REPORT ON EXAMINATION

OF THE

EVEREST REINSURANCE COMPANY

AS OF

DECEMBER 31, 2010

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, 2010 of the

EVEREST REINSURANCE COMPANY

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

Attest By: Brandi Biddle

Date: 19 Jun 2012

In Witness Whereof, I have hereunto set my hand and affixed the official seal of this Department at the City of Dover, this 19th day of June, 2012.

Karen Weldin Stewart, CIR-ML
Insurance Commissioner

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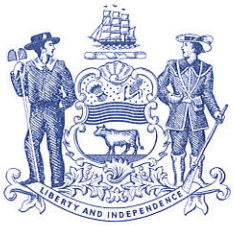
Karen Weldin Stewart, CIR-ML
Commissioner



Delaware Department of Insurance

REPORT ON EXAMINATION

OF THE

EVEREST REINSURANCE COMPANY

AS OF

DECEMBER 31, 2010

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 19th day of June, 2012

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TABLE OF CONTENTS

SALUTATION 1

SCOPE OF EXAMINATION 1
SUMMARY OF SIGNIFICANT FINDINGS 3
SUBSEQUENT EVENTS 3
COMPANY HISTORY 4
General 4
Capitalization 4
Dividends 4
Mergers, Acquisitions and Disposals 5
MANAGEMENT AND CONTROL 6
Directors 6
Officers 6
Holding Company System 7
Intercompany Management and Service Agreements 8
TERRITORY AND PLAN OF OPERATION 12
Territory 12
Plan of Operation 12
A.M.Best's Rating 14
GROWTH OF THE COMPANY 14
LOSS EXPERIENCE 16
REINSURANCE 16
ACCOUNTS AND RECORDS 20
STATUTORY DEPOSITS 21
FINANCIAL STATEMENTS 23
Analysis of Assets 24
Statement of Liabilities, Surplus and Other Funds 25
Underwriting and Investment Exhibit - Statement of Income 26
Reconciliation of Surplus since last Examination 27
SCHEDULE OF EXAMINATION ADJUSTMENTS 28
NOTES TO FINANCIAL STATEMENTS 28
Assets 28
Note 1 - Bonds: 28
Note 2 - Common Stock 28
Liabilities 29
Note 3 - Losses 29
Note 3 - Loss Adjustment Expenses 29
CONCLUSION 31

SALUTATION

February 15, 2012

Honorable Karen Weldin Stewart, CIR-ML
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. 11.003, dated January 26, 2011, an examination has been made of the affairs, financial condition and management of the

EVEREST REINSURANCE COMPANY

hereinafter referred to as, (Company or Everest Re) and incorporated under the laws of the state of Delaware as a stock company with its statutory home office located at 1209 Orange Street, Wilmington, DE 19801. The examination was conducted at the administrative offices of the Company, located at 477 Martinsville Road, Liberty Corner, NJ 07938.

The report of this examination is submitted herewith.

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, 2010 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, 2010. Transactions subsequent to the examination date were reviewed where deemed necessary.

A multi-state examination was conducted in accordance with the National Association of Insurance Commissioners (NAIC) Financial Condition Examiners Handbook (NAIC 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 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 overall financial statement presentation, and 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, PricewaterhouseCoopers, LLP (PwC). 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.

The examination of the Company was conducted concurrently with that of its subsidiaries, including; Everest National Insurance Company [DE] (National), Everest Indemnity Insurance Company [DE] (Indemnity), Everest Security Insurance Company [GA] (Security) and its affiliate Mt. McKinley Insurance Company [DE] (McKinley). To the fullest extent considered applicable the efforts, resources, project material and findings were coordinated and made available to all participants.

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
Compliance With Prior Examination Recommendations – none
Summary of Recommendations - none

SUMMARY OF SIGNIFICANT FINDINGS

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

SUBSEQUENT EVENTS

The Company recorded a capital contribution of $6,266,755 due to share-based compensation expense and tax benefits from its parent Everest Reinsurance Holdings, Inc., (Holdings).

In addition Mt. Whitney Securities, Inc. a wholly owned subsidiary of the Company, received a net capital contribution of $926,000,000 from the Company at various times in 2011.

The Company also paid a dividend of $75,000,000 on August 31, 2011 to its parent.

COMPANY HISTORY

General

The Company was originally incorporated as Prudential Reinsurance Company (Prudential Re) on June 13, 1973, under the laws of the State of Delaware and began operations on June 25, 1973. At that time, the Company was a wholly owned subsidiary of PRUCO, Inc., which was a wholly owned holding company subsidiary of The Prudential Insurance Company of America (The Prudential).

On April 2, 1996, the Company changed its name to its present name of Everest Re and the holding company to Holdings.

Effective February 24, 2000, Holdings became a wholly owned subsidiary of Everest Re Group, Ltd. (Group), a Bermuda company, pursuant to a plan of restructuring.

Effective January 8, 2008, Everest Underwriting Group (Ireland) Limited (Everest Ireland), an Ireland holding company, was formed between Holdings and ultimate parent Group, pursuant to a plan of re-organization.

Capitalization

The Company is authorized to issue 400 shares of common capital stock with a par value of $25,000 per share. Currently, 400 shares are issued and held by Holdings, resulting in paid-in Capital of $10,000,000.

Dividends

According to Company records and as reflected in minutes to Board of Directors' meetings, cash dividends were paid to the sole stockholder and approved by the Delaware Department of Insurance as follows:

Date Declared	Date Paid	Dividend Paid
February 1, 2007	February 12, 2007	$130,000,000
March 20, 2007	March 30, 2007	50,000,000
December 12, 2007	December 27, 2007	65,000,000
Total Dividends 2007		$245,000,000
March 17, 2008	March 28, 2008	$40,000,000
June 12, 2008	July 21, 2008	100,000,000
September 17, 2008	September 29, 2008	80,000,000
December 10, 2008	December 30, 2008	65,000,000
Total Dividends 2008		$285,000,000
September 22, 2009	September 29, 2009	$60,000,000
Total Dividends 2009		$60,000,000
February 10, 2010	March 10, 2010	$125,000,000
May 14, 2010	June 1, 2010	25,000,000
June 15, 2010	June 22, 2010	20,000,000
June 15, 2010	July 8, 2010	50,000,000
June 15, 2010	July 16, 2010	30,000,000
August 3, 2010	August 18, 2010	80,000,000
September 9, 2010	September 30, 2010	30,000,000
September 9, 2010	October 12, 2010	35,000,000
September 9, 2010	October 19, 2010	45,000,000
*November 12, 2010	December 23, 2010	$150,000,000
Total Dividends 2010		$590,000,000

*Extraordinary Dividend

Mergers, Acquisitions and Disposals

The Company formed and funded a wholly-owned subsidiary, Mt. Whitney Securities, Inc. on June 1, 2007, via a transfer of its equity portfolio with a market value of $850,641,324.

Effective January 8, 2008, Everest Ireland was formed between Holdings and ultimate parent Group, pursuant to a plan of re-organization.

The Company established a Brazilian limited liability subsidiary, Everest Reinsurance Company – Escritorio de Representacao No Brasil Ltda, on July 16, 2008, with an initial cost of $198,000.

MANAGEMENT AND CONTROL

Directors

The Board of Directors, duly elected in accordance with the Company's bylaws and serving at December 31, 2010, was as follows:

Directors Name	Principal Business Affiliation
Joseph Victor Taranto (Chairman)	Everest Reinsurance Company
Dominic James Addesso	Everest Reinsurance Company
Scott Phillip Callahan	Everest Reinsurance Company
Robert Enea Capicchioni	Everest Reinsurance Company
Sanjoy Mukherjee	Everest Reinsurance Company
David Edward Schmitt	Everest Reinsurance Company

Officers

The bylaws of the Company state that the elected officers of the Company includes a President*, one or more Vice Presidents, a Treasurer, a Comptroller, a Corporate Secretary and such additional officers as it may from time to time be decided by a resolution adopted by a majority of the Board. The Board of Directors may also designate from among the vice presidents such number of executive senior vice presidents as may be deemed appropriate.

*The President Ralph Jones resigned in November 2010 and was subsequently replaced in 2011 by Dominic James Addesso.

The following principal officers were elected and serving at December 31, 2010.

Officer	Title
Joseph Victor Taranto	Chairman & Chief Executive Officer
Dominic James Addesso	Executive Vice President & Chief Financial Officer
Scott Phillip Callahan	Executive Vice President – U.S. Property
David Edward Schmitt	Executive Vice President – International
Robert Enea Capicchioni	Executive Vice President – Treaty Casualty
Barry Howland Smith	Executive Vice President – CAO
Darryl Wayne Bradley	Executive Vice President
John Doucette	Executive Vice President
Sanjoy Mukherjee	Senior Vice President, Secretary & Compliance Officer
Jack Nelson	Senior Vice President & Chief Investment Officer
Frank Nicholas Lopapa	Senior Vice President – Treasurer
Ellen Joy Edmonds	Vice President & Actuary
Charles Pertain	Vice President & Chief Internal Audit Officer

Keith Thomas Shoemaker Vice President & Comptroller

Inspection of Company files indicated that ethics statement/conflict of interest affidavits were distributed, completed and returned by all employees at a manager level or above for the examination period.

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.

Holding Company System

The Company is a member of an insurance holding company system as defined in 18 Del. C. §5001(4) "Insurance Holding Company System". The Company properly filed Holding Company Registration Statements with the Delaware Department of Insurance.

The following abbreviated organizational chart depicts the Company's relationship within the holding company system at December 31, 2010.

Company	Domicile	% own
Everest Re Group, Ltd.	Bermuda	
Everest Re Advisors, Ltd.	Bermuda	100%
Everest Advisors (UK), Ltd.	United Kingdom	100%
Everest Reinsurance (Bermuda), Ltd.	Bermuda	100%
Everest Global Services, Inc.	Delaware	100%
Everest International Reinsurance, Ltd.	Bermuda	100%
Everest Underwriting Group (Ireland) Limited	Ireland	100%
Everest Reinsurance Company (Ireland) Limited	Ireland	100%
Everest Reinsurance Holdings, Inc.	Delaware	100%
Everest Re Capital Trust II	Delaware	100%
Mt. McKinley Insurance Company	Delaware	100%
Everest Specialty Underwriters, LLC	Delaware	100%
Mt. McKinley Managers, LLC	New Jersey	100%
WorkCare Southeast, Inc.	Alabama	100%
WorkCare Southeast of Georgia, Inc.	Georgia	100%
Everest Reinsurance Company	**Delaware**	**100%**
Everest National Insurance Company	Delaware	100%
Everest Reinsurance Company (Brazil)	Brazil	100%
Mt. Whitney Securities, Inc.	Delaware	100%
Everest Indemnity Insurance Company	Delaware	100%
Everest Security Insurance Company	Georgia	100%

Everest Insurance Company of Canada	Canada	100%

Intercompany Management and Service Agreements

The Company has entered into various agreements with members of the affiliated group in an effort to obtain efficiencies in operations and limit cost. The Company had the following intercompany agreements and arrangements in effect as of December 31, 2010.

Service Agreements

The Company was a party to service agreements with various affiliates. Under the agreements, the Company and its affiliates provided each other the services of its employees, supplies, use of equipment, use of office space and for payments to third parties for general expenses, state and local taxes. The agreements obligated the recipient affiliate to reimburse the service-providing affiliate for disbursements made on their behalf and to pay for the cost of providing those services. The agreements were terminated on December 31, 2007, and replaced by the global services agreement described below.

Effective January 1, 2008, the Company entered into a global service agreement with all affiliates of Holdings. Each affiliate agrees to provide administrative, consultative and other support services to other affiliates as needed. In return, ENIC and each of the recipient affiliates, agrees to pay the service-providing affiliate 100% and 108% respectively, of its costs and expenses incurred in providing those services. This global service agreement, which was approved by the Delaware Department of Insurance on January 31, 2008, addresses and allows for payments of convenience.

Tax Allocation Agreement

Effective January 1, 2001, the Company entered into a tax allocation agreement with Holdings along with its affiliates. Holdings, the Company and affiliates constitute an affiliate group within Section 1504(a) of the Internal Revenue Code of 1986 of which Holdings is the common parent and, therefore, is eligible to file a consolidated income tax return for United States federal income tax purposes and to pay federal income taxes on a consolidated basis, if necessary. Pursuant to the terms of the tax allocation agreement, no party will be required to pay more in taxes, or receive a lesser refund, than it would have paid or received if it computed its taxes independently and filed a separate tax return.

Guarantee Agreements

Effective September 30, 2002, the Company entered into a parental guarantee agreement with Indemnity. The agreement, which was approved by the Delaware Department of Insurance, states that the Company will guarantee Indemnity's obligations up to $50 million. There was no activity related to this agreement during the examination period.

Effective April 26, 2003, the Company entered into a parental guarantee agreement with National. Pursuant to the agreement, the Company guarantees that National's capital and surplus will not fall below $15 million. Furthermore, this agreement is subject to an aggregate of $75 million. There was no activity related to this agreement during the examination period.

Effective May 5, 2004, the Company entered into a parental guarantee agreement with Holdings. The agreement is in favor of Forster Wheeler LLC (Foster Wheeler) and the 2005 Asbestos Claims Settlement Trust (Asbestos Trust) to guarantee the payment obligations of the Company and McKinley up to $30 million. McKinley had $15 million in outstanding obligations under this agreement as of December 31, 2010.

Effective May 15, 2005, the Company entered into an agreement with McKinley and Coltec Industries, Inc. (Coltec) with regard to a complete buyback of policies issued by McKinley. Everest Re has guaranteed settlement payment to Coltec if McKinley is unable to meet its payment obligations. McKinley had $14 million in outstanding obligations under this agreement as of December 31, 2010.

Investment Advisory Agreements

Effective February 25, 2010, the Company entered into an investment advisory agreement with Deutsche Investment Management Americas, Inc. (Deutsche), which replaced a similar agreement with Deutsche effective July 1, 1996. This agreement authorizes Deutsche to supervise and direct all domestic investments and to exercise whatever powers the Company may possess with respect to its domestic invested assets. Investment transactions will be in accordance with investment objectives of the Company and subject to restrictions established by the Company, as communicated to Deutsche in writing from time to time. Deutsche is the investment manager for Holdings and fees are based on total assets under management.

Effective September 30, 2005, the Company entered into an investment advisory agreement with Deutsche Asset Management International GmbH (Deutsche International), which replaced a similar agreement with Deutsche International effective April 5, 2002. This agreement authorizes Deutsche International to supervise and direct all international investments (with the exception of Chilean investments as described in the paragraph below) and to exercise whatever powers the Company may possess with respect to its international invested assets. Investment transactions will be in accordance with investment objectives of the Company and

subject to restrictions established by the Company, as communicated to Deutsche International in writing from time to time. Fees are based on total assets under management.

Effective May 12, 2010, the Company entered into an investment advisory agreement with PineBridge Investments LLC (PBI). This agreement authorizes PBI to supervise and direct the Company's Chilean investments and to exercise whatever powers the Company may possess with respect to those specific invested assets. Investment transactions will be in accordance with investment objectives of the Company and subject to restrictions established by the Company, as communicated to PBI in writing from time to time. Fees are based on total assets under management.

Trading Account Agreement

Effective March 14, 2002, the Company entered into a trading account agreement with SEI Investments Distribution Co. (SEI). Pursuant to this agreement, SEI acts as the trading manager for the Company's mutual fund investments. Fees are based on total assets held.

Custodian Agreements

Effective January 13, 2003, the Company entered into a trust agreement with RBC Dexia Investor Services Trust (RBC, formerly Royal Trust Company of Canada), for investments held to fulfill Canada's regulatory requirements.

Effective July 18, 2003, the Company entered into a custodian agreement with The Bank of New York (BONY). Pursuant to this agreement, BONY acts as the primary custodian for the Company's portfolio of investment securities.

Effective June 10, 2010, the Company entered into a custodian agreement with State Street Bank and Trust Company (State Street). Pursuant to this agreement, State Street acts as the custodian for the Company's portfolio of Chilean securities.

A review of terms indicates that each Custodial agreement described above contains the minimum protective standards required under the NAIC Handbook. Fees are based on total assets held.

TERRITORY AND PLAN OF OPERATION

Territory

As of December 31, 2010, the Company was licensed as a property and casualty insurer and/or reinsurer in all 50 U.S. states, the District of Columbia, Puerto Rico and Canada. The Company is also licensed by the U.S. Department of Labor and the U.S. Treasury and is authorized to conduct reinsurance business in Brazil and Singapore. Everest Re is also registered as a foreign insurer and/or reinsurer in the following countries: Argentina, Bolivia, Chile, Colombia, Ecuador, El Salvador, Guatemala, Honduras, Mexico, Peru, the Philippines and Venezuela.

Plan of Operation

The Company underwrites property and casualty reinsurance on a treaty and facultative basis for insurance and reinsurance companies in the United States and selected international markets. The Company underwrites reinsurance through both brokers and directly with insurance companies, giving it the flexibility to pursue business regardless of the ceding company's preferred reinsurance purchasing method. The majority of the Company's business is written in the United States on domestic risks. International business was written through the Company's branches in Canada and Singapore and offices in Brazil, Miami, and New Jersey.

Holdings operations are divided into four underwriting segments: U.S. Reinsurance Operations, U.S Insurance Operations, Specialty Underwriting Operations, and International Operations.

U.S. Reinsurance Operations

U.S. Reinsurance Operations write property and casualty reinsurance, both treaty and facultative, through reinsurance brokers as well as directly with ceding companies within the United States. The Company targets certain brokers and, through the broker market, specialty companies and small to medium sized standard lines companies. On a direct basis, the Company targets companies which place their business predominantly in the direct market, including small to medium sized regional ceding companies. In addition, the U.S. Reinsurance Operations write portions of reinsurance programs for larger, national insurance companies. The treaty casualty portfolio consists principally of professional liability, D&O liability, workers' compensation, excess and surplus lines, and other liability coverages. The facultative unit conducts business both through brokers and directly with ceding companies and consists of three underwriting units representing property, casualty and specialty lines of business. Business is written from facultative headquarters office in New York and the satellite office in Chicago.

U.S. Insurance Operations

U.S. Insurance Operations writes property and casualty insurance primarily through general agent relationships and surplus lines brokers within the United States. Most of the business was written by affiliates National and Indemnity, which primarily writes commercial property and casualty business through program administrators.

Specialty Underwriting Operations

Specialty Underwriting Operations writes accident and health (A&H), marine, aviation and surety business within the United States and worldwide through brokers and directly with ceding companies. The A&H unit primarily focuses on health reinsurance of traditional indemnity plans, self-insured health plans and specialty medical plans. The marine and aviation unit focuses on ceding companies with the business written primarily through brokers and contains a significant international component written primarily in the London market. Surety business underwritten by the Company consisted mainly of reinsurance of contract surety bonds.

International Operations

International Operations are designed to enable the Company to capitalize on growth opportunities in the international reinsurance market. The Company targets several international markets as follows: Europe (with a branch in Brussels), Canada (with a branch in Toronto), Asia (with a branch in Singapore), Latin America, Africa and the Middle East (serviced by New Jersey and Miami offices).

A.M.Best's Rating

The Company and its U.S. insurance affiliates (excluding Mt. McKinley) 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 four proceeding years since its last examination (2006):

Year	Assets	Surplus	Net Written	Net Income
2006	$ 9,731,935,336	$2,704,120,872	$2,187,127,996	$298,745,535
2007	$ 9,661,761,764	$2,886,559,267	$1,978,944,614	$673,089,269
2008	$ 8,344,643,244	$2,342,375,415	$ 838,765,310	$ 74,397,784
2009	$ 8,454,675,961	$2,789,740,397	$1,646,623,329	$442,734,826
2010	$ 8,178,775,245	$2,527,518,747	$1,702,895,387	$218,451,593

Since December 31, 2006, the Company's financial results were as follows:

- 15.96% decrease in admitted assets
- 6.53% decrease in capital and surplus
- 22.14% decrease in net premiums written
- 26.88% decrease in net income

The decrease in admitted assets, capital and surplus, net premiums written and net income is primarily due to the October 1, 2008 loss portfolio transfer (LPT) the Company entered into with Everest Reinsurance (Bermuda) Ltd. (Everest Bermuda or ERBL) and the tightening of the business market since 2008. Despite the challenging economic conditions of the past three years, the Company has remained profitable through diligent underwriting standards.

Net written premiums for 2010 were $1.703 billion versus $2.187 billion in 2006. The majority, 96% of the $484 million decrease, is attributable to (1) other liability – occurrence a decrease of $197.6 million, (2) non-proportional assumed property reinsurance a decrease of $103.1 million, (3) workers compensation a decrease of $82.0 million and (4) other liability – claims made a decrease of $81.9 million.

Ceded premiums increased to $1.676 billion in 2010 from $0.900 billion in 2006. Of the total ceded premiums in 2010, $1.426 billion, or 85%, were ceded to affiliates under reinsurance

agreements with affiliates Everest Bermuda ($1.378 billion) and Everest International Reinsurance, Ltd. (EIRL) ($.048 billion).

LOSS EXPERIENCE

The Company reported one year unfavorable development of $69.1 million in 2011. This was driven primarily by Non-proportional Assumed Liability and to a lesser degree by Commercial Multi-Peril and Workers Compensation. Adverse development in these lines was partially offset by favorable development in Special Property, Non-proportional Assumed Property, and Special Liability. The development in Non-proportional Assumed Liability emanated from facultative business, especially construction liability, along with a series of contracts from one ceding company which have been in runoff since 2002. The favorable development in the property lines is due to favorable development on international property business.

REINSURANCE

General

The Company assumes all authorized lines of business from affiliates and non-affiliates on both a treaty and facultative basis. In 2010, intercompany assumptions amounted to $698.0 million, of which $582.5 million was assumed from National, $96.3 million from Indemnity and $19.2 million from Security.

For 2010, the Company reported the following distribution of net premiums written:

Direct Written Premiums	$ 32,010,622
Reinsurance assumed (from affiliates)	$ 698,024,659
Reinsurance assumed (from non-affiliates)	2,649,158,078
Total Assumed Premiums	$3,347,182,737
Gross Written Premiums	$3,379,193,359
Reinsurance ceded (to affiliates)	$1,425,673,120
Reinsurance ceded (to non-affiliates)	250,624,852
Total Ceded Premiums	$1,676,297,972
Net Written Premiums	$1,702,895,387
Percentage of Ceded to Gross	49.6%

Assumed

Non-Affiliates

The Company assumes both property and casualty reinsurance on a treaty and facultative basis through reinsurance brokers and on a direct basis. All reinsured clients are evaluated for financial stability and performance results. Reinsurance is assumed on both a pro rata and excess of loss basis. The Company assumed business from approximately 500 entities at December 31, 2010.

The following entities each represent at least 2% of the $2.649 billion in 2010 assumed premiums from non-affiliates:

Entity	Domicile	Assumed Premiums (in 000s)
Universal Property and Casualty Ins. Co.	Florida	$197,990
Lloyds of London	Great Britain	167,432
Liberty Insurance of Canada	Canada	70,966
Liberty Mutual Insurance Company	Massachusetts	70,357
Chartis Property & Casualty Company	Pennsylvania	57,866
Arch Reinsurance Company	Nebraska	57,766

Security First Insurance Company	Florida	56,597
Factory Mutual Insurance Company	Rhode Island	53,565
Total		$732,539

Affiliates

The Company assumes business from various affiliates through global and business specific quota share and excess of loss reinsurance agreements as follows:

Type	Business Covered	Effective	2010 Assumed Premiums
National:			
85% quota share	Global	1/1/1998	$396,405,889
Quota share and XOL	Program-specific	various	186,075,707
Subtotal			$582,481,596
Indemnity:			
85% quota share	Global	12/10/1997	$73,579,568
Quota share and XOL	Program-specific	various	22,726,200
Subtotal			$96,305,768
Security:			
85% quota share	Global	1/1/2000	$19,237,295
Total			$698,024,659

Ceded

Non-Affiliates

In 2010, the Company retained approximately 50.4% of direct and assumed premiums and ceded $250.71 million in premiums to non-affiliates in 2010. Of the $250.71 million ceded $147.15 million, or 58.7%, of the premiums ceded was to Starr Insurance & Reinsurance Ltd., a Bermuda reinsurer.

Projected catastrophe losses are generally summarized in terms of the probable maximum loss (PML). PML is the anticipated loss, taking into account contract terms and limits, caused by

a single catastrophe affecting a broad contiguous geographic area, such as an earthquake or hurricane. Projected severity levels are in terms of year events, such as 100-year events (1% probability that the loss will exceed the PML in a single year) or "250-year events" (0.4% that the loss will exceed the PML in a single year). Management estimated that the Company's greatest worldwide catastrophe exposure from any single event would be to a Southeastern U.S. windstorm. The Company estimated it would sustain an economic loss (gross PML reduced by estimated reinsurance premiums to renew coverage and estimated income taxes) of approximately $283.0 million. The Company further estimated that its next largest economic loss exposures would relate to a Japan windstorm of $195.0 million and a California earthquake event of $156.3 million.

The Company maintained retrocession protection for accident years 1990 to 1996 in aggregate amounts ranging from $100 million to $200 million.

All reinsurance agreements reviewed were evaluated in accordance with SSAP No. 62R of the NAIC Accounting Practices and Procedures Manual. Each of the agreements cited included the required appropriate contractual clauses.

Affiliates

The Company cedes business to affiliates through global and business-specific quota share reinsurance agreements as follows:

Type	Business	Affiliate	Effective	2010 Ceded Premiums
Loss Portfolio Transfer	Net Liabilities	ERBL	10/1/2001	85,589
Excess of Loss (1)	Workers Comp.	ERBL	1/1/2002	0
Loss Portfolio Transfer (2)	Casualty	ERBL	12/31/2008	0
Quota Share (3)	Casualty	ERBL	1/1/2010	1,320,863,077
60% Quota Share (4)	Canadian Prop.	ERBL	1/1/2010	56,596,298
Subtotal				$1,377,544,964

Quota Share (3)	Property	EIRL	1/1/2009	$ 48,128,156
Total				$1,425,673,120

(1) $50,000 XS $100,000, agreement terminated 12/31/2002
(2) 42% of net liabilities on all casualty policies between 1/1/2002 and 12/31/2007
(3) The original quota share agreement, which was effective 1/1/2002 and terminated on 12/31/2008, was replaced by a similar quota share agreement effective 1/1/2009, which was also replaced by the current similar quota share agreement effective 1/1/2010, with the exception of the EIRL portion, which was not renewed.
(4) The original quota share agreement was effective 1/1/2003 for 50% participation, amended to 60% effective 1/1/2007, amended to $280.2 million aggregate limit of liability for any one occurrence effective 1/1/2008, and terminated effective 12/31/2008. This agreement was replaced with the current similar quota share agreement effective 1/1/2009 with an aggregate limit of liability for any one occurrence of $350.0 million. The 2009 agreement was replaced with the current similar quota share agreement effective 1/1/2010.

ACCOUNTS AND RECORDS

The Company maintains its records on a combination of client server 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 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 Company performs full system backups and rotates copies of programs and data files to its off-site storage facility on a weekly basis. The Company has a disaster recovery plan that covers its mainframe operations that is periodically tested.

The consulting firm of INS Services, 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.

During the course of the examination, the Company's books and records were reviewed and compared to reported items and values in the annual statements. No material discrepancies were noted during this review.

STATUTORY DEPOSITS

The Company's state statutory deposits are comprised of U.S. Treasury Notes and other bonds. The following statutory deposits were on file with the following states:

	Deposits For The Benefit of All Policyholders		All Other Special Deposits	
State	Book/Adjusted Carrying Value	Fair Value	Book/Adjusted Carrying Value	Fair Value
Arizona			$ 7,121,887	$ 7,410,786
Arkansas			601,723	636,024
California			431,072,371	455,674,349
Delaware	3,073,741	3,248,260	110,054	113,249
Georgia			90,258	95,404
Idaho			250,190	257,423
Kansas			125,306	131,746
Kentucky			101,145	106,922
Massachusetts			195,264	202,459
New Hampshire			505,724	534,610
New Mexico			350,973	370,559
North Carolina			340,976	360,414
Oregon			21,365,555	22,151,488
Texas			100,076	102,969
Virginia			276,706	291,781
Canada			668,980,811	701,157,440
Other Alien			39,424,764	40,739,932
Total Deposits	$ 3,073,741	$ 3,248,260	$ 1,171,013,783	$ 1,230,337,555

FINANCIAL STATEMENTS

The following pages contain a statement of assets, liabilities, surplus and other funds as of December 31, 2010, as determined by this examination, along with supporting exhibits as detailed below:

Analysis of Assets, December 31, 2010
Statement of Liabilities, Surplus and Other Funds, December 31, 2010
Underwriting and Investment Exhibit, Statement of Income, December 31, 2010
Capital and Surplus Account, Statement of Income, December 31, 2010
Reconciliation of Surplus Since last Examination
Schedule of Examination Adjustments

Slight differences noted in the following schedules are due to rounding.

Analysis of Assets
As of December 31, 2010

	Assets	Nonadmitted Assets	Net Admitted Assets	Note
Bonds	$ 4,991,442,374		$ 4,991,442,374	1
Preferred stocks	16,842,875		16,842,875	
Common stocks	1,124,561,843		1,124,561,843	2
Cash and short-term investments	409,498,369		409,498,369	
Other invested assets	397,568,698		397,568,698	
Receivables for securities	12,003,701		12,003,701	
Investment income due and accrued	65,485,943		65,485,943	
Uncollected premiums and agents' balances in course of collection	116,423,202	181,098	116,242,104	
Deferred premiums, agents balances & Installments booked but deferred & not yet due	459,377,343		459,377,343	
Accrued retrospective premiums	8,317,456	830,324	7,487,132	
Amounts recoverable from reinsurers	132,329,329		132,329,329	
Funds held by or deposited with reinsured companies	176,985,086	32,889	176,952,197	
Net deferred tax asset	328,350,459	179,156,271	149,194,188	
Electronic data processing equipment & software	371,030		371,030	
Furniture and equipment	1,837,993	1,837,993	-	
Net adjustment in assets and liabilities due to foreign exchange rates	27,888		27,888	
Receivables from parent, subsidiaries & affiliates	4,177,882		4,177,882	
Aggregate write-ins:				
Deposits with claims adjusting companies	106,042,314		106,042,314	
Special deposit	5,180,180		5,180,180	
Intagible asset pension	1,477,305		1,477,305	
Remittances & items not allocated	946,441		946,441	
Prepaid expenses	34,159,550	34,159,550	-	
Other immaterial write-ins	1,566,109		1,566,109	
Total Assets	$ 8,394,973,370	$ 216,198,125	$ 8,178,775,245	

Statement of Liabilities, Surplus and Other Funds
As of December 31, 2010

Liabilities, Surplus and Other Funds			Note
Losses	$	3,723,218,206	3
Reinsurance Payable on paid losses and LAE		46,971,708	
Loss adjustment expenses		461,747,821	3
Commissions payable, contingent commissions & other similar charges		18,502,228	
Other expenses		35,162,101	
Taxes, licenses and fees		455,358	
Current federal income taxes		54,003,958	
Unearned premiums		610,515,497	
Ceded reinsurance premiums payable		467,652,488	
Funds held by company under reinsurance treaties		180,366,293	
Amounts withheld or retained by company			
for account of others		979,178	
Provision for reinsurance		2,578,696	
Payable to parent, subsidiaries and affiliates		977,743	
Aggregate write-ins for liabilities:			
Advances from affiliates under quota share agreements		26,663,610	
Reserve for uncollectible reinsurance		16,215,158	
Accounts payable other		4,770,597	
Contingent loss reserve on financial guaranty		386,717	
Pending escheat and surcharge payables		89,141	
Total Liabilities	$	5,651,256,498	
Aggregate write-ins for special surplus funds	$	50,065,918	
Common capital stock		10,000,000	
Gross paid in and contributed surplus		929,981,933	
Unassigned funds (surplus)		1,537,470,896	
Surplus as regards policyholders	$	2,527,518,747	
Total Liabilities, Capital and Surplus	$	8,178,775,245	

Underwriting and Investment Exhibit - Statement of Income
As of December 31, 2010

UNDERWRITING INCOME	
Premiums earned	$ 1,725,748,806
DEDUCTIONS	
Losses incurred	$ 1,222,288,836
Loss adjustment expenses incurred	177,355,871
Other underwriting expenses incurred	454,001,902
Total underwriting deductions	1,853,646,609
Net underwriting gain or (loss)	$ (127,897,803)
INVESTMENT INCOME	
Net investment income earned	$ 338,709,668
Net realized capital gains or (losses)	17,799,553
Net investment gain or (loss)	$ 356,509,221
OTHER INCOME	
Net gain or (loss) from agents' or premium balances charged off	$ 384,987
Aggregate write-ins for miscellaneous income	
Interest expense on funds under reinsurance treaties	(3,209,271)
Foreign exchange	(6,035,691)
Other income	174,482
Total other income	(8,685,493)
Net income before dividends to policyholders and before federal income taxes	219,925,925
Dividends to policyholders	-
Net income after dividends to policyholder but before federal income taxes	219,925,925
Federal and foreign income taxes incurred	1,474,332
Net income	$ 218,451,593

Capital and Surplus Account – Statement of Income
As of December 31, 2010

CAPITAL AND SURPLUS ACCOUNT	
Surplus as regards policyholders, December 31, 2009	$ 2,789,740,397
GAINS AND (LOSSES) IN SURPLUS	
Net income	218,451,593
Change in net unrealized capital gains (losses)	30,262,492
Change in net unrealized foreign exchange capital gain (loss)	(28,800,398)
Change in net deferred income tax	(53,312,739)
Change in non-admitted assets	65,468,124
Change in provision for reinsurance	(1,626,602)
Surplus adjustments:	
Paid in	6,581,610
Dividends to stockholders	(590,000,000)
Aggregate write-ins for gains and losses in surplus	
Net adjustments in assets & liabilities due to foreign exchange	12,984,635
Gain from application of SSAP 10R	50,065,918
Translation adjustment	26,302,950
Minimum pension liability	1,400,767
Change in surplus as regards policyholders for the year	(262,221,650)
Surplus as regards policyholder, December 31, 2010	$ 2,527,518,747

Reconciliation of Surplus since last Examination

	Common Capital Stock	Surplus Funds	Contributed Surplus	Unassigned Surplus	Total
December 31, 2006	$10,000,000	$ -	$902,979,820	$ 1,791,141,052	$ 2,704,120,872
Operations:					
2007 Operations			9,441,635	172,996,760	182,438,395
2008 Operations			5,564,658	(549,748,510)	(544,183,852)
2009 Operations			5,414,210	441,950,772	447,364,982
2010 Operations		50,065,918	6,581,610	(318,869,178)	(262,221,650)
December 31, 2010	$10,000,000	$50,065,918	$929,981,933	$ 1,537,470,896	$ 2,527,518,747

SCHEDULE OF EXAMINATION ADJUSTMENTS

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

NOTES TO FINANCIAL STATEMENTS

Assets

Note 1 - Bonds: $4,991,442,374

Investments in bonds are reported at values (amortized cost) adopted and approved by the Securities Valuation Office (SVO) of the NAIC. Bonds owned by the Company are as follows:

	Statement Value
US Governments	$ 134,881,755
All Other Governments	892,562,190
States and Territories and Possessions	345,716,792
Political Subdivisions of States	647,324,271
Special Revenue	1,987,046,964
Industrial & Miscellaneous	983,910,402
Total	$4,991,442,374

Of the Company's bond holdings, which comprised 71.8% of the Company's total cash and invested assets and 61.0% of total admitted assets at December 31, 2010, 99.5% were categorized as Class 1 or 2 with respect to NAIC credit quality standards as compared to 98.8% at December 31, 2009.

The effective maturity and overall duration of the fixed maturity portfolio was unchanged from prior year at approximately 5 years and 4 years respectively as of December 31, 2010.

Note 2 - Common Stock - $1,124,561,843

As of December 31, 2010, the Company's common stock holdings were comprised of affiliated and unaffiliated stock. Unaffiliated common stock is carried at market value. Affiliated common stock is carried at the underlying statutory equity basis. Investments in non-

insurance affiliates are valued based on the audited GAAP equity. Investments in foreign insurance affiliates are valued on the basis of U.S. GAAP equity adjusted to a statutory basis of accounting. Unrealized appreciation or depreciation on common and preferred stocks is credited or charged directly to unassigned surplus.

Type	Amount
Investments in affiliates	$1,098,326,084
Unaffiliated investments	26,235,759
Total	$1,124,561,843

The Company formed and funded a wholly-owned subsidiary, Mt. Whitney Securities, Inc. on June 1, 2007 via the transfer of its equity portfolio at market value. The market value at the time of the transfer was $850.6 million.

Liabilities

Note 3 - Losses	$3,723,218,206
Note 3 - Loss Adjustment Expenses	$ 461,747,821
	$4,184,966,027

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 Delaware Department of Insurance retained the services of INS Consultants, Inc. (INS), to conduct an independent review of the Company's loss and LAE reserves as of December 31, 2010. The INS 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 INS's report are based on information provided by the Company, including the 2010 Annual Statements, the related 2010 Statement of Actuarial Opinion with underlying actuarial work papers.

INS 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. INS also reviewed the Company's work papers which reconcile the year-end 2010 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, INS concluded the Company's carried December 31, 2010 net and gross loss and LAE reserves to be reasonably stated, and as such, no financial adjustment was required for examination purposes.

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, 2010	Increase (Decrease)
Assets	$ 9,731,935,336	$ 8,178,775,245	$ (1,553,160,091)
Liabilities	7,027,814,464	5,651,256,498	(1,376,557,966)
Special Surplus Funds	-	50,065,918	50,065,918
Common Capital Stock	10,000,000	10,000,000	-
Gross Paid In and Contributed Surplus	902,979,820	929,981,933	27,002,113
Unassigned Funds (Surplus)	1,791,141,052	1,537,470,896	(253,670,156)
Total Surplus as Regards Policyholders	$ 2,704,120,872	$ 2,527,518,747	$ (176,602,125)
Totals	$ 9,731,935,336	$ 8,178,775,245	$ (1,553,160,091)

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

Respectfully submitted,

Joseph Murano Jr.

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