REPORT ON EXAMINATION

OF

WESCO INSURANCE COMPANY

AS OF

DECEMBER 31, 2014

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, 2014 of the

WESCO INSURANCE COMPANY

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

Attest By: ____________________

Date: June 23, 2016

Insurance Commissioner of the State of Delaware

In Witness Whereof, I have hereunto set my hand and affixed the official seal of this Department at the City of Dover, this 23rd day of June, 2016.

____

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

OF THE

WESCO INSURANCE COMPANY

AS OF

DECEMBER 31, 2014

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 23rd day of June, 2016

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

TABLE OF CONTENTS

May 9, 2016

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

Dear Commissioner:

In accordance with instructions and pursuant to statutory provisions contained in Certification Number 15.024 dated April 24, 2015, a financial examination has been made of the affairs, financial condition and management of

WESCO INSURANCE COMPANY

hereinafter referred to as (Company or WIC) incorporated under the laws of the State of Delaware as a stock company with its registered office in the State of Delaware at 2711 Centerville Road, Wilmington, Delaware 19808. The Company's main administrative office is located at 59 Maiden Lane, New York, New York 10038. This examination was conducted at the Company's administrative office in New York, New York. The report of this examination is respectfully submitted.

SCOPE OF EXAMINATION

The Delaware Department of Insurance (Department) has performed a multi-state coordinated risk-focused financial examination of the Company. The last examination was conducted as of December 31, 2011. This examination covered the period of January 1, 2012 through December 31, 2014, 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, 2014. Transactions subsequent to the examination date were reviewed where deemed necessary.

The examination of WIC was performed as part of the multi-state coordinated examination of AmTrust Financial Services, Inc. (AFSI) insurance group of companies as of December 31, 2014. The Delaware Department of Insurance (DDOI) was the lead state for the AFSI holding company group's commercial lines business segments. 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 Code and Regulations of the State of Delaware. The NAIC Handbook requires that we plan and perform the examination to evaluate the financial condition, assess corporate governance, identify current and prospective risks of the company and evaluate system controls and procedures used to mitigate those risks. An examination also includes identifying and evaluating significant risks that could cause an insurer's surplus to be materially misstated both currently and prospectively. All accounts and activities of the company were considered in accordance with the risk-focused examination process. This may include assessing significant estimates made by management and evaluating management's compliance with Statutory Accounting Principles. The examination does not attest to the fair presentation of the financial statements included herein. If, during the course of the examination an adjustment is identified, the impact of such adjustment will be documented separately following the Company's financial statements.

This examination report includes significant findings of fact, pursuant to the General Corporation Laws of the State of Delaware as required by 18 Del. C. §321, along with general information about the insurer and its financial condition. There may be other items identified during the examination that, due to their nature, are not included within the examination report but separately communicated to other regulators and/or the Company.

During the course of this examination, consideration was given to work performed by the Company's external accounting firm, BDO USA LLP. Certain auditor work papers from their 2014 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.

SUMMARY OF SIGNIFICANT FINDINGS OF FACT

This examination had no material adverse findings, significant non-compliance findings, material changes in financial statements, or updates on other significant regulatory information disclosed in the previous examination.

COMPANY HISTORY

The Company was incorporated on December 12, 1962 as a stock property and casualty company under the laws of the State of New Mexico and commenced business on May 29, 1963. As a New Mexico domiciled company, the Company was engaged in the business of providing credit property and involuntary unemployment insurance until August 14, 1991 when it re-domesticated to the State of Delaware.

Until 1991, the Company was a wholly-owned subsidiary of American Centennial Insurance Company (ACIC), which in turn was a wholly-owned subsidiary of Consolidated

International Insurance Group, Inc. (CIG). On December 26, 1991, ACIC transferred the Company to another affiliate, Consolidated Insurance Group of America, Inc. (CIGA).

On July 9, 1993, CIGA sold all of the common stock of the Company to Beneficial Insurance Group Holding Company (BIG), a wholly-owned subsidiary of Beneficial Corporation (Beneficial). As part of the sale, Beneficial merged an existing Delaware domiciled insurance company, Wilmington Property and Casualty Company, into the Company. Beneficial remained the ultimate controlling entity from that date until June 30, 1998 when Household International, Inc. (Household) and Beneficial completed a corporate merger. Concurrent with the merger, BIG changed its name to Household Insurance Group Holding Company (HIG). Household succeeded as the ultimate parent company.

On March 28, 2003, the Company was indirectly acquired by HSBC Holdings, plc, as a result of its acquisition of Household, the previous ultimate parent of HIG. On June 1, 2006, the stock of the Company was sold by HIG to AFSI.

MANAGEMENT AND CONTROL

Directors

Pursuant to the General Corporation Laws 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. The Board as of December 31, 2014, was comprised of seven members, each elected or appointed in accordance with the Company’s bylaws. Each Director shall hold their office until a successor is elected and qualified, or until resignation or removal. The Board of Directors, duly elected in accordance with the Company's bylaws and serving as of the period ending December 31, 2014, was as follows:

Director	Principal Occupation
Donald Thomas DeCarlo	Attorney (Self-Employed)
Barry Dov Zyskind	President, Chief Executive Officer & Director, AFSI
Stephan Barry Ungar	General Counsel and Secretary, AFSI
Stuart Hollander	Insurance Executive and President - Special Risk Division, AFSI
Harry Schlachter	Treasurer, AFSI
Jay Jerome Miller	Attorney (Self-Employed)
David Harris Saks	Insurance Executive & Chief Legal Officer, AFSI

Officers

The bylaws of the Company state the principal officers shall be a President, Treasurer and a Secretary, and such officers or assistant officers or agents for the Board may vary from time to time. As of December 31, 2014, the Company's principal officers and their respective titles are as follows:

Officer	Title
Barry Dov Zyskind	President
Stephen Barry Ungar	Secretary
Harry Schlachter	Treasurer

The minutes of the meetings of the Board of Directors, which were held during the period of the examination were reviewed and determined to be in accordance with the Company's bylaws. The attendance at such meetings, the elections of directors and officers and the approvals of investment transactions were reviewed and noted.

Inspection of the Company's files indicated that the Conflict of Interest Statement and the Ethics Code were distributed and completed in compliance with Company guidelines.

Holding Company System

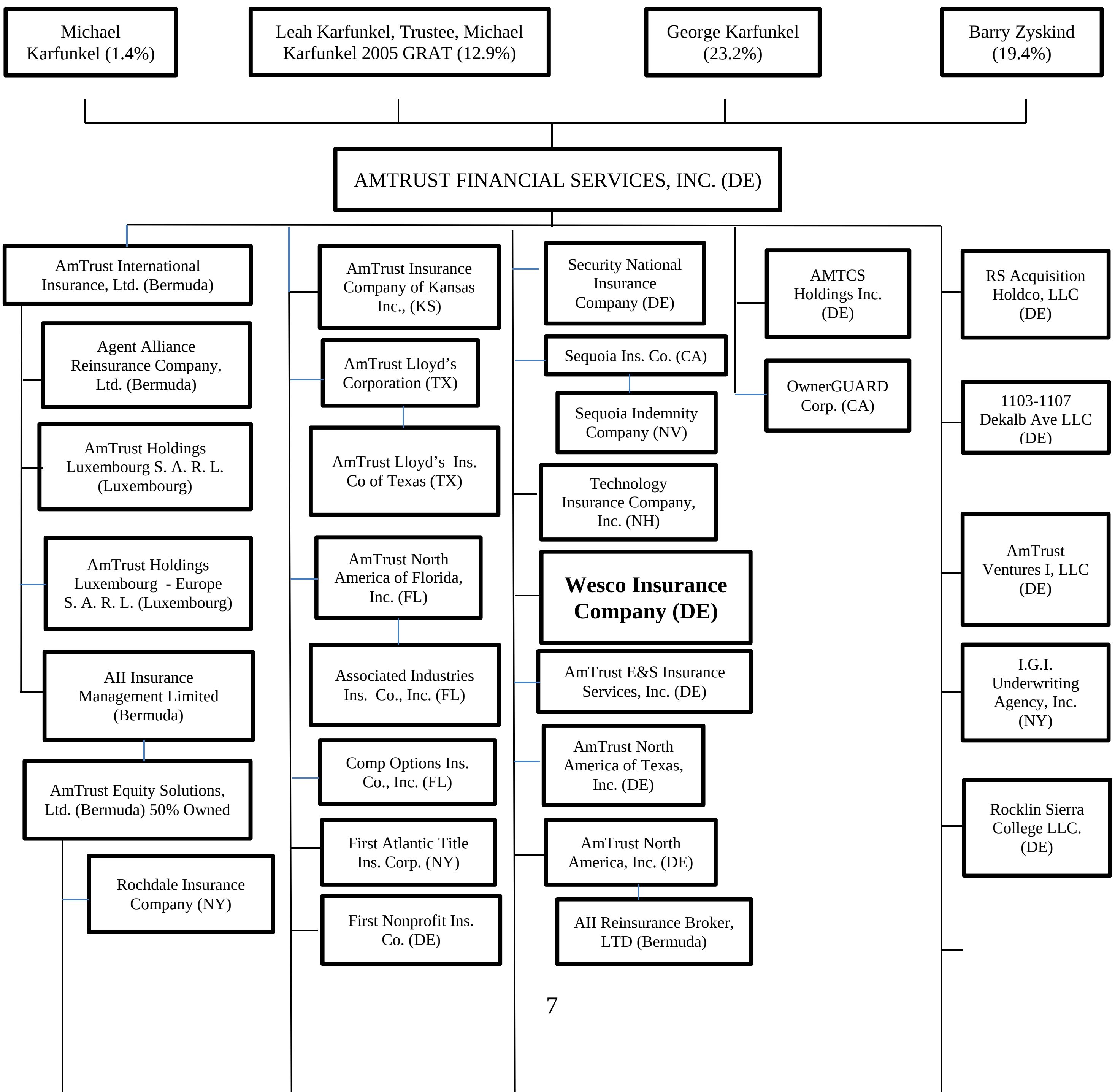
The Company is a member of an insurance holding company system as defined in 18 Del. C. §5001 (6) "Insurance Holding Company System". On June 1, 2006, AFSI acquired 100% of the outstanding and issued stock of the Company pursuant to a stock purchase agreement dated March 9, 2006 between AFSI and HIG.

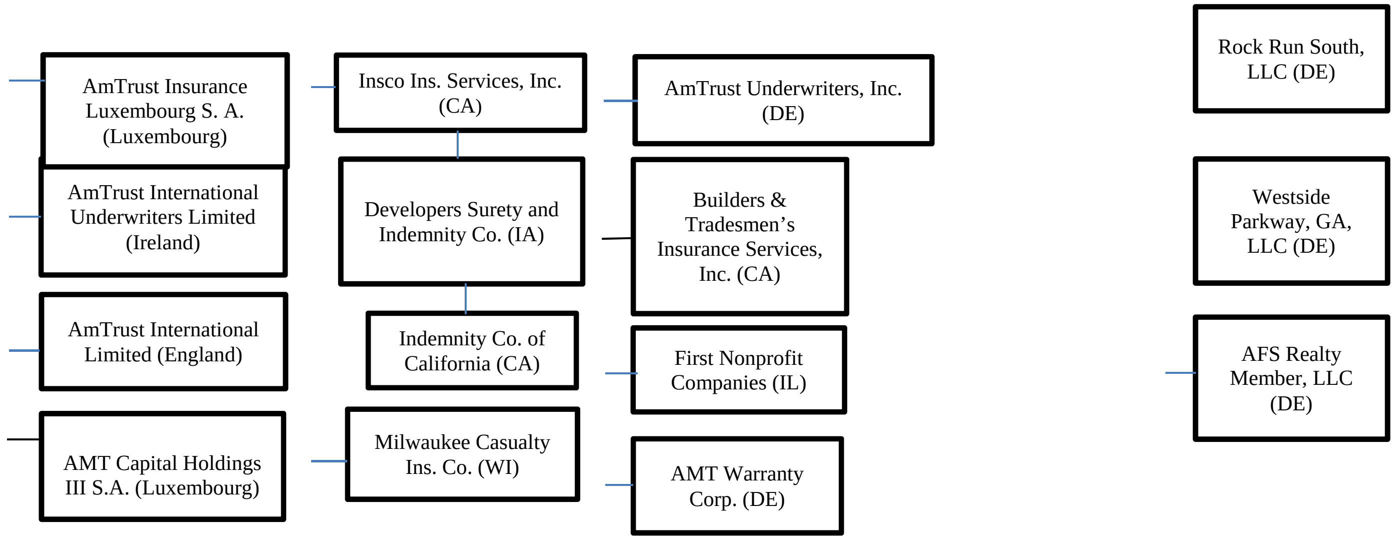
The ultimate controlling parties of AFSI are Michael and George Karfunkel through their ownership of G/MK Acquisition Corporation and New Gulf Holdings, Inc., which as of the previous examination date, beneficially owned in aggregate 58.7% of the issued and outstanding shares of common stock of AFSI. In addition, Barry Zyskind beneficially owned 41% of the issued and outstanding shares of common stock of AFSI through his interest in G/MK, as of December 31, 2006. During the examination period, the controlling parties of AFSI did not change, however the structure of ownership changed from indirect ownership through G/MK Acquisition Corporation and New Gulf Holdings, Inc. to each party having direct ownership in AFSI. Through the restructured ownership, the aforementioned parties controlled approximately 59.1% of the issued and outstanding shares of AFSI, as of December 31, 2014.

AFSI went public in November 2006 and on August 8, 2007, G/MK merged into AmTrust Financial Group, Inc. (AFG). Subsequently, AFG merged into a wholly owned subsidiary of AFSI. As a result, AFSI issued 9,033,000 shares of common stock each to Michael Karfunkel and George Karfunkel and 6,022,000 shares to Barry D. Zyskind in exchange for the

24,089,000 shares which had been held by AFG. As of December 31, 2014, Michael Karfunkel owned or controlled approximately 1.4% of the issued and outstanding common stock of AFSI, Leah Karfunkel, Trustee (GRAT) owned or controlled approximately 12.9%, George Karfunkel owned or controlled approximately 23.2%, and Barry D. Zyskind owned or controlled approximately 19.4% of the issued and outstanding common stock of AFSI.

The following page reflects an abbreviated chart displaying the ownership chain of subsidiaries and their domestic affiliation as of December 31, 2014:





<u>Affiliated Management and Service Agreements</u>

The Company has entered into various agreements with members of the AFSI holding group in an effort to obtain efficiencies in operations and limit certain cost. The Company had the following material intercompany agreements in effect as of December 31, 2014:

General Agency Agreement

The Company entered into a General Agency Agreement on August 21, 2007 with AmTrust North America, Inc. (ANA), by which ANA performs both marketing and administrative services. In exchange, the Company pays a 20% commission. For the year ended December 31, 2014, $95,490,000 of gross commissions was reported under this agreement.

Managing General Agent and Services Agreement

The Company entered into a Managing General Agent and Services Agreement with Warrantech Automotive, Inc. effective June 27, 2012. Under the agreement the Company appoints Warrantech as its general agent to act on its behalf in the issuing, processing and administering of policies of insurance under its Guaranteed Asset Protection programs.

Intercompany Management Agreement

The Company entered into an Intercompany Management Agreement with AFSI on June 1, 2006. Under the agreement, AFSI provides certain management services and certain costs are allocated among the Company and its affiliates on a proportional basis. The Company, in turn, reimburses AFSI for the following services performed:

- Financial Services, including financial and accounting maintenance of fiduciary accounts and maintenance of books and records.
- Administrative services and regulatory filings and compliance issues.
- Underwriting and marketing services, as well as the appointment of producers.

Compensation under the agreement includes all direct and operational expenses and provides that on a quarterly basis, all expenses incurred by AFSI on behalf of the Company will be allocated in a manner consistent with 18 Del. C. §5005(a)(1).

Tax Allocation Agreement

Effective June 1, 2006, the Company became party to a Tax Allocation Agreement with other members of the AFSI holding company group. This agreement provides that the allocation of the consolidated federal income tax liability is to be based upon each party's relative contribution to such liability. The agreement also provides an allocation for a particular tax year to each party that reflects their share of consolidated federal income tax liability after adjustments for tax audits or otherwise. The method of allocation among affiliates is based on separate return calculations with current credit for any net operating losses to the extent the losses provide a benefit in the consolidated tax return.

TERRITORY AND PLAN OF OPERATION

The Company operates principally as a multi-line insurance property and casualty company licensed to write business in all 50 states, the District of Columbia and Puerto Rico. The Company writes business in the following three segments: 1) Small Commercial Business; 2) Specialty Risk and Extended Warranty Business; and 3) Specialty Program Business.

Small Commercial Business

This segment provides workers' compensation to small businesses that operate in low and medium hazard classes, such as restaurants, retail stores, physicians, other professional offices, commercial package and other property and casualty insurance products to small businesses, with average annual premiums of approximately $5,300. The Company is authorized to write Small Commercial Business products in all 50 states.

The Company distributes its policies through a network of over 7,000 select retail and wholesale agents who are paid commissions based on the annual policy premiums written. Workers' compensation insurance pricing and coverage options are generally mandated and regulated on a state by state basis and provide coverage for the statutory obligations of employers to pay medical care expenses and lost wages for employees who are injured in the course of their employment. Commercial package products provide an array of insurance to small businesses, including commercial property, general liability, inland marine, automobile, workers' compensation, umbrella and farm and ranch owners' coverage. The Company believes the small business component of the workers' compensation market is generally less competitive than the broader insurance market because the smaller policy size and low average premiums needed by these types of policyholders generally does not fit the underwriting and profitability criteria of many of its competitors. The Company believes its customized and proprietary technology platform enables it to underwrite, manage and control losses in a cost-effective manner for a large number of small policies, while still providing quality customer service and responsive claims management to clients and the agents that distribute the products. The Company also believes these factors are key to achieving high retention and renewal rates.

Specialty Risk and Extended Warranty Business

In its Specialty Risk and Extended Warranty segment, the Company provides coverage for consumer and commercial goods and custom designed coverages, such as accidental damage plans and payment protection plans offered in connection with the sale of consumer and commercial goods, in the United States, and certain niche property, casualty and specialty liability risks in the United States, including general liability, employers' liability and professional and medical liability. The Company's model is focused on developing coverage plans by evaluating and analyzing historical product and industry data to establish appropriate pricing and contract terms and enhancing the profitability of the plans by limiting the frequency and severity of losses while delivering superior customer service. The Company believes that its proprietary technology platform and strong industry expertise provide it a competitive advantage. The Company selects administrators with extensive industry knowledge and targets industries and coverage plans that have consistently demonstrated favorable loss experience. Additionally, the Company utilizes extensive historical claims data and detailed actuarial analysis to ensure its ability to more accurately forecast the frequency and severity of losses and draft restrictive, risk-specific coverage terms, with clearly identified coverage restrictions to further reduce the level of losses. The Company believes its claims management process enables it to ensure superior customer service, and if necessary, proactively adjust its premiums based on changes in actual loss experience.

Specialty Program Business

The Company's Specialty Program Business segment provides workers' compensation, package products, general liability, commercial auto liability and other specialty commercial property and casualty insurance to a narrowly defined homogeneous group of small and middle market companies. The type of risk covered by this segment is similar to the type of risk in its Small Commercial Business, but to a small extent, also covers certain riskier businesses. The Company partners with managing general agents and other wholesale agents and claims administrators who have a strong track record and history underwriting certain types of risk and who, subject to the Company's underwriting standards, originate and assist in managing a book of business and generally share in the portfolio risk. Products and underwriting criteria often entail customized coverage, loss control and claims services, as well as risk sharing mechanisms. The coverage is offered through accounts with various agents to multiple insureds.

The Company reported the following distribution of Direct Premiums Written in its filed Annual Statement for 2014:

Line of Business	Direct Premiums Written	Percent
Warranty	$ 464,565,439	29.9%
Workers' Compensation	485,440,473	31.2%
Commercial Auto Liability	185,811,911	12.0%
Other Liability – Occurrence	126,600,831	8.1%
Other Liability – Claims Made	58,492,856	3.8%
All Other Lines < $50,000,000 individually	233,258,848	15.0%
Total	$ 1,554,170,358	100.0%

REINSURANCE

Assumed

The Company assumes business from both voluntary and mandatory pools, as well as business from other unaffiliated companies under various individual reinsurance contracts.

Ceded

Intercompany Reinsurance

Effective September 7, 2007, the Company became party to an AFSI intercompany reinsurance agreement, whereby along with other affiliates, the Company cedes its ultimate net loss and net written premium to U.S. affiliate, TIC and Bermuda affiliate, AIIL. As of December 31, 2014 under this agreement, the Company ceded 70% of each primary retention to AIIL and 20% to TIC, net of third party reinsurance. AIIL in turn, retroceded to Bermuda affiliate, Maiden Reinsurance Ltd. (Maiden), 40% of its net retained business after assuming from the U.S. affiliates, to include the Company.

Effective April 1, 2009, parties entered into an agreement with respect to business written in Florida only, by which the Company cedes to AIIL and AIIL assumes from the Company 50% of its ultimate net loss and net written premium, and the Company cedes to TIC and TIC assumes from the Company 40% of its ultimate net loss and net written premium. Effective December 31, 2012, pursuant to an addendum to the agreement, the Company cedes to AIIL and AIIL assumes the Company’s remaining 10% of the ultimate net loss with respect to certain program business (accident years 2006-2010) and AIIL assumes 100% of all losses and loss adjustment expenses paid by the Company’s outstanding loss reserves, IBNR, and loss adjustment expense reserves with respect to the program business.

Third Party Reinsurance

The Company is covered under an AFSI corporate workers' compensation excess of loss reinsurance program, whereby AFSI Companies retain the first $5,000,000 up to a maximum of $510,000,000, in four layers. The first layer provides 50% coverage from $5,000,000 to $10,000,000. The second layer provides 100% coverage from $10,000,000 to $341,700,000. The third layer provides 87.5% coverage from $341,700,000 to $381,700,000 and the fourth layer provides 100% coverage from $381,700,000 to $510,000,000.

The Company is covered under an AFSI corporate property per risk excess of loss reinsurance arrangement, whereby AFSI Companies retain the first $2,000,000 per risk on property losses and cedes amounts in excess of $2,000,000 on each loss. The limit per occurrence under this arrangement is $30,000,000.

The Company is covered under an AFSI corporate property catastrophe excess of loss reinsurance arrangement, whereby AFSI Companies retain the first $20,000,000 per occurrence on property losses, net of recoveries under the property per risk reinsurance referenced above, up to a maximum of $400,000,000 per occurrence, in two layers. The first layer provides 100% coverage from $20,000,000 to $360,000,000 and the second layer provides 87.5% coverage from $360,000,000 to $400,000,000.

The Company purchases quota share reinsurance for its non-program umbrella business, whereby it cedes 70% up to $5,000,000 of loss per policy and 100% above the $5,000,000 loss per policy. The Company also purchases various pro-rata and excess reinsurance relating to specific insurance programs and/or specialty lines of business, including casualty, public entity, and professional errors and omissions insurance.

The Company is covered under AFSI's corporate casualty excess of loss reinsurance arrangement, whereby AFSI Companies retain the first $2,500,000 per occurrence and cede up to a maximum of $40,000,000, with one hundred percent (100%) coverage from $2,500,000 to $40,000,000.

Effective November 1, 2014, the Company is covered under AFSI's corporate property quota share reinsurance arrangement, with ten percent (10%) coverage up to $20,000,000.

The Company is covered under AFSI's corporate Equipment Breakdown pro-rata reinsurance arrangement, with one hundred percent (100%) coverage up to $100,000,000 per policy occurrence.

The Company is covered under AFSI's corporate property auto facultative program that varies by geographic location, with retention from $15,000,000 to $25,000,000 and limits per occurrence from $55,000,000 to $65,000,000 and one hundred percent (100%) coverage.

Along with the corporate reinsurance programs described above, the Company utilizes captive reinsurance vehicles on a program-by-program basis. Participation varies, but typically involves the captive and/or professional reinsurer taking a percentage of a ground-up layer. As these are generally unauthorized reinsurers, collateral is obtained to secure minimum requirements.

FINANCIAL STATEMENTS

The following financial statements are based on the statutory financial statements filed by the Company with the Delaware Department of Insurance and present the financial condition of the Company for the period ending December 31, 2014. The accompanying comments on financial statements reflect any examination adjustments to the amounts reported in the annual statements and should be considered an integral part of the financial statements.

Assets
Liabilities, Surplus and Other Funds
Statement of Income
Reconciliation of Surplus Account

The narrative on the reserve related balances is presented in the "Comments on Financial Statements" section of this report.

Assets
December 31, 2014

		Assets		Nonadmitted Assets		Net Admitted Assets	Notes
Bonds	$	308,503,205	$	-0-	$	308,503,205	1
Preferred stocks		9,150,000				9,150,000	
Cash and short-term investments		82,521,278				82,521,278	
Other invested assets		1,947,030				1,947,030	
Investment income due and accrued		2,766,468				2,766,468	
Uncollected premiums and agents' balances in course of collection		218,349,060		9,675,815		208,673,245	2
Deferred premiums, agents' balances and installments booked but deferred		388,917,766				388,917,766	3
Amounts recoverable from reinsurers		42,492,926				42,492,926	
Funds held by or deposited with reinsured companies		(74,401)				(74,401)	
Current federal and foreign income tax recoverable and interest thereon		3,322,670				3,322,670	
Net deferred tax asset		15,640,588				15,640,588	
Receivables from parent, subsidiaries and affiliates		3,130,105				3,130,105	
Aggregate write-ins for other than invested assets:							
Prepaid claims		43,715,183				43,715,183	
Federal excise tax recoverable		2,554,305				2,554,305	
Other receivables		214,852				214,852	
Prepaid expenses		107,293				107,293	
Total Assets	$	1,123,258,328	$	9,675,815	$	1,113,582,513	

Liabilities, Surplus and Other Funds
December 31, 2014

		Notes
Losses	$ 80,158,238	4
Reinsurance payable on paid losses and loss adjustment expenses	127,749	
Loss adjustment expenses	9,391,807	4
Commissions payable, contingent commissions and other similar charges	4,110,664	
Other expenses	3,157,262	
Taxes, licenses and fees	28,724,852	
Unearned premiums	166,513,383	
Advance premium	5,166,109	
Ceded reinsurance premiums payable	122,825,653	
Funds held by company under reinsurance treaties	458,942,384	5
Amounts withheld or retained by company for account of others	168,000	
Provision for reinsurance	1,920,000	
Aggregate write-ins for liabilities:		
Surcharge payable	16,041,813	
Premium audits cancel due	727,172	
Payable for taxes recoverable	77,349	
Total liabilities	$ 898,052,435	
Common capital stock	$ 5,000,000	
Gross paid in and contributed surplus	128,115,409	
Unassigned funds (surplus)	82,414,669	
Surplus as regards policyholders	$ 215,530,078	
Totals	$1,113,582,513	

Statement of Income
December 31, 2014

UNDERWRITING INCOME	
Premiums earned	$146,397,774
DEDUCTIONS	
Losses incurred	$ 98,274,342
Loss adjustment expenses incurred	8,141,652
Other underwriting expenses incurred	22,825,975
Total underwriting deductions	129,241,969
Net underwriting gain or (loss)	$ 17,155,805
INVESTMENT INCOME	
Net investment income earned	$ 11,241,819
Net realized capital gains or (losses)	792,549
Net investment gain or (loss)	$ 12,034,368
OTHER INCOME	
Net gain or (loss) from agents' or premium balances charged off	$ -
Finance and service charges not included in premiums	
Aggregate write-ins for miscellaneous income	-
Total other income	$ -
Net income before dividends to policyholders and before federal income taxes	29,190,173
Dividends to policyholders	585,048
Net income after dividends to policyholder but before federal income taxes	28,605,125
Federal and foreign income taxes incurred	14,455,024
Net income	$ 14,150,101

Reconciliation of Capital and Surplus
December 31, 2011 to December 31, 2014

	Common Capital Stock	Gross Paid-in and Contributed Surplus	Unassigned Surplus	Total
December 31, 2011	$ 5,000,000	$ 38,980,603	$ 38,599,272	$ 82,579,875
Operations 2012 (1)			4,720,654	4,720,654
Paid-in Surplus (2)		27,203,427		27,203,427
Operations 2013 (1)			25,377,566	25,377,566
Paid-in Surplus (2)		26,931,379		26,931,379
Operations 2014 (1)			13,717,177	13,717,177
Paid-in Surplus (2)		35,000,000		35,000,000
December 31, 2014	$ 5,000,000	$ 128,115,409	$ 82,414,669	$ 215,530,078

(1) Operations defined as: Net income, change in net deferred income tax, change in non-admitted assets, and change in provision for reinsurance.

(2) Surplus adjustments: Paid-in

COMMENTS ON FINANCIAL STATEMENTS

(1) Bonds **$308,503,205**

Long-term bonds constitute the largest category of invested assets at December 31, 2014, representing approximately 27.7% of the Company's reported total admitted assets, with 97.0% of the bonds rated as Class 1 or Class 2 by the NAIC. Bonds rated Class 3 represented 2.3%, with the remaining 0.7% rated Class 4, of the Company's long-term bonds at December 31, 2014.

(2) Uncollected premiums and agents' balances in the course of collection $208,673,245

Agents' balances increased $100,288,808 or 92.5% during 2014. The increase in agents' balances was a result of the related increase in premium writings in 2014 of $558,951,998.

(3) Deferred premiums, agents' balances and installments booked but deferred and not yet due $388,917,766

Deferred premium receivable balances increased by $151,350,712 or 63.7% from the prior year ending balance of $237,567,055, as direct premiums written increased by $558,951,998 or 61.0% in 2014.

(4) Losses $ 80,158,238
Loss adjustment expenses $ 9,391,807

The DDOI contracted INS Consultants, Inc. (INS), to conduct an independent review of the Company's loss and LAE reserves as of December 31, 2014. The Consulting Actuary's analysis was performed using a risk-focused approach according to the guidelines contained in the NAIC Handbook. The conclusions set forth in the Consulting Actuary's report were based on information provided by the Company, including the 2014 Annual Statement. The Statement of Actuarial Opinion and the Actuarial Report for the Company were signed by Ronald T. Kuehn, FCAS, MAAA, CERA, CPCU, ARM, FCA, associated with the outside firm Huggins Actuarial Services, Inc.

Based on work performed, the Consulting Actuary found the Company's carried net and gross loss and LAE reserves, as of December 31, 2014, to be reasonably stated. No financial adjustment to Company reserves was required for examination purposes.

(5) Funds held by company under reinsurance treaty $458,942,384

Funds held payable to reinsurance companies represent contractual payments due to the reinsurer that the Company has retained to secure obligations of the reinsurer that would otherwise be payable under the reinsurance agreement. Funds held by the Company under reinsurance treaties increased by $138,790,501 to $458,942,384 as of December 31, 2014 from $320,151,883 as of December 31, 2013. The increase is due to a $449,174,244 increase in ceded written premium to affiliates as a result of a $591,896,416 increase in direct and assumed written premium from non-affiliates over the prior year. Funds held due to reinsurers are as follows:

TIC	$ 250,926,610
AIIL	208,225,878
AIUL	(210,105)
Total	$ 458,942,383

SUBSEQUENT EVENTS

The following significant events occurred subsequent to the examination date and were considered to have an impact on the Company's financial statements:

- Effective January 1, 2015, the Company's cession to Bermuda affiliate, AmTrust International Insurance Limited (AIIL), was reduced from 70% to 60%.

- Effective January 1, 2016, the Company's cession to Bermuda affiliate, AIIL, was reduced from 60% to 50%.

- The California Department of Insurance (CADOI) requires that assets be deposited for California (CA) workers' compensation business. The Company's required deposit for 2015 totaled $219.5 million, which is an increase of $106.9 million from 2014. The Company funded the requirement as of March 31, 2016 in compliance with CA statutes.

- Effective November 20, 2015, the DDOI approved a Form A Exemption request from the Company. On July 28, 2015, pursuant to the terms of the Michael Karfunkel 2005 Grantor Retained Annuity Trust (GRAT), the GRAT expired and control of the stock of AFSI held by the GRAT passed from the GRAT to the Michael Karfunkel Family 2005 Trust (Trust), with Leah Karfunkel and Barry Zyskind as the Trustees of the Trust. The outcome of the transaction resulted in the Trust acquiring approximately 12.1% of the voting security of AFSI, the ultimate shareholder. However, the transaction did not change the controlling ownership of AFSI considering the aforementioned ownership parties.

- On April 27, 2016, Michael Karfunkel, co-founder of AFSI, passed away.

COMPLIANCE WITH PRIOR REPORT OF EXAMINATION

There were no recommendations in the prior report of examination.

SUMMARY OF RECOMMENDATIONS

No examination report recommendations were noted as a result of this examination.

CONCLUSION

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

Description	December 31, 2011	December 31, 2014	Increase (Decrease)
Assets	$326,593,334	$1,113,582,513	$786,989,179
Liabilities	244,013,459	898,052,435	654,038,976
Common capital stock	5,000,000	5,000,000	
Gross paid in and contributed surplus	38,980,603	128,115,409	89,134,806
Unassigned funds (surplus)	38,599,272	82,414,669	43,815,397
Surplus as regards policyholders	82,579,875	215,530,078	132,950,203
Total liabilities, capital and surplus	$326,593,334	$1,113,582,513	$786,989,179

The assistance and cooperation of examiners representing the states on the coordinated examination is acknowledged. In addition, the assistance of the consulting actuarial firm, INS

Consultants, Inc., the information systems specialist firm, INS Services, Inc., the Company's outside audit firm, BDO USA LLC, and the Company's management and staff was appreciated and is acknowledged.

Respectfully submitted,

James M Perkins

James M. Perkins, CFE
Examiner-In-Charge
State of Delaware Department of Insurance