REPORT ON EXAMINATION

OF THE

WESCO 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

WESCO INSURANCE COMPANY

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

Attest By: Brantie Biddle

Date: May 22, 2013

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 22nd day of May, 2013.

Karen Weldin Stewart, CIR-ML
Insurance Commissioner

Karen Weldin Stewart, CIR-ML
Commissioner

Delaware Department of Insurance

REPORT ON EXAMINATION

OF THE

WESCO 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 17th day of May, 2013

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

SALUTATION

April 15, 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. 12.026, dated August 27, 2012, an examination has been made of the affairs, financial condition and management of the

WESCO INSURANCE COMPANY

hereinafter referred to as the "Company" or "Wesco" and incorporated under the laws of the state of Delaware as a stock company with its statutory home office located at 2711 Centerville Road, Suite 300, Wilmington, DE 19808. The examination was conducted at the administrative offices of the Company, located at 59 Maiden Lane, New York, NY, 10038. 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, BDO USA, LLP, (BDO). 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

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

There were no material subsequent events.

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. The Company continued to conduct business as a New Mexico domiciled company until August 14, 1991 when it redomesticated to the State of Delaware. The Company was engaged in the business of providing credit property and involuntary unemployment insurance.

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 Wesco 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 Wesco. Beneficial remained the ultimate controlling entity from that date until June 30, 1998 when Household International, Inc., (HI) and Beneficial completed a corporate merger. Concurrent with the merger, BIG changed its name to Household Insurance Group Holding Company (HIG). HI 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 HI, the previous ultimate parent of HIG. On June 1, 2006, the stock of the Company was sold by HIG to Am Trust Financial Services, Inc. (AFSI).

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, 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, 2011, was comprised of seven members, each elected or appointed in accordance with the Company's bylaws. Each Director shall hold their office until his successor is elected and qualified, or until resignation or removal.

Directors

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

Director	Principal Occupation
Donald Thomas DeCarlo	Attorney (Self-Employed) & Board Member, AmTrust Financial Services, Inc.
Barry Dov Zyskind	President & CEO & Director, AmTrust Financial Services, Inc
Stephan Barry Ungar	General Counsel & Secretary, AmTrust Financial Services, Inc
Stuart Hollander	Insurance Executive & President - Special Risk Division, AmTrust Financial Services, Inc.

Harry Schlachter	Treasurer, AmTrust Financial Services, Inc.
Jay Jerome Miller	Attorney (Self-Employed) & Board Member, AmTrust Financial Services, Inc.
David Harris Saks	Insurance Executive & Chief Legal Officer, AmTrust Financial Services, Inc.

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.

Officers

As of December 31, 2011, 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, completed and returned during the examination period.

Insurance Holding Company System

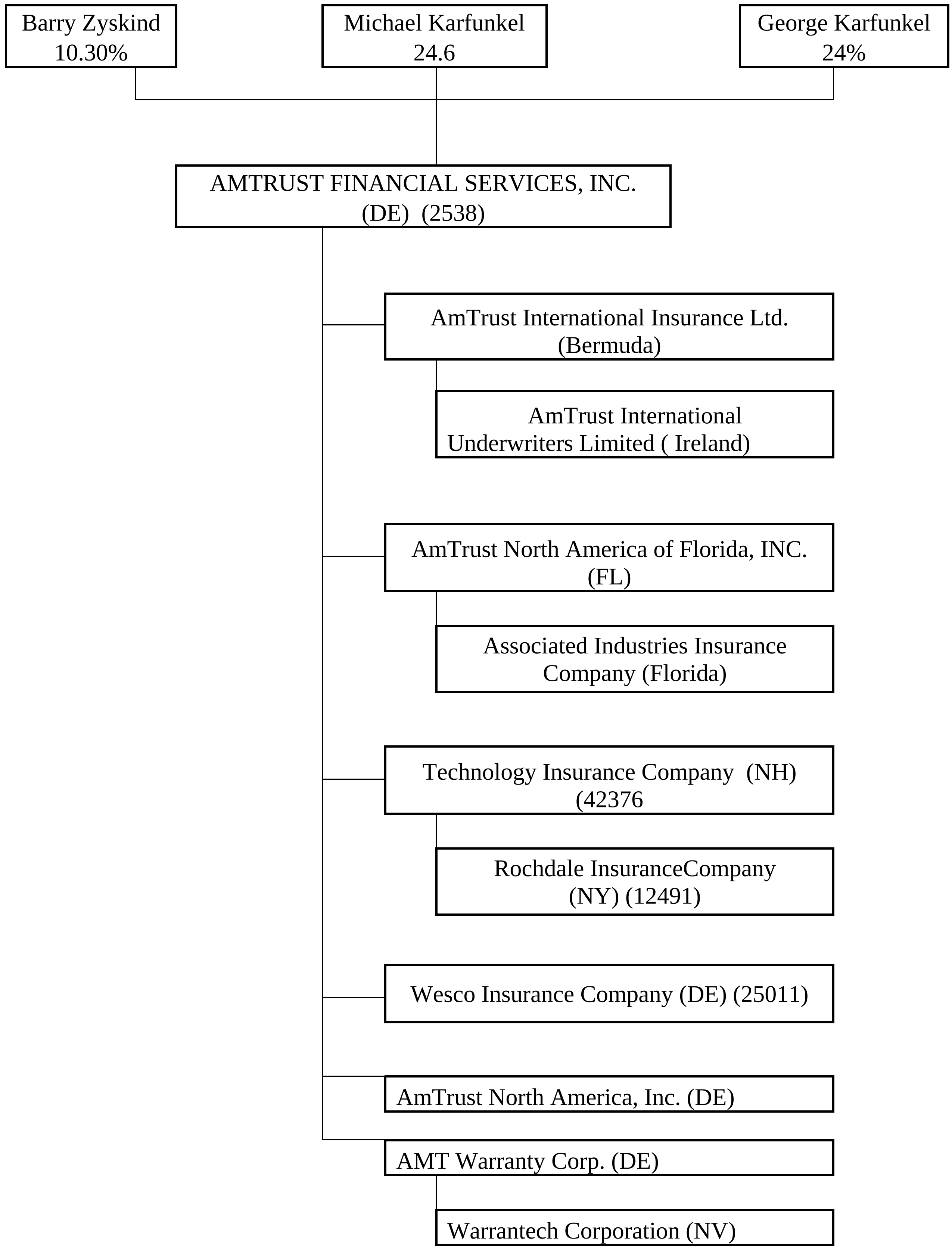
The Company is a member of an insurance holding company system as defined in

18 Del. C. §5001 (4) "Insurance Holding Company System". The Company's Holding Company Registration Statements were properly filed with the Delaware Insurance Department for the years under examination.

On June 1, 2006, AmTrust Financial Services, Inc,. (AFSI), acquired 100% of the outstanding and issued stock of Wesco through a stock purchase agreement dated March 9, 2006, between AFSI and Household Insurance Group Holding Company.

The ultimate controlling parties are Michael and George Karfunkel through their ownership of G/MK Acquisition Corp. and New Gulf Holdings, Inc., which, as of the previous examination date, beneficially owned in the aggregate 58.7 percent of the issued and outstanding shares of common stock of AFSI and Barry Zyskind, who beneficially owned 41 percent 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 did not change but the structure of the ownership changed from indirect ownership through G/MK Acquisition Corp. and New Gulf Holdings, Inc., to each party having direct ownership in AFSI. Through the restructured ownership, the aforementioned parties controled approximately 59.1% of the issued and outstanding shares of AFSI.

The parent, AmTrust Financial Services, Inc., went public in November 2006. It was noted that G/MK merged into AmTrust Financial Group, Inc. ("AFG") on August 8, 2007. 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. Michael Karfunkel currently owns or controls approximately 24.6% of the issued and outstanding common stock of AmTrust. George Karfunkel currently owns or controls approximately 24.0% of the issued and outstanding common stock of AmTrust and Barry D. Zyskind currently owns or controls approximately 10.30% of the issued and outstanding common stock of AmTrust. The following abbreviated chart displays the ownership chain of subsidiaries and their domestic affiliation as of December 31, 2011:


Barry Zyskind
10.30%
Michael Karfunkel
24.6
George Karfunkel
24%
AMTRUST FINANCIAL SERVICES, INC.
(DE) (2538)
AmTrust International Insurance Ltd.
(Bermuda)
AmTrust International
Underwriters Limited (Ireland)
AmTrust North America of Florida, INC.
(FL)
Associated Industries Insurance
Company (Florida)
Technology Insurance Company (NH)
(42376
Rochdale InsuranceCompany
(NY) (12491)
Wesco Insurance Company (DE) (25011)
AmTrust North America, Inc. (DE)
AMT Warranty Corp. (DE)
Warrantech Corporation (NV)

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 certain costs. The Company had the following material intercompany agreements in effect as of December 31, 2011.

General Agency Agreement

The Company entered into a General Agency Agreement on August 21, 2006 with AmTrust North America, Inc., by which AmTrust North America, Inc. performs both marketing and administrative services. In exchange, the Company pays a 20% commission. For the year ended December 31, 2011, the amount was reported as $18,736,000 of gross commissions under this agreement.

Intercompany Management Agreement

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

- Financial Services which include financial and accounting maintenance of fiduciary account and maintenance of books and records
- Administrative Services and Regulatory Filings and Compliance Issues
- Underwriting Services and the appointment of producers and the actual marketing
- Compensation which includes all direct expenses and operational expenses

The contract provides that on a quarterly basis, all expenses incurred by AFSI on behalf of Wesco Insurance Company will be allocated in a manner consistent with 18 Del. C.§ 5005(a).

Tax Allocation Agreement

The Company participates in a Tax Allocation Agreement dated June 1, 2006, with AmTrust Financial Services, Inc. This agreement requires the Company to pay AmTrust Financial Services, Inc. its tax liability as if it were computed on a stand-alone basis. The Company will remit to AmTrust Financial Services, Inc. any amounts determined and the "Group" is legally obligated to make the estimated or final tax payments for the federal tax liability.

TERRITORY AND PLAN OF OPERATION

The Company was incorporated on December 12, 1962, and operates principally as a multi-line insurance property and casualty company. The Company is licensed and domiciled in the State of Delaware and is licensed in the remaining 50 states, the District of Columbia and Puerto Rico. The Company is a wholly-owned subsidiary of AmTrust Financial Services, Inc. ("AFSI"), a multi-national insurance holding company which owns eight U.S. insurance companies (including the Company). The Company writes business in three segments; Small Commercial Business, Specialty Risk and Extended Warranty, and 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 and physicians and other professional offices and 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 its 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 a broad array of insurance to small businesses, including commercial property, general liability, inland marine, automobile, workers' compensation, umbrella and farm and ranch owners' coverage.

Specialty Risk and Extended Warranty

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. 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.

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 whose business model and risk profile generally require in-depth knowledge of a specific industry or sector focus in order to appropriately evaluate, price and manage the coverage risk. The type of risk covered by this segment is similar to the type of risk in Small Commercial Business but also covers, to a small extent, certain higher risk 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 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 2011:

Line of Business Premiums Percent	Direct Premiums Written	Percent
Warranty	$ 218,970,553	49.9%
Workers' Compensation	93,263,756	21.3%
Commercial Auto Liability	45,745,929	10.4%
Other Liability – Occurrence	26,912,102	6.1%
Inland marine	18,356,340	4.2%
All Other Lines < $10,000,000 individually	35,169,052	8.0%
Total	$ 438,417,732	100.0%

<u>A.M.Best's Rating</u>

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

GROWTH OF THE COMPANY

The Financial growth of the Company since the last examination (2006) compiled from its annual statements is summarized as follows:

Year	Net Admitted Assets	Surplus as Regards to Policyholders	Change in Capital Surplus	Gross Premiums Written	Net Income
2011	$ 326,593,334	$82,579,875	35.50%	$ 513,258,971	$ 5,589,850
2010	234,686,559	60,942,593	15.26%	282,295,837	5,233,688
2009	229,682,285	52,874,838	42.26%	305,928,467	6,806,388
2008	146,540,754	37,167,243	16.87%	295,785,522	5,109,156
2007	97,938,003	31,803,355	22.50%	162,232,279	5,709,336
2006	38,534,489	25,961,281		79,945,761	5,897,697

The changes over the examination period are as follows:

- A 747% increase in Net Admitted Assets
- A 218% increase in surplus as regards policyholders
- A 542% increase in Gross Written Premiums
- A 314% increase in Gross Written Premiums to Surplus

Net Admitted Assets and surplus as regards policyholders increased primarily as a result of a $31 million paid in contribution, comprised of $13.5 million, $10 million and $7.5 million contributed Surplus in 2011, 2009 and 2007 respectively. In addition to the surplus contributions, the substantial growth in net admitted assets was largely attributable to the substantial increase in gross written premiums during the examination period. Gross Written Premiums increased due to increases in gross business written. Net Income of the Company during the period was affected by net investment gains offset by underwriting losses.

LOSS EXPERIENCE

Net loss and expenses unpaid reserves as of December 31, 2011 were $20,075,286. During 2012, $9,955,901 was paid for incurred loss and loss adjustment expenses attributable to insured events of prior years. Reserves remaining for the prior years are now $12,938,482 as a result of re-estimation of unpaid claims and claims adjustment expenses across all lines.

Therefore, there has been a $2,819,097 in unfavorable prior year development since 2011. The decrease is generally the result of the ongoing analysis of loss development trends.

REINSURANCE

The Company's underwriting results are significantly affected by reinsurance. The Company reported the following distribution of premiums written as of December 31, 2011:

Total Direct Written Premiums	$	438,417,732
Assumed premiums affiliated	$	-
Assumed premiums non-affiliated		74,841,239
Total Assumed Premiums	$	74,841,239
Total Gross Premiums	$	513,258,971
Ceded premiums affiliated	$	344,274,254
Ceded premiums non- affiliated		107,681,714
Total Ceded Premiums	$	451,955,968
Net Written Premiums	$	61,303,003
Percentage Ceded of Gross		88.06%

Assumed

The Company has assumed reinsurance arrangements on various programs.

Ceded

The Company has the following material reinsurance coverages:

The Company is a participant under AFSI's corporate reinsurance programs. Additionally, there are external and internal reinsurance programs.

For the workers' compensation line of business, the program provides, effective January 1, 2011, excess of loss and catastrophe excess coverage, per occurrence, for losses in excess of a deductible equal to the first $10,000,000 per annum up to a maximum of $130,000,000 on such losses. Effective August 19, 2011, the Company purchased a new layer of coverage providing

$100,000,000 in excess of the $130,000,000 per occurrence, which gives the Company total protection of $220,000,000 for losses in excess of $10,000,000.

The Company's reinsurance for workers' compensation losses caused by acts of terrorism is more limited than its reinsurance for other types of workers' compensation losses and, through December 31, 2011, provided coverage, per contract year, of $220,000,000 in the aggregate in excess of an aggregate retention of $10,000,000 but excludes acts of nuclear, biological or chemical terrorism (which are covered by the Terrorism Risk Insurance Act, as amended).

The Company is covered under AFSI's corporate casualty reinsurance in which the Group retains the first $2,000,000 per occurrence (in certain cases, the retention can rise to $2,500,000) and cede up to a maximum of $28,000,000.

The Company is covered under AmTrust's corporate property per risk excess reinsurance in which the Group retains the first $2,000,000 per risk on property losses. The Group cedes the amounts in excess of $2,000,000 on each such loss. The reinsurance for such claims totals $18,000,000 per risk. The property per risk excess reinsurance contracts are subject to per occurrence and annual limits of coverage.

The Company is covered under AmTrust's corporate property catastrophe reinsurance in which the Group retains the first $5,000,000 per occurrence on property losses, net of recoveries under the property per risk reinsurance referenced above, up to a maximum of $65,000,000 per occurrence, in three layers, subject to annual limits that vary by layer.

The Company purchases quota share reinsurance for its non-program umbrella business, whereby it cedes 70% of the $5,000,000 of loss per policy and 100% of the next $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.

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

For the specialty risk and extended warranty business, there are reinsurance arrangements at a program level.

In addition to the external reinsurance programs described earlier, the Company is party to an intercompany quota share agreement which includes various insurance subsidiaries owned by its ultimate parent. Under this reinsurance agreement, all premiums written and losses incurred, except in Florida, net of external reinsurance effects, by the lead underwriting company for certain lines of business are ceded 70% and 20% net to their Bermuda affiliate, AmTrust International Insurance, Ltd. ("AIIL") and to their domestic affiliate, Technology Insurance Company ("TIC"), respectively. With respect to business written in Florida, 50% and 40% of such is ceded to AIIL and TIC, respectively. Business resulting from the Company's memberships in or reinsurance of any assigned risk or similar plans is ceded to AIIL 100%.

ACCOUNTS AND RECORDS

The Company's Information Systems ("IS") applies to AFSI and all of its wholly-owned subsidiaries. The IS function is managed broadly and includes the operations of the Company. AFSI is responsible for maintaining the overall technology infrastructure utilized for data processing by the business units within the Company.

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 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 IT 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:

Analysis 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

Analysis of Assets
As of December 31, 2011

	Assets	Nonadmitted Assets	Net Admitted Assets	Notes
Bonds	$ 87,827,796	$ -	$ 87,827,796	1
Cash and short-term investments	32,430,609		32,430,609	
Other invested assets	1,000,000		1,000,000	
Investment income due and accrued	806,144	-	806,144	
Uncollected premiums and agents' balances in course of collection	73,555,074	1,066,504	72,488,570	
Deferred premiums, agents' balances and installments booked but deferred and not yet due	111,547,737		111,547,737	
Reinsurance:		-		
Amounts recoverable from reinsurers	10,604,226	-	10,604,226	
Net deferred tax asset	6,867,000	613,600	6,253,400	
Aggregate write-ins for other than invested assets	3,634,852	-	3,634,852	
Totals	$ 328,273,438	$ 1,680,104	$ 326,593,334	

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

		Notes
Losses	$ 18,148,669	2
Reinsurance payable on paid losses and loss adjustment expenses	147,000	
Loss adjustment expenses	1,926,617	2
Commissions payable, contingent commissions and other similar charges	188,156	
Other expenses	1,338,536	
Taxes, licenses and fees	6,527,301	
Unearned premiums	81,749,419	
Advance premium	549,052	
Ceded reinsurance premiums payable	21,610,780	
Funds held by company under reinsurance treaties	105,743,387	
Provision for reinsurance	189,000	
Payable to parent, subsidiaries and affiliates	4,308,999	
Aggregate write-ins for liabilities	1,586,543	
Total liabilities	$ 244,013,459	
Common capital stock	5,000,000	
Gross paid in and contributed surplus	38,980,603	
Unassigned funds (surplus)	38,599,272	
Total capital and surplus	$ 82,579,875	
Total liabilities; capital and surplus	$ 326,593,334	

Underwriting and Investment Exhibit - Statement of Income
As of December 31, 2011

Underwriting Income

Premiums earned	$	36,623,957
Deductions		
Losses incurred	$	22,967,282
Loss adjustment expenses incurred		2,231,471
Other underwriting expenses incurred		1,960,415
Total underwriting deductions	$	27,159,168
Net underwriting gain (loss)	$	9,464,789

Investment Income

Net investment income earned		1,705,991
Net realized capital gains or (losses)		269,354
Net investment gain (loss)	$	1,975,345

Other Income

Miscellaneous income	$	-
Total other income	$	-
Net income before dividends to policyholders, after capital gains tax and before all other federal and foreign income		11,440,134
Dividends to policyholders		40,928
Net income after dividends to policyholders, but before federal & foreign income taxes		11,399,206
Federal income taxes		5,809,356
Net income	$	5,589,850

Capital and Surplus Account
As of December 31, 2011

Capital and Surplus Account

Capital and Surplus, December 31, 2006	$	25,981,281
Net Income	$	28,448,418
Change in net unrealized capital gains		100,241
Change in net deferred income tax		6,419,039
Change in non-admitted assets and related items		(1,680,104)
Change in provision for reinsurance		(189,000)
Surplus adjustments:		
Paid in		23,500,000
Change in surplus as regards policyholders for the period	$	56,598,594
Capital and Surplus, December 31, 2011	$	82,579,875

Reconciliation of Surplus Since the Last Examination

	Common Capital Stock	Gross Paid -in & Contributed Surplus	Unassigned Funds (Surplus)	Total
December 31, 2006	$ 2,500,000	$ 17,980,603	$ 5,500,678	$ 25,981,281
2007 Operations (1)			5,822,074	5,822,074
2007 capital reclassification	2,500,000	(2,500,000)		-
2008 Operations (1)			5,363,888	5,363,888
2009 Operations (1)			5,707,595	5,707,595
2009 capital contribution (2)		10,000,000		10,000,000
2010 Operations (1)			8,067,755	8,067,755
2011 Operations (1)			8,137,282	8,137,282
2011 capital contribution (2)		13,500,000		13,500,000
December 31, 2011	$ 5,000,000	$ 38,980,603	$ 38,599,272	$ 82,579,875

(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) Capital contributions

SCHEDULE OF EXAMINATION ADJUSTMENTS

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

NOTES TO FINANCIAL STATEMENTS

Note 1- Bonds	$87,827,796

Long-term bonds constitute the second largest category of assets at December 31, 2011, representing approximately 26.9% of reported total admitted assets. 100 % of the Company's long-term bonds are rated as Class 1 or Class 2 by the NAIC as of December 31, 2011.

Note 2 - Losses	$ 18,148,661
Note 2 - Loss Adjustment Expenses	1,926,617
	$ 20,075,278

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, 2011. 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 2011 Annual Statements, and the related 2011 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 2011 data to Schedule P. The work papers supported the conclusion that the year-end amounts were reconciled to the Schedule P amounts.

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

COMPLIANCE WITH PRIOR REPORT OF EXAMINATION

The prior examination report contained the following recommendations:

Capitalization

It was recommended that the Company exercise due care by properly reporting future capital contributions in the required "Notes, Schedules and Exhibits" of its annual statements.

The Company has complied with this recommendation.

Dividends

It was recommended that the Company report all payment of dividends in the appropriate annual statement schedules and “Notes” in accordance with Annual Statement Instructions.

This prior examination recommendation is not applicable because the Company did not declare or pay any dividends during the exam period.

Insurance Holding Company System

It was recommended that the Company include all transactions and agreements with parent, affiliates and subsidiaries in its Form B and C filings per the Delaware statues and Regulations. It was further recommended that the Company amend its Form B filing to denote its affiliated transactions, with AmTrust North America, Inc.

The Company has complied with this recommendation.

Other Affiliated Agreements

It was recommended that the Company submit and file all affiliated agreements with the Department for approval prior to implementation.

The Company has complied with this recommendation.

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	$ 38,534,489	$ 326,593,334	$ 288,058,845
Liabilities	$ 12,553,208	$ 244,013,459	$ 231,460,251
Common Capital Stock	2,500,000	5,000,000	2,500,000
Gross Paid In and Contributed Surplus	17,980,603	38,980,603	21,000,000
Unassigned Funds (Surplus)	5,500,678	38,599,272	33,098,594
Total Surplus as Regards Policyholders	$ 25,981,281	$ 82,579,875	$ 56,598,594
Totals	$ 38,534,489	$ 326,593,334	$ 288,058,845

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

Respectfully submitted,

Douglas E. Bey

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