claim files for each reported claim, establishment of case basis reserves for loss and loss adjustment expenses subject to BUP's authority and approval on all claims that are the subject matter of an agreement, claim investigation and adjustment work that can reasonably be performed from its own offices, and furnishes BUP with loss reports on a monthly basis.

BUP will make sufficient funds available to BRAC to pay claims and allocated loss adjustment expenses on behalf of StarNet and shall maintain a bank account from which BRAC shall issue checks for the payment of claims and expenses. BUP grants authority to BRAC to do whatever is necessary, legal and proper to administer claims within BRAC's discretionary settlement authority as may vary within each type of agreement depending on the type of program business and permits BRAC to retain the services of third parties approved by BUP to provide loss investigation and loss adjustment and legal services.

The agreement may be terminated by either BRAC or BUP with or without cause upon sixty (60) days written prior notice to the other party.

TERRITORY AND PLAN OF OPERATION

The Company is authorized to transact the business of insurance in all fifty (50) states and the District of Columbia.

StarNet's business is mainly produced by program administrators/underwriting managers through contacts with general agencies that specialize in certain lines of business. The Company utilizes affiliated companies to administer the underwriting and claims operations for such program business pursuant to management agreements that are discussed in the section of this report captioned, "Underwriting Management Agreements".

As of December 31, 2009, StarNet has engaged in writing commercial and private passenger automobile liability, auto physical damage, inland marine, commercial and farmowners multiple peril, workers compensation, other liability and aircraft. The major portion of its direct premiums written were produced in the lines of commercial multiple peril totaling \$27,588,062, Inland Marine \$27,627,208, Group Accident and Health \$35,863,867 and for aircraft, \$49,844,020, that represented a combined total of \$140,923,159, comprising approximately seventy one percent (71%) of the total direct premiums written of \$199,574,079.

Direct business is written on a national basis with an emphasis in the states of California (\$20,525,934), New York (\$22,489,256), Illinois (\$12,474,600) and Texas (\$13,912,281) as the premiums written in other states and the District of Columbia ranged from \$1,685 to \$12,412,249.

GROWTH OF COMPANY

The following information was obtained from the Company's filed Annual Statements and covers the three-year period from the last examination as of December 31, 2006, through this examination, December 31, 2009:

<u>Year</u>	<u>Net Written Premiums</u>	<u>Net Admitted Assets</u>	<u>Surplus as Regards Policyholders</u>	<u>Net Income (Loss)</u>
2009	\$ 20,015,497	\$ 185,778,185	\$ 113,991,037	\$ 5,317,365
2008	14,718,148	170,250,823	109,634,058	5,750,729
2007	13,277,536	163,575,204	105,869,122	6,838,661
2006	12,595,607	157,047,893	102,615,520	4,623,802

The changes over the examination period are as follows:

- A 58.9% increase in Net Written Premiums
- A 18.3% increase in Net Admitted Assets
- A 11.1% increase in Surplus as Regards Policyholders
- A 15.0% increase in Net Income

The increase in net written premium was the result of an increase in business written due to a planned expansion and is predominately in the group accident and health, inland marine, ocean marine, and workers compensation lines of business.

LOSS EXPERIENCE

Net loss and expenses unpaid reserves as of December 31, 2008 were \$15.1 million. During 2009, \$4.8 million was paid for incurred loss and loss adjustment expense attributable to insured events of prior years. Reserves remaining for accident years 2007 and prior are \$6.4 million as of December 31, 2009 and are the result of re-estimation of unpaid claims and claim

adjustment expenses principally on special liability lines of business. Therefore, there has been a \$0.2 million unfavorable prior year development since 2008. The increase is generally the result of ongoing analysis of loss development trends.

REINSURANCE

For 2009, the Company reported the following distribution of premiums written:

Direct business	\$ 199,574,080
Reinsurance assumed from affiliates	0
Reinsurance assumed from non-affiliates	<u>5,239,515</u>
Gross premiums written	<u>\$ 204,813,595</u>
Reinsurance ceded to affiliates	\$180,150,811
Reinsurance ceded to non-affiliates	<u>4,647,287</u>
Total ceded	<u>\$ 184,798,098</u>
Net premiums written	<u>\$ 20,015,497</u>

Ceded

Effective January 1, 1998, the Company entered into a 90% quota share reinsurance agreement with its parent Berkley under which the Company ceded 90% of the net liabilities arising under the policies, contracts and binders of insurance or reinsurance in force at the effective date or issued after that date and classified as property casualty insurance business by the Company. This constituted the material portion of the reinsurance ceded to affiliates.

ACCOUNTS AND RECORDS

The Company maintains its records on a combination of client server, host, and network applications which utilize various reporting systems to record and report financial information.

The accounts and records reviewed 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 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.

FINANCIAL STATEMENTS

The following statements show the assets, liabilities, surplus and other funds of the Company, as determined by this examination, as of December 31, 2009, 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

Assets	Ledger Assets	Non-Admitted Assets	Net-Admitted Assets	NOTES
Bonds	\$ 118,426,787	0	\$ 118,426,787	1
Preferred stocks				
Common stocks				
Cash	12,462,400	0	12,462,400	
Other invested assets				
Receivables for securities	25,425		25,425	
Investment income due and accrued	1,508,490		1,508,490	
Premiums and considerations:				
Uncollected premiums and agents balances	42,162,292	\$ 1,133,663	41,028,629	
Deferred premium	8,302,760	108,321	8,194,439	
Reinsurance:				
Amounts recoverable from reinsurers	474,117	0	474,117	
Current federal and foreign income tax recoverable and interest thereon	559,042	0	559,042	
Guaranty funds receivable or on deposit	4,490	0	4,490	
Receivable from parent, subsidiaries and affiliates	2,894,091	165,481	2,728,610	
Aggregate write-ins for other than invested assets	1,363,227	997,472	365,755	
	<u>1,363,227</u>	<u>997,472</u>	<u>365,755</u>	
Total Assets	<u>\$ 188,183,121</u>	<u>\$ 2,404,937</u>	<u>\$ 185,778,184</u>	

LIABILITIES, SURPLUS AND OTHER FUNDS**DECEMBER 31, 2009**

		NOTES
Losses	\$ 14,780,165	2
Reinsurance payable on paid losses and LAE	0	
Loss adjustment expenses	3,198,626	2
Commissions payable, contingent commissions and similar charges	552,773	
Other expenses	318,990	
Taxes, licenses and fees due and accrued	1,969,304	
Net deferred tax liability	1,964,096	
Unearned premiums	9,001,779	
Advanced premium	547,801	
Ceded reinsurance premiums payable	28,190,185	
Funds held by company under reinsurance treaties	5,328,925	
Remittances and items not allocated	40,796	
Payable to parent, subsidiaries and affiliates	5,383,787	
Aggregate write-ins for liabilities	<u>509,920</u>	
Total Liabilities	<u>\$ 71,787,147</u>	
Common capital stock	\$ 6,000,000	
Gross paid in and contributed surplus	88,950,611	
Unassigned funds (surplus)	<u>19,040,426</u>	
Surplus as regards policyholders	<u>\$ 113,991,037</u>	
Total liabilities, surplus and other funds	<u>\$ 185,778,184</u>	

SUMMARY OF OPERATIONS

DECEMBER 31, 2009

Underwriting Income

Premiums earned	\$ 18,606,856
Deductions	
Losses incurred	\$ 9,655,658
Loss adjustment expenses incurred	1,869,846
Other underwriting expenses incurred	6,352,416
Total underwriting deductions	\$ 17,877,920
Net underwriting gain or (loss)	\$ 728,936

Investment Income

Net investment income earned	\$ 4,849,601
Net realized capital gains or (losses)	454,430
Net investment gain or (loss)	\$ 5,304,031

Other Income

Net gain or (loss) from agents' or premium balances charged off	\$ (470,014)
Finance and service charges not included in premium	174,269
Aggregate write-ins for miscellaneous income	0
Total other income (loss)	\$ (295,745)

Net income after dividends to policyholders, but before federal income taxes	\$ 5,737,222
Federal income taxes incurred	419,858

Net income	\$ 5,317,364
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RECONCILIATION OF CAPITAL AND SURPLUS

DECEMBER 31, 2009

Capital and Surplus Account

Capital and Surplus, December 31, 2006	<u>\$ 102,615,520</u>
Net Income	\$ 17,906,755
Change in net unrealized capital gains	243,076
Change in net deferred income tax	(3,681,609)
Change in non-admitted assets and related items	(193,705)
Surplus adjustment paid In	101,000
Dividends to stockholder	<u>(3,000,000)</u>
Change in surplus as regards policyholders for the period	<u>\$ 11,375,517</u>
Capital and Surplus, December 31, 2009	<u><u>\$113,991,037</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

\$118,426,787

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

\$14,780,165

Loss Adjustment Expenses

\$ 3,198,626

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 gross and 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 EXAMINATION RECOMMENDATIONS

The Company has complied with all prior examination recommendations.

SUMMARY OF RECOMMENDATIONS

Examination findings and recommendations as of December 31, 2009, consisted of the following:

It was noted that no annual meeting was held by the Company for the year 2009. Per the Company bylaws Article 3, section 6 the Board shall hold an annual meeting for the purpose of organization and the transaction of business immediately after the annual meeting of the stockholders. Additionally, per Article V, section 2, the officers of the Company shall be chosen annually by the Board.

Therefore,

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

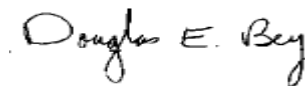
CONCLUSION

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

	December 31, 2009	December 31, 2006	Changes
<u>Description</u>	<u>Examination</u>	<u>Examination</u>	<u>Increases/ Decreases</u>
Assets	\$185,778,184	\$157,047,893	\$28,730,291
Liabilities	71,787,147	54,432,373	17,354,774
Policyholders Surplus	113,991,037	102,615,520	11,375,517

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

Respectfully submitted,



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