REPORT ON EXAMINATION

OF THE

CHUBB CUSTOM INSURANCE COMPANY

AS OF

DECEMBER 31, 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, 2011 of the

CHUBB CUSTOM INSURANCE COMPANY

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

Attest By: ______________________

Date: June 4, 2013

Insurance Commissioner of the State of Delaware

LIBERTY AND INDEPENDENCE

In Witness Whereof, I have hereunto set my hand and affixed the official seal of this Department at the City of Dover, this 4th day of June, 2013.

____

Karen Weldin Stewart, CIR-ML
Insurance Commissioner

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Karen Weldin Stewart, CIR-ML
Commissioner

Delaware Department of Insurance

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CHUBB CUSTOM INSURANCE COMPANY

AS OF

DECEMBER 31, 2011

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 4th day of June, 2013

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SALUTATION

February 22, 2013

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. 12.002, dated January 26, 2012, an examination has been made of the affairs, financial condition and management of the

CHUBB CUSTOM INSURANCE COMPANY

hereinafter referred to as (Company), and incorporated under the laws of the state of Delaware. The Company's registered office in the State of Delaware is located at 1209 Orange Street, in care of the CT Corporation System, Wilmington, Delaware 19801. The examination was conducted at the administrative offices of the Company located at 15 Mountain View Road, Warren, New Jersey. The examination of the Company was conducted concurrently with and as a part of a larger coordinated examination of both its Delaware affiliate, Executive Risk Indemnity Inc. (ERII) and other affiliates collectively known as the "Chubb Pool". Excluding the Company and ERII, eleven (11) other individual companies were covered under the coordinated examination. 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, 2006. This examination covered the period of January 1, 2007, through December 31, 2011, 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, 2011. 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, Ernst & Young LLP (E&Y). Certain auditor work papers of their 2011 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 tests of controls, 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:

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 or adjustments to the financial statements. Please refer to the summary of recommendations section of this report for examination findings.

SUBSEQUENT EVENTS

In October 2012, the Northeastern United States suffered catastrophic impact from Storm Sandy. In early December, The Chubb Corporation (Chubb) announced that it anticipated eventual losses from this event to be approximately $880 million on a pre-tax basis and $570 million on a net-of-tax basis. Each individual member of the Chubb pool will incur losses approximate to their share of the Chubb pool. For the Company, this equates to gross and net losses of approximately $4.4 million gross and $2.8 million net of tax respectively.

COMPANY HISTORY

The Company was incorporated, by representatives of the Chubb Corporation, on October 3, 1980 under the laws of Delaware. It commenced business on December 26, 1980. The Company was formed for the purpose of writing excess and surplus lines insurance. Administration of the company's affairs is under the same general management as the parent, Federal Insurance Company (Federal). Federal is an Indiana domiciled company and is a wholly owned subsidiary of The Chubb Corporation, a New Jersey holding company.

DIVIDENDS TO STOCKHOLDERS

No dividends were declared or issued during the examination period.

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 which were amended January 1, 2011, all corporate powers of the Company and its business, property and affairs are managed by or under the direction of the Board of Directors (Board). The Board shall consist of at least three (3) members and no more than ten (10) members and meet at least annually.

The Board is currently comprised of nine members, all of whom were elected at the annual meeting of the shareholders on May 13, 2011. The members of the Board are elected for a term of one year and serve until the next annual meeting of shareholders and until their successors are elected and qualified.

Directors

The Board of Directors, duly elected in accordance with the Company's bylaws and serving at December 31, 2011, were as follows:

Directors Name	Principal Business Affiliation
Paul Joseph Krump	The Chubb Corporation
Walter Brian Barnes	Chubb & Son, a division of Federal Insurance Company
Jon Cory Bidwell	Chubb & Son, a division of Federal Insurance Company
William Andrew Macan	The Chubb Corporation
Douglas Alan Nordstrom	The Chubb Corporation
Harold L. Morrison, Jr.	The Chubb Corporation
John Joseph Kennedy	The Chubb Corporation
Dino Ennio Robusto	The Chubb Corporation
Gail Wallace Soja	Chubb & Son, a division of Federal Insurance Company

The Company's bylaws provide that the Board, by resolution, may designate one or more committees, each consisting of at least one member. As of December 31, 2011, the Board had no committees. The bylaws state that the Board has the power to elect officers of the Company and that those officers shall be a President, one or more Vice Presidents, a Secretary and a Treasurer. As deemed appropriate, the Board may decide to elect additional officers from time to time.

Officers

At December 31, 2011, the Company's principal officers and their respective titles were as follows:

Officer	Title
Paul Joseph Krump	Chairman
Gail Wallace Soja	President
Richard Glenn Spiro	Senior Vice President
Walter Brian Barnes	Vice President & Actuary
William Andrew Macan	Vice President & Secretary
Douglas Alan Nordstrom	Vice President & Treasurer

The minutes of the meetings of the Stockholders 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 ethics statements/conflict of interest affidavits were distributed, completed and returned by all employees at the Assistant Secretary level or above for 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 Chubb's insurance holding company system as defined under 18 Del.C. §5001., Holding Company registration statements were properly filed by the Company with the Delaware Insurance Department.

All common stock is owned by the Federal Insurance Company, an Indiana domiciled insurance company. The ultimate controlling person is Chubb, a New Jersey Corporation, which is primarily engaged, through its subsidiaries, in the business of property and casualty insurance. Chubb ranks among the largest insurance organizations in the United States and provides specialized coverage for select commercial customer groups as well as unique products and services for upscale personal lines markets. For the year ending 2011, Chubb possessed assets of approximately $50.9 billion and shareholders equity of $15.6 billion. The Chubb Corporation's common stock is traded on the New York Stock Exchange under the symbol "CB".

The following abbreviated organizational chart shows the Company's affiliates as of December 31, 2011:

	NAIC Co. Code	Domiciliary State/Country
The Chubb Corporation		
Federal Insurance Company	20281	IN
Executive Risk Indemnity, Inc.	35181	DE
Executive Risk Specialty Insurance Company	44792	CT
Great Northern Insurance Company	20303	IN
Chubb Custom Insurance Company	**38989**	**DE**
Pacific Indemnity Company	20346	WI
Texas Pacific Indemnity Company	20389	TX
Northwestern Pacific Indemnity Company	20338	OR
Chubb Insurance Company of New Jersey	41386	NJ
Chubb National Insurance Company	10052	IN
Chubb Indemnity Insurance Company	12777	NY
Chubb Lloyds Insurance Company of Texas (A)	27774	TX
Vigilant Insurance Company	20397	NY
Chubb De Colombia Compania De Seguros, S.A. (B)		Colombia
Chubb Investment Holdings, Inc.		NJ
Chubb Argentina De Seguros, S.A. (C)		Argentina
Chubb Insurance Investment Holdings, Ltd		UK
Chubb European Investment Holdings, SLP (D)		Scotland
Chubb Insurance Company of Australia, Ltd.		Australia
Chubb Pacific Underwriting Management Services PTE, Ltd.		Singapore
PT Asuransi Chubb Indonesia (E)		Indonesia
CC Canada Holdings, Ltd.		Canada
Chubb Insurance Company of Canada		Canada
Chubb De Chile Compania De Seguros Generales, S.A. (F)		Chile
Chubb De Mexico Compania Afianzadora, S.A. DE C.V.		Mexico
Chubb De Mexico Compania De Seguros, S.A. DE C.V.		Mexico
Federal Insurance Company Escritorio De Representacao No Brasil, Ltd. (G)		Brazil
Chubb Financial Solutions (Bermuda), Ltd.		Bermuda
Chubb Insurance (China) Company, Ltd.		China

(A) Lloyds Company/Syndicate

(B) 88.31% Owned by Vigilant, 6.13% Owned by Federal, 4.22% Owned by The Chubb Corporation, 0.92% Owned by Pacific Indemnity, 0.42% Owned by Great Northern

(C) 99.9% Owned by Federal

(D) Scottish Limited Partnership. Two partners: Federal Insurance Company - Founding Partner; Vigilant Insurance Company - General Partner

(E) 80% owned.

(F) 99.97% Owned by Federal, 0.03% Owned by The Chubb Corporation

(G) 99.99% Owned by Federal.

Non-insurance affiliate/subsidiary

Intercompany Management and Service Agreements

Service Agreement

Effective January 1, 1998, the Company entered into a service agreement with Federal, subject to supervision and control by the Company's Board, Federal provides the Company with underwriting, claims and other operating services. The agreement was amended December 31, 2007 to address SSAP 96, which is currently SSAP 25, which requires the timely settlement of balances within 60 days.

Under terms of the agreement, the Company shall pay periodic advances of reasonable amounts to Federal. After the close of each calendar year, Federal shall submit to the Company a statement setting forth the aggregate of advances received by Federal from the Company and the total of all expenses paid by Federal applicable to the business of the Company during the year. This Agreement may be terminated immediately upon mutual consent or by either party upon not less than 60 days prior written notice to the other. Operating expenses incurred in the performance of services are allocated in accordance with SSAP 70. Costs incurred under this agreement during 2011 were $10,286,000.

Consolidated Tax Allocation Agreements

The Company is a party to a tax allocation agreement with the Parent along with certain of its affiliates effective July 29, 1981. Effective July 19, 1999 the agreement was amended to include the following subsidiaries: Executive Risk Indemnity Inc., Executive Risk Specialty Insurance Company, Quadrant Indemnity Company, and Executive Risk (Bermuda) Ltd. The Parent, the Company and affiliates constitute an affiliated group and have elected to file a consolidated return under the provisions of §1501 of the Internal

Revenue Code of 1986. Pursuant to the terms of the tax allocation agreement, no party will be required to neither pay more in taxes nor receive a lesser payment of a refund than it would have paid or received if it computed its taxes independently and filed a separate tax return. Additionally, the Company has an enforceable right to recoup federal income taxes paid in prior years in the event of future net losses, which it may incur, or to recoup its net losses carried forward as an offset to future net income subject to federal income taxes. The agreement is to be considered terminated if the companies agree in writing to terminate the agreement, a company affiliated with the group ceases business or the affiliated group fails to file a consolidated tax return for any taxable year.

In 2011, the Company amended the above referenced Agreement with an effective date of January 1, 2012, but did not submit the Agreement to the Delaware Insurance Department for approval as required by 18 Del. C. §5005(a)(2)d which requires submission to the Insurance Department for prior approval of any material affiliated management agreements, service agreements and all cost-sharing agreements or amendments.

Therefore:

It is recommended that the Company retroactively file the Agreement with the Insurance Department in accordance with 18 Del. C. §5005(a)(2)d and verify that proper controls are in place to ensure timely filing of future agreements to the Insurance Department. It is also recommended that the Agreement comply with the provisions in SSAP No. 25.

TERRITORY AND PLAN OF OPERATION

The Chubb Corporation (Chubb) is a holding company for several, separately organized, property and casualty insurance companies referred to informally as the

Chubb Group of Insurance Companies (the Group), based in Warren, New Jersey. Since 1882, insurance companies or predecessor companies included in the Group have provided property and casualty insurance to businesses and individuals around the world. In addition to the thirteen domestic property and casualty companies, the Group has a number of international affiliates, including insurers in Europe, Canada, Australia, Brazil, Argentina, Colombia, Mexico, Chile, Thailand and China. The Group operates through three strategic business units: Chubb Commercial Insurance, Chubb Specialty Insurance, and Chubb Personal Insurance. The composition of business within these groups is approximately 33% personal, 42% commercial and 25% specialty.

Chubb Commercial Insurance offers a broad range of commercial insurance products, including coverage for multiple peril, casualty, workers' compensation, property, and marine. Chubb Specialty Insurance provides various specialized professional liability products for privately and publicly owned companies, financial institutions, professional firms, healthcare organizations and surety business. Commercial Personal Insurance offers coverage of fine homes, automobiles and other personal possessions along with options for high limits of personal liability coverage, in addition to supplemental A&H coverage in certain niche markets. Chubb provides its products and services through independent insurance agents and brokers in the United States, Canada, Europe, Australia, parts of Latin America, and Asia.

Chubb does not utilize a significant in-house distribution model for its products. Instead, in the United States, Chubb is represented by approximately 5,000 independent insurance agencies and accepts business on a regular basis from approximately 500 insurance brokers. In most instances, these agencies and brokers also represent other companies that compete with Chubb. Chubb's branch and service offices assist these agencies and brokers in producing and servicing the group's business. In addition to the administrative offices in Warren and Whitehouse Station, New Jersey, Chubb has zone offices, branch offices and service offices throughout the United States.

The Group is represented by approximately 3,000 insurance agencies and brokers outside the United States including Canada, Europe, Australia, the Far East and Latin America. Local branch offices of the Group assist the foreign agencies and brokers in producing and servicing the business. In conducting its foreign business, the Group reduces the risks relating to currency fluctuations by generally maintaining investments in those foreign currencies in which the Group has loss reserves and other liabilities. Such investments generally have characteristics similar to the liabilities in those currencies. The net asset or liability exposure to various foreign currencies is regularly reviewed.

The Group includes thirteen U.S. property and casualty insurance companies. The Company and eight other affiliates within the Chubb group participate in an inter-company pooling arrangement. The inter-company pooling arrangement covers substantially all lines of business. Each participant company retains a share of its direct and assumed business subject to the pooling arrangement and cedes the remaining share to the other participant companies. Four group members, which are non-participants in the pooling arrangement, cede 100% of their business to one of the other nine (9) companies within the group, as follows: Texas Pacific Indemnity Company and Northwestern Pacific Indemnity Company, wholly owned subsidiaries of Pacific Indemnity, cede 100% of their business to Pacific Indemnity; Chubb Insurance Company of New Jersey, wholly owned subsidiary of Federal, cedes 100% of its business to Federal; and Chubb Lloyds Insurance Company of Texas cedes 100% of its business to Great Northern Insurance Company.

On December 23, 1999, the department approved adding the Company to the Chubb's pooling arrangement, effective January 1, 2000. Under this arrangement, all domestic business is pooled except: a) financial guaranty business (currently not actively written); b) aviation business through participation in an old voluntary pool which is in run-off; and c) certain old A&E losses from policies written by Pacific Indemnity prior to being bought by Chubb in the 1960's. No foreign business is pooled (all being carried by Federal) except: a) business produced by Chubb Custom - UK branch which is in run-off and b) certain business assumed by Pacific Indemnity Company from Chubb Insurance Company of Canada. The pool is set up a little different from normal insurance pools as the members do not cede 100% of their writing and then assume back their pool percentage. In the Chubb pool, the members cede only the excess of its pool retention. Of the thirteen, nine cede and assume from the pool and four ceded 100% and do not assume any back. Pool participants are as follows:

Federal Insurance Company	68.5%
Pacific Indemnity Company	17.0%
Executive Risk Indemnity Inc.	8.0%
Great Northern Insurance Company	4.0%
Chubb Custom Insurance Company	0.5%
Chubb Indemnity Insurance Company	0.5%
Chubb National Insurance Company	0.5%
Executive Risk Specialty Insurance Company	0.5%
Vigilant Insurance Company	0.5%
Total	100.0%

The Company is a 0.5% participant and cedes 99.5% of its direct and assumed business to the various members of the pool, and retains 0.5% of its own direct business. The Company's business is primarily domestic, but has some foreign business, particularly that business produced by Chubb Custom - UK branch, (which is in run-off) and is retained by the Company 100%. The top five states in direct premiums written are: CA, FL, IL, NY and TX. The top five lines of business are Commercial multiple peril (34.1%), Fire (24.1%), Other Liability-claims made (11.8%), Other Liability-occurrence (11.2%) and Products Liability-claims made (9.4%).

The Company is licensed in two (2) states, Delaware and New Jersey, but is approved and eligible to write surplus lines in the remaining 48 states and in the District of Columbia. Additionally the Company is authorized in the United Kingdom (UK) and Northern Ireland, through a branch established under the laws of the UK.

The following is a list of the thirteen U.S. property and casualty companies within the Group and their respective pool participation percentage:

Name of subsidiary	**Gross Premium (000's) omitted**	**Pooling percentage**	**Domicile**
Federal Insurance Company	8,895,700	68.5%	Indiana
Pacific Indemnity Company	2,143,175	17.0%	Wisconsin
Executive Risk Indemnity Inc.	919,776	8.0%	Delaware
Great Northern Insurance Company	1,818,393	4.0%	Indiana
Chubb National Insurance Company	197,440	0.5%	Indiana
Vigilant Insurance Company	578,874	0.5%	New York
Chubb Custom Insurance Company	**382,213**	**0.5%**	**Delaware**
Chubb Indemnity Insurance Company	413,570	0.5%	New York
Executive Risk Specialty Insurance Company	111,245	0.5%	Connecticut
Chubb Insurance Company of NJ	99,293	N/A	New Jersey

Northwestern Pacific Indemnity Company	768	N/A	Oregon
Texas Pacific Indemnity Company	1,137	N/A	Texas
Chubb Lloyds Insurance Company of Texas	176,574	N/A	Texas
Total	15,738,158	100.00%	

A.M. Best's Rating

The Company and its U.S. insurance affiliates have a rating of "A++" *(Superior)* from A.M. Best.

GROWTH OF THE COMPANY

The following information was obtained from the Company's filed Annual Statements and covers the five proceeding years since its last examination (2006):

Year	Net Written Premiums	Admitted Assets	Liabilities	Unassigned Surplus	Net Income
2006	46,936,569	309,146,531	225,959,118	48,587,413	11,131,142
2007	45,173,061	297,887,194	200,784,118	62,503,076	12,963,452
2008	44,211,408	307,837,620	202,680,675	70,556,945	11,253,971
2009	41,448,640	313,259,649	191,416,819	86,533,667	14,842,575
2010	41,177,887	321,093,950	182,714,523	103,086,056	14,174,228
2011	42,525,804	338,765,314	190,086,545	113,383,307	11,355,936

Since its last examination, growth of the Company has taken the form of the following:

- (9.4%) decrease in net written premiums
- 9.6% increase in admitted assets
- (15.9%) decrease in liabilities
- 133.4% increase in unassigned funds

The following factors contributed to the Company's growth:

- Premium growth continued to be constrained in 2011 by the general economic conditions in recent years. The Company has continued to emphasize underwriting discipline in the highly competitive market environment. The 9.6% ($30M) increase in admitted assets can be traced almost entirely to the increase in the bond portfolio. Most other asset items have remained fairly constant over the 5-year exam period.
- The 15.9% decrease in liabilities is due to fluctuations over major liability items with Loss Reserves, Other Expenses, Unearned Premiums, Ceded Reinsurance Premiums and Aggregate Liability Write-ins decreasing $36M and LAE increasing $2M over the exam period.

- The increase in unassigned surplus is a result of net income on a yearly basis.

LOSS EXPERIENCE

The Company experienced overall favorable development of $2.5M on net loss and loss adjustment expense reserves established at 12/31/2011. The most significant amount of favorable development occurred, in other liability - occurrence and other liability - claims made lines of business. The development experienced in the other liability-occurrence line of business was favorable in all accident years. The favorable development experienced in the other liability – claims made line of business occurred primarily in the professional liability classes. The most significant favorable development occurred in directors and officers liability and fiduciary liability classes, partially offset by adverse development in other classes, mainly the employment practices liability class. The aggregate reported loss activity related to accident years 2008 and prior was less than expected. Favorable development was also experienced, but to a lesser extent, in the personal insurance lines of business, primarily in the homeowners and automobile classes, particularly in accident years 2008 to 2011. Unfavorable development was experienced in the products liability - occurrence line of business, due in large part to asbestos and toxic waste claims in accident years prior to 2003.

REINSURANCE

Intercompany pooling

Please review section on intercompany pooling under the Territory and Plan of Operation section.

Ceded Reinsurance

The Group purchases reinsurance on a combined group basis and apportions the cost among each participating pool member in proportion to their designated pool share. The most significant component of the Chubb Group's reinsurance program is directed at per-risk (excess of loss) and per-event (catastrophe) risks associated with property risks. Additional specifics regarding each of these elements of the Group reinsurance program follow:

Property Per-risk Reinsurance

The Group also reinsures property limits above $25 million through a series of per risk reinsurance layers providing approximately $625 million excess of $25 million per risk. During 2011, the Chubb Group placed all but a negligible portion of this reinsurance with various reinsurers.

Property Per-event (Catastrophe) Reinsurance

The Group's primary reinsurance program involves the placement of catastrophe protection covering its North American (i.e. United States and Canadian) property business. The group maintains an initial per catastrophe retention of $500 million per event and places approximately 64% of the excess above this retention, between $500 million and $1.65 billion, with various reinsurers.

The Group also reduces their overall exposure through a combination of area specific supplemental reinsurance contracts, as well as two (2) catastrophe bond arrangements consisting of: a $150 million arrangement expiring in March, 2012, providing coverage for homeowners-related hurricane losses in Florida and a $475 million arrangement, a portion of which expires in March, 2014 and the remainder in

March, 2015, which provides coverage for homeowners and commercial exposures for loss events in the Northeastern United States. On a combined basis for catastrophic events in the Northeastern United States, the combination of the North American Catastrophe treaty, catastrophe bond arrangements, and other area-specific supplemental reinsurance provide coverage of approximately 64% of losses (net of recoveries from other available reinsurance) between $500 million and $3.55 billion.

Assumed Reinsurance

With the exception of business assumed from the various members of the Chubb Pool as discussed above, the Company reported no financially significant assumed reinsurance balances or activity during the current examination period.

ACCOUNTS AND RECORDS

The Company's accounting procedures, practices, account records, and supporting data were reviewed and tested to the extent deemed necessary. The trial balances prepared from the Company's general ledger for the years ended December 31, 2010 and 2011, were agreed to the respective Annual Statements. The Annual Statement for the years ended December 31, 2007 through December 31, 2011, were agreed to each year's independent audit report without material exception. The Company's accounting procedures, practices, and account records were deemed satisfactory.

An external accounting firm audits the statutory-basis financial statements of the Company annually. The Company's external firm reviewed the internal control structure in order to establish the necessary audit procedures required to express an opinion on the financial statements as of December 31, 2011. No significant or qualifying deficiencies were found to exist in the design or operation of the internal control structure.

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 consulting firm of Noble Consulting, Inc. performed a review of the Company's global controls over its information and technology IT environment. It was determined that global controls surrounding the EDP environment were found to be sufficient.

FINANCIAL STATEMENTS

The following pages contain a statement of assets, liabilities, surplus and other funds as of December 31, 2011, as determined by this examination, along with supporting exhibits as detailed below:

Statement of Assets, December 31, 2011
Statement of Liabilities, Surplus and Other Funds, December 31, 2011
Underwriting and Investment Exhibit, Statement of Income, December 31, 2011
Capital and Surplus Account, Statement of Income, December 31, 2011
Reconciliation of Surplus Since last Examination
Schedule of Examination Adjustments

Statement of Assets
As of December 31, 2011

	Assets	Nonadmitted Assets	Net Admitted Assets	Note
Bonds	$ 267,798,349		$ 267,798,349	1
Cash and short-term investments	17,501,623		17,501,623	
Investment income due and accrued	3,045,176		3,045,176	
Uncollected premiums and agents' balances in the course of collection	39,753,652	$ 2,849,897	36,903,755	
Deferred premiums, agents' balances & Installments booked but deferred and not yet due	2,259,683	130,684	2,128,999	
Amounts recoverable from reinsurers	449,082		449,082	
Net deferred tax asset	7,112,508	2,688,441	4,424,067	
Receivables from parent, subsidiaries and affiliates	6,066,177		6,066,177	
Aggregate write-ins:	476,247	28,161	448,086	
Total Assets	$ 344,462,497	$ 5,697,183	$ 338,765,314	

Statement of Liabilities, Surplus and Other Funds
As of December 31, 2011

			Note
Losses	$	62,223,641	2
Loss adjustment expenses		21,319,732	2
Commissions payable, contingent commissions & other similar charges		687,825	
Other expenses		1,281,228	
Taxes, licenses and fees		243,700	
Current federal and foreign income taxes		556,008	
Unearned premiums		22,969,747	
Dividends declared and unpaid to policyholderts		372,502	
Ceded reinsurance premiums payable (net of ceding commission)		54,307,637	
Funds held by company under reinsurance treaties		154,460	
Amounts withheld or retained by company for account of others		59,732	
Remittances and items not allocated		100,921	
Provision for reinsurance		410,527	
Aggregate write-ins for liabilities:		25,398,885	
Total Liabilities	$	190,086,545	
Aggregate write-ins for special surplus funds	$	695,462	
Common capital stock		3,750,000	
Gross paid in and contributed surplus		30,850,000	
Unassigned funds (surplus)		113,383,307	
Surplus as regards policyholders	$	148,678,769	
Total Liabilities, Capital and Surplus	$	338,765,314	

Underwriting and Investment Exhibit - Statement of Income
For the Year Ended December 31, 2011

UNDERWRITING INCOME		
Premiums earned	$	42,071,824
DEDUCTIONS		
Losses incurred	$	22,101,881
Loss adjustment expenses incurred		6,518,437
Other underwriting expenses incurred		12,412,361
Aggregate write-ins for underwriting deductions		1,045
Total underwriting deductions	$	41,033,724
Net underwriting gain or (loss)	$	1,038,100
INVESTMENT INCOME		
Net investment income earned	$	11,889,983
Net realized capital gains or (losses)		593,485
Net investment gain or (loss)	$	12,483,468
OTHER INCOME		
Net gain or (loss) from agent's or premium balance charged off		(22,934)
Aggregate write-ins for miscellaneous income	$	1,245
Total other income	$	(21,689)
Net income before dividends to policyholders and before federal income taxes	$	13,499,879
Dividends to policyholders		(155,846)
Net income after dividends to policyholder but before federal income taxes	$	13,344,033
Federal and foreign income taxes incurred		(1,988,097)
Net income	$	11,355,936

Capital and Surplus Account
As of December 31, 2011

CAPITAL AND SURPLUS ACCOUNT

Surplus as regards policyholders, December 31, 2010	$	138,379,427
GAINS AND (LOSSES) IN SURPLUS		
Net income	$	11,355,936
Change in net unrealized capital gains (losses)		(2,181)
Change in net unrealized foreign exchange capital gain (loss)		194,000
Change in net deferred income tax		603,080
Change in non-admitted assets		(1,846,990)
Change in provision for reinsurance		(6,594)
Dividends to stockholders		0
Aggregate write-ins for gains and losses in surplus		2,091
Change in surplus as regards policyholders for the year	$	10,299,342
Surplus as regards policyholder, December 31, 2011	$	148,678,769

Reconciliation of Surplus since last Examination

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	Aggregate Write-in for Special surplus Funds	Common Capital Stock	Paid in and contibuted Surplus	Unassigned Funds (surplus)	Total
December 31, 2006	$ -	$ 3,750,000	$ 30,850,000	$ 48,587,413	$ 83,187,413
Operations (1)					
2007 Operations				13,915,663	13,915,663
2008 Operations				8,053,869	8,053,869
2009 Operations (2)	709,163			15,976,722	16,685,885
2010 Operations (2)	(15,792)			16,552,389	16,536,597
2011 Operations (2)	2,091			10,297,251	10,299,342
Total	$ 695,462	$ 3,750,000	$ 30,850,000	$ 113,383,307	$ 148,678,769

(1) Operations is defined as: Net income, change in net unrealized capital gains or (losses), change in net unrealized foreign exchange 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 in surplus.

(2) The change in additional admitted deferred income taxes recognized under the provisions of SSAP 10R

SCHEDULE OF EXAMINATION ADJUSTMENTS

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

NOTES TO FINANCIAL STATEMENTS

Note 1-Bonds $267,798,349

The Company's bond holdings totaled $267.80 million and comprised 79.1% of total admitted assets and 93.9% of the Company's total invested assets. Security composition for the year ending 2011 was comprised of the following:

U.S. Governments	$ 26.62 million
States, Territories and Possessions	5.44 million
Special Revenue	1.87 million
Industrial & Miscellaneous	233.87 million
	$ 267.80 million

Of the Company's total bond holdings, $183.2 million or 68.4% were categorized as Class 1, with respect to NAIC credit quality standards. Bonds categorized as Class 2 had a book value of $75.38 million and comprised 28.1% of the Company's bond holdings. Bonds categorized as Class 3 had a book value of $9.22 million or 3.40% of the Company's bond holdings. All investments were rated by the SVO, Moody's and Standard and Poor's with similar quality ratings.

Note 2 - Losses $62,223,641
Note 2 - Loss Adjustment Expenses $21,319,732

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.

The Indiana Department of Insurance retained the services of Merlinos and Associates (Merlinos), to conduct an independent review of the Company's loss and LAE reserves as of December 31, 2011. The Merlinos analysis was performed using a risk-focused approach according to the guidelines contained in the NAIC Handbook. The review does not address the collectability of reinsurance recoverables.

The conclusions set forth in Merlinos report are based on information provided by the Company, including the 2011 Annual Statements and the related 2011 Statement of Actuarial Opinion with underlying actuarial work papers.

Merlinos performed an analysis on the Company's book of business by segment of business on both a gross and a net basis for loss, defense and cost containment (DCC) expense and adjusting and other (A&O) expense. Merlinos also reviewed the Company's work papers which reconcile the year-end 2011 data to Schedule P. The work papers supported the conclusion that the year-end amounts were closely reconciled to the Schedule P amounts.

Based on work performed, Merlinos concluded the Company's carried December 31, 2011 net and gross loss and LAE reserves to be reasonably stated, and as such, no financial adjustment was required for examination purposes.

SUMMARY OF RECOMMENDATIONS

(1) It is recommended that the Company retroactively file the Consolidated Tax Allocation Agreement with the Insurance Department in accordance with 18 Del. C. §5005(a)(2)d and verify that proper controls are in place to ensure timely filing of future agreements to the Insurance Department. It is also recommended that the Agreement comply with the provisions in SSAP No. 25. (Refer to Intercompany Management and Service Agreements section).

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, 2006	December 31, 2011	Increase (Decrease)
Assets	$ 309,146,531	$ 338,765,314	$ 29,618,783
Liabilities	$ 225,959,118	$ 190,086,545	$ (35,872,573)
Special Surplus Funds	-	695,462	695,462
Common Capital Stock	3,750,000	3,750,000	-
Gross Paid In and Contributed Surplus	30,850,000	30,850,000	-
Unassigned Funds (Surplus)	48,587,413	113,383,307	64,795,894
Total Surplus as Regards Policyholders	$ 83,187,413	$ 148,678,769	$ 65,491,356
Totals	$ 309,146,531	$ 338,765,314	$ 29,618,783

Respectfully submitted,

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State of Delaware